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Christopher J. Gregoire
Vice President and Controller

October 22, 2010

Ms. Leslie Seidman, Acting Chairperson
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Subject: File Reference No. 1820-100

Dear Ms. Seidman:

Thank you for the opportunity to review and comment upon the Proposed Accounting Standards Update entitled *Revenue Recognition (Topic 605) – Revenue from Contracts with Customers* issued by the Financial Accounting Standards Board (FASB) on June 24, 2010 (“the Exposure Draft”). Lockheed Martin Corporation is a global security company with about 133,000 employees worldwide and principally is engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of management, engineering, technical, scientific, logistic and information services. We serve both domestic and international customers with products and services that have defense, civil, and commercial applications, with our principal customers being agencies of the U.S. Government. We reported sales from continuing operations of \$44 billion in 2009.

We believe the Exposure Draft is an improvement over the Discussion Paper entitled *Preliminary Views on Revenue Recognition on Contracts with Customers*, issued by the FASB and the International Accounting Standards Board (IASB) in December 2008. Although we recognize that the Exposure Draft seeks to address concerns from the Discussion Paper regarding accounting for long-term construction and production-type contracts, we believe there are still certain areas of concern regarding both accounting and related disclosures that should be addressed.

After reviewing the Exposure Draft and the earlier Discussion Paper, we remain convinced that performing under long-term construction and production-type contracts is sufficiently different from other forms of revenue-generating activity to merit a separate accounting standard (or a separate, robust section of a single, broader standard) that addresses the unique characteristics

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of this type of activity. We note that this conclusion was reached previously by the IASB as evidenced by its issuance of International Accounting Standard (IAS) 11, *Construction Contracts*. We suggest that convergence of the guidance relevant to long-term construction and production-type contracts could best be accomplished if the Boards adopted this approach and worked to conform the provisions of ASC 605-35 and IAS 11, which are already quite similar and have proven to be robust, clearly understood, and effective.

If the Boards decide to continue developing the single-standard approach depicted in the Exposure Draft, we ask you to address our key areas of concern, which we've highlighted in the following section of this letter.

Segmenting of Contracts and Performance Obligations

In the Exposure Draft, there is a distinction drawn between the segmenting of a contract into two or more contracts and the subsequent identification of performance obligations within the segmented contracts, as applicable. In a number of respects, the concept of segmenting a contract based on price independence overlaps with the definition of a performance obligation when determining which accounting units meet the criteria of having both a distinct function and distinct profit margin. We believe that the two-step process of segmenting a contract and then identifying separate performance obligations is unnecessarily complex and provides little incremental benefit. Accordingly, we recommend that the Boards merge the two-step process into a single one based on the identification of distinct performance obligations.

We enter into contracts with customers using one overall pricing strategy to determine whether we will be able to perform a contract at an acceptable profit margin. Individual components of our contracts are dependent upon the performance of a number of highly interrelated tasks with shared costs, a shared risk profile, and significant contract management that do not have the distinct profit margins necessary to qualify as separate performance obligations. Many of our contracts don't lend themselves to being bifurcated into multiple accounting units (performance obligations) and accordingly, we believe should be accounted for as a single unit of account.

We believe treating long-term construction and production-type contracts as a single unit of account or performance obligation provides the most decision-useful information to investors as we manage our business by using each contract as a profit center. We recommend that the Boards consider the merits of a high-level principles-based approach vs. a detailed-level component-based approach to identify performance obligations. This could be accomplished by the Boards aligning the identification of performance obligations with the current guidance in ASC 605-35 that provides flexibility in identifying units of account and allows for the use of reasonable judgment to ensure financial results reflect the underlying economics of our contracts.

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Transfer of Control

Regarding the indicators of a transfer of control (listed in Paragraph 30), we believe the Exposure Draft does not provide enough clarity on how customer-specific design and customer involvement in the design and development of the function of a product or service are to be considered when determining if transfer of control has taken place. We recommend that the Boards consider adding language that identifies the customer's exclusive right to use or receive economic benefits from a product or service as another indicator of control. This would clarify that continuous customer involvement during the contract performance period, such as a customer's ongoing input in specifying major changes to long-term construction and production-type contracts (including the ability to issue change orders) would be evidence of a continuous transfer of control.

Currently, there are a number of factors that affect the selection of input or output methods for revenue recognition based on long-term construction and production-type contracts meeting the criteria for continuous transfer of control. These include the extent of design and development prior to production, the quantity and timing of production activity, and the extent of customization of a product. We are concerned that the Exposure Draft expresses a preference for output methods to satisfy performance obligations as a basis for measuring revenue. In our industry, there is often a significant amount of upfront costs in the design and development of a customized product with a limited number of units produced over an extended period of time. For example, we have contracts where the design and development phase may extend for three to five years to develop a prototype before being awarded a production contract that will last ten or more years.

We recommend that the Boards remove the preference for output methods from the Exposure Draft and adopt language similar to that contained in ASC 605-35-25-71, which describes the characteristics of output and input measures, and emphasizes that judgment is necessary to select the most appropriate method. This language would allow an entity to determine which method is most consistent with the activities performed under a contract and that most faithfully depicts its economic results.

In our industry, certain contracts contain a "termination for convenience" provision under which the customer is obligated to pay for all incurred costs and a profit element if the contract is cancelled by the customer for reasons other than contractor default. We believe the presence of such contractual language meets the Exposure Draft's requirement for the transfer of control in that (a) there is an unconditional promise to pay and (b) the design or function of the product is customer specific. We also believe control can be transferred in certain circumstances even in the absence of "termination of convenience" language in the contract. We recommend that the Boards add other indicative factors of transfer of control to the Exposure Draft, namely when the customer possesses the right to take physical control of the goods, and/or the goods or services are not transferrable to another customer due to their customization, both of which support that a customer possesses effective control throughout the construction period.

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Variable Consideration in Determining Transaction Price

A key component of many of our contracts is the variable consideration in the form of award fees and incentives that are found in a significant number of U.S. Government contracts. We have developed experience with these types of contracts and customers such that we can make reliable estimates of award fees and incentives to be received as part of an overall estimated transaction price. In most cases, award fees are based on the overall performance of a contract as opposed to distinct performance obligations. We are concerned that the factors described in Paragraph 39 of the Exposure Draft are too restrictive and, if narrowly applied, would potentially ignore our historical experience at estimating award and incentive fees.

We recommend that the Boards revise Paragraph 39 to indicate that there are certain factors to consider qualitatively, not quantitatively, when assessing an entity's experience with estimating an overall transaction price for a contract. The Exposure Draft implies that any of the factors listed in Paragraph 39 would reduce an entity's ability to reasonably estimate an overall transaction price. The implication of Paragraph 40 is that the existence of any one of these factors could be sufficient such that an entity could not reasonably estimate variable consideration as part of an overall transaction price. We recommend that the Boards consider modifying the language in Paragraph 40 to eliminate the ambiguity about the number of quantitative factors by emphasizing that these are examples of indicators that can be considered in the qualitative analysis of an entity's ability to reasonably estimate the transaction price.

We also recommend the final standard permit the use of a "best estimate" approach based on relevant experience under certain circumstances, rather than a probability-weighted calculation that could yield a mathematically derived but operationally impossible result for variable consideration. For example, a binary (event-based) "pass-fail" incentive on a contract to achieve a test result may only be 30% probable, which would indicate that a successful test would be unlikely and an award of zero the likely outcome, but the Exposure Draft would dictate that a probability-weighted approach be used to estimate and recognize an award fee for an amount (30% of the full award) that was unlikely to be realized. As certain of our contracts contain these types of incentives, the use of a "best estimate" approach would result in a better method of estimating variable consideration.

Onerous Performance Obligations

We have concerns that the Exposure Draft's guidance on the recognition of losses related to onerous performance obligations could result in a less than faithful depiction of the economic results on a profitable contract. Specifically, the Exposure Draft prescribes that losses should be recognized at the inception of a contract or during the performance of a contract, if a performance obligation was determined to result in a loss based on direct costs. This approach could result in losses being recognized in the design and development stage of long-term construction and production-type contracts with abnormally high gross margins recognized

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during the production phase. While we support the concept of recording losses associated with the overall contract when known, we price and bid our contracts based on an overall estimated profit of a contract, not on the profitability of elements of a contract. Accordingly, we recommend that the Boards reconsider the basis for recognizing losses on contracts to provide a model that allows for the measurement of onerous performance obligations only in relation to the performance of the overall contract as a whole, as we manage our programs based on our ability to bid, negotiate, and perform profitably over a contract's duration.

Disclosures

The Exposure Draft would require a substantial amount of additional quantitative disclosures related to revenue recognition that we believe would be beyond what would be decision-useful information to financial statement users. We believe that the additional disclosures regarding disaggregation of data, reconciliation of contract account balances on the balance sheet, and performance obligations are excessive in terms of both the burden on the preparer to comply as well as the volume of information for financial statement users to absorb. We recommend that the Boards limit the additional disclosures to revenue by contract type and/or line of business. Additionally, the requirement to disclose the estimated amount of revenue to be realized from performance obligations in future periods is not consistent with the reporting of historical financial information in the financial statements and could be misleading to financial statement users. We believe this requirement also would forego the Safe Harbor protections afforded by the United States Securities and Exchange Commission Regulation FD and expose the preparer to potential litigation over the non-attainment of forecasted results. We believe disclosure requirements should be limited to what can be disclosed in a qualitative manner, and to historical information that could affect future results.

Implementation

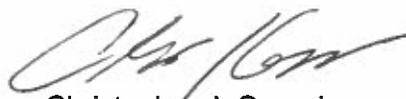
We are strongly opposed to the retrospective implementation approach advocated in the Exposure Draft. The majority of our long-term construction and production-type contracts span a significant number of years, with contract inception dates well beyond even the five years required by the SEC for Selected Financial Data for the Form 10-K. Furthermore, generating the restated financial statements will require the re-creation of conditions present and judgments made on myriad programs and contracts years after they commenced and were performed, which would be difficult to implement. This effort would not yield a tangible benefit in excess of the cost required to retrospectively restate our financial results.

We do not believe that financial statement users would find the restatements and resulting trend analysis more useful than simple, prospective application of the new standard. We would advocate a prospective approach applied to new or significantly modified contracts, consistent with Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*.

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Our more detailed responses to the questions most relevant to us, as posed in the Exposure Draft, are attached. Please feel free to contact me if you or your staff would like to discuss any of the points made in this comment letter and attachment.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Gregoire", written in a cursive style.

Christopher J. Gregoire
Vice President and Controller

Attachment

Attachment

Revenue Recognition Exposure Draft Lockheed Martin Responses to Selected Questions

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 of more contracts;**
- (c) account for a contract modification as a separate contract or as part of the original contract.**

We believe that the proposed principle for price interdependence is a reasonable basis for determining the combining of two or more contracts or segmenting a single contract under appropriate circumstances. Although we agree that the suggested indicators in the Exposure Draft for the combining of contracts are appropriate, we believe that the suggested mandatory guidance for segmenting a contract based solely on price independence is inappropriate and may lead to segmentation that is not consistent with the overall economics of our contracts. In most instances, we do not regularly sell identical or similar goods or services separately due to the highly customized, integrated nature of our products.

In a number of respects, the concept of segmenting a contract based on price independence overlaps with the definition of a performance obligation when determining which accounting units meet the criteria of having both a distinct function and distinct profit margin. We believe that the two-step process of segmenting a contract and then identifying separate performance obligations is unnecessarily complex and provides little incremental benefit. Accordingly, we recommend that the Boards merge the two-step process into a single one based on the identification of distinct performance obligations.

Alternatively, if the Boards are not receptive to merging the two-step process for segmenting and the identification of performance obligations, we suggest that the indicators for contract segmentation should be qualitative, more similar to those for combining of contracts, and be more specific to the contracting parties including the customer requirements. Some of the suggested indicators for segmenting of a contract could include:

- The contractor submitted separate proposals or pricing data for the goods and services on both a combined and separate-element basis.
- The customer has the right to accept either the separate elements or the entire scope of the contract as whole.

Broad indicators, such as those above, rather than the prescriptive approach set forth in Paragraphs 15 and 16, would provide a better framework for assessing if a contract should be segmented. This approach can be implemented in a more practical fashion and better align with the Exposure Draft guidance for defining performance obligations in Paragraphs 20 - 24.

Regarding contract modifications, we support the concept of price interdependence when determining if a contract modification should be accounted for together with the existing contract or treated as a separate contract. However, in many situations in our industry contract modifications are not formalized at inception by the customer. These terms are often finalized as performance associated with the contract modifications is already in process, and only then can the total cost of completing such additional requirements to meet customer requirements be determined. We believe that the criteria of Paragraph 10 should not be explicitly applied to contract modifications provided the contractor has sufficient experience with similar types of contracts to be reasonably assured that the price will be readily determinable once definitized.

Contract modifications, particularly in the form of unpriced change orders, are inherent to the nature of contracts in our industry. In many instances, a customer will request changes to the scope of a contract in terms of add-on items, additional customization, or modification to enhance the functionality of a product. As the customer may request such contract modifications and we often commence work on such change orders in advance of final pricing, we believe that unpriced change orders present issues that are not adequately addressed in Paragraphs 17 – 19 of the Exposure Draft. In particular, the guidance in Paragraph 18 references Paragraph 10 indicating that pricing and terms for manner of payment need to be determined before the revenue requirements for a contract modification have been met.

We ask the Boards to consider expanding the guidance in Paragraphs 17 – 19 to take into account that unpriced change orders are often not definitized for a period of time even as effort on the customer request is performed. This could be accomplished through reference to Paragraphs 57 and 58 on contract costs that would allow for inventoriable items to be deferred onto the balance sheet until an unpriced change order was finalized in terms of pricing. U.S. Government contract regulations ensure a contractor will be reimbursed for costs incurred plus a reasonable margin, even on unpriced change orders.

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?

We believe treating long-term construction and production contracts as a single performance obligation, provides the most decision-useful information to investors as we manage our business by using each contract as a profit center. In the Aerospace and Defense industry there is often a high correlation between various activities under a contract such that is difficult to account for them as separate performance obligations. Individual components of our contracts are dependent upon the performance of a number of highly interrelated tasks with shared costs, a shared risk profile, and significant contract management that do not have the distinct profit margins necessary to qualify as separate performance obligations. In most instances, contract management is not distinct because it is not separable from the related tasks and is integral to the overall performance of a contract. Many of our contracts don't lend themselves to being bifurcated into multiple accounting units (performance obligations) and accordingly, we believe should be accounted for as a single unit of account.

We believe the Boards should consider the following indicators when determining whether a contract represents a single performance obligation:

- The product or services delivered are highly customized, integrated, customer-specific and delivered over an extended period.
- The overall delivery of products and services was bid and/or priced by the contract as one overall project and that there are few or no sales of comparable products or services in the market place.

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?

Regarding the indicators for transfer of control (listed in Paragraph 30), we believe the Exposure Draft does not provide enough clarity on how customer-specific design and customer involvement in design and development of the function of a product or service are to be considered when determining if a transfer of control has taken place. We recommend that the Boards also consider adding language that identifies the customer's exclusive right to use or receive economic benefits from a product or service as another indicator of control. This would clarify that continuous customer involvement during the contract performance period, such as a customer's ongoing input in specifying major changes in long-term construction and production-type contracts (including the ability to issue change orders), would be evidence of a continuous transfer of control.

In our industry, certain contracts contain a "termination for convenience" provision under which the customer is obligated to pay for all incurred costs and a profit element if the contract is cancelled by the customer for reasons other than contractor default. We believe the presence of such contractual language meets the Exposure Draft's requirement for the transfer of control in that (a) there is an unconditional promise to pay and (b) the design or function of the product is customer specific. We also believe control can be transferred in certain circumstances even in the absence of "termination of convenience" language in the contract. We recommend that the Boards add other indicative factors of transfer of control to the Exposure Draft, namely when the customer possesses the right to take physical control of the goods, and/or the goods or services are not transferrable to another customer due to their customization, both of which support that a customer possesses effective control throughout the construction period.

Finally, we believe Paragraph 31 of the Exposure Draft should be reworded to clarify what we believe to be the Boards' intent. We believe the Boards intended that the Paragraph 30 criteria referenced in Paragraph 31 should not be considered alone and apart from the overall facts and circumstances when determining if control has been transferred. However, Paragraph 31 could also be read literally to require that at least two of the four criteria be satisfied in order for control to be transferred. This latter interpretation produces a formulaic "bright line" test that seems inappropriate to an otherwise principles-based and judgment-

driven standard. We think Paragraph 31 should be revised to more clearly state that the mere presence or absence of one or more of the suggested indicators should not be substitute for an overall evaluation of the facts and circumstances when determining if control has transferred. We also believe that Paragraph 31 should clarify that none of the suggested indicators is of greater importance than the others.

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 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?

Although conceptually we agree that a contractor's ability to estimate variable consideration is based on its experience with similar types of contracts, the recognition of award fees and incentives on contracts is often influenced by changes in customer-specified design or product function. In many instances on these types of contracts, variable or contingent consideration is often the only component of profit margin. Historically, we have been able to estimate the overall selling price of a contract, which often includes variable consideration, such that we were able to make an economically informed decision whether to enter into a contractual relationship with a customer. We believe that the criteria of Paragraph 38 of the Exposure Draft are too restrictive and not applicable to the nature of our contracts and customer relationships.

For example, if the probability-weighted approach was used in a binary (event based) "pass-fail" incentive on a contract with only a 30% probability of success, this would indicate that a successful test is unlikely and an award of zero the likely outcome, but the Exposure Draft would dictate that a probability-weighted approach be used to estimate and recognize an award fee for an amount (30% of the full award) that was unlikely to be realized.

We believe that our expertise and relevant experience in estimating variable consideration on a "best estimate" basis provides a more accurate result than using a probability-weighted approach that may result in a less precise measure of estimated award fees or incentives. We recommend that the Boards consider a "best estimate" method to estimate variable consideration (award fees and incentives) based on an entity's historical relevant experience with similar types of contracts and customers. This would provide a more reasonable estimate of the overall transaction price of a contract and better align with the contract's underlying economics.

In addition, we recommend that the Boards make certain changes to Paragraph 38 to improve the ability to estimate variable consideration (award fees and incentives) in the measurement of revenue:

- The contract's terms and conditions are such that it is clear that a key element of the contract price is based on a range of values and dependent upon conditions that are within the customer's contract;
- The contractor has previous relevant experience with similar types of contracts or with the customer on similar arrangements that allow for reasonable estimates of contingent consideration;
- The contract contains objective criteria that are useful in estimating the variable consideration on the contract.

Questions 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?

Although our industry allows for the use of "cost-of-money", which is a financing component in the pricing of Federal contracts, it would be helpful for the Boards to provide better guidance in defining what constitutes a material financing component for a contract and how often a contractor must update interest rate assumptions (annually, quarterly, circumstances-based). Further, we believe that the concept of time value of money (TVM) should be applied at the contract level rather than at a performance obligation level for estimating the overall transaction price of a contract. We also believe the Boards should clarify whether changes should be made to a financing component for changes in timing if actual receipt of payments differs from what is expected either due to delays in satisfying performance obligations or change orders that necessitate additional work by the contractor.

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?

Pursuant to identification of performance obligations in a contract as described above, we agree conceptually with the allocation of the transaction price based in proportion to a standalone selling price of the good or service, if applicable. We believe that the allocation of standalone selling price should be made at a high enough level of a contract to accurately measure the underlying economics of satisfying each relative performance obligation.

Questions 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?

See the combined responses to Questions 8 and 9 below.

Question 9: Paragraph 58 proposes that 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?

We appreciate that the Boards have included proposed guidance in the Exposure Draft to address capitalization of contract costs that are incurred in the satisfaction of performance obligations, but do not believe that the proposed standard as written is operational or sufficient to address the changes that will be made to existing U.S. GAAP that supports the deferral of certain costs on long-term construction and production-type contracts. Although the Exposure Draft does allow for certain costs to be capitalized as long as they relate *directly* to a contract, generate or enhance resources of the entity that will be used in satisfying obligations in the future, and are expected to be recovered, they do not take into account other types of costs that are inherent to our industry where cost recognition is governed by the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS). Contract cost deferrals when a contract is anticipated (i.e., set up costs) do benefit the satisfaction of performance obligations under a contract and we believe that the Exposure Draft should be revised to allow for their deferral and amortization over the contract life.

If costs are for production optimization and related to the overall performance of a contract, there would be a basis for deferral of these costs and expensing over the contract performance period as they are viewed as part of the overall contract by the U.S. Government customer. We recommend that the Boards add language to Paragraph 58 to allow for non-recurring engineering costs, learning curve costs, and production costs, which are allocable to multiple units under a production lot, to be deferred as they relate to the overall fulfillment of a long-term construction or production-type contract. We believe that allowing for the deferral of such costs and expensing over the term of a contract will result in financial results that are more consistent with the overall economics of a contract. Further we recommend that the Boards remove the parenthetical language from Paragraph 57(b) that states “that is, costs that relate to future performance”, as we believe that costs in our industry can benefit both current and future performance obligations.

Current U.S. GAAP supports the deferral of certain costs incurred on long-term construction and production-type contracts as described in Accounting Standards Codification Subtopic 912-20, *Contractors – Federal Contractors – Contract Costs* which allows for the recovery of certain indirect costs. Other costs which are recoverable over our current and future contracts are not addressed in the Exposure Draft although they are explicitly recoverable under our contracts and are an inherent cost of doing business in our industry. We are concerned that the lack of guidance regarding recoverable indirect costs on U.S. Government contracts is not adequately addressed in Paragraph 57, specifically in the criteria that the “costs shall relate directly to a contract (or specific contract under negotiation) in order for them to give rise to an asset.

Although not specifically addressed in the Exposure Draft, we believe that language should be added to Paragraph 57 that allows for the deferral of costs recoverable over current and future portfolios of contracts. We recommend that language be added to Paragraph 58(d) that includes indirect costs that are specifically recoverable from Federal contracts such as general and administrative (G&A) and bid and proposal (B&P) costs allocated to and recovered from a portfolio of U.S. Government contracts that are probable of recovery on existing and future contracts.

We also recommend that the Boards modify Paragraph 59(a) to allow capitalization of costs associated with obtaining contracts if they meet the criteria of Paragraph 58(d). This clarification would eliminate the apparent conflict that exists between these paragraphs as applied to U.S. Government contracts where certain indirect costs such as bid and proposal costs are explicitly recoverable under the FAR and CAS. We believe a modification to Paragraph 59(a) regarding such costs would eliminate the aforementioned conflict.

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?

Given the magnitude of the number of contracts performed by our company, the additional quantitative disclosures and tabular reconciliation of balance sheet amounts would not provide decision-useful information to financial statement users. 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. Further, the quantitative disclosures should be limited to revenue by contract type or where there were onerous contracts (“loss contracts” as currently defined).

We strongly oppose the disclosure of onerous performance obligations, as such information would be misleading when the overall contract is profitable. Current disclosures about loss contracts should be carried forward from existing GAAP.

Much of the information proposed for disclosure is not currently tracked or collected in our accounting systems. Building the necessary IT infrastructure to collect and report this data on a quarterly basis across numerous entities and ERP systems would be costly. We believe that the additional cost of building the necessary IT infrastructure, accounting

processes, and internal control structure to accommodate these proposed requirements would outweigh the benefit. We also feel that the disclosure of such information on a quarterly basis would be excessive in terms of the amount of data compilation required to meet such requirements.

We would strongly recommend that the disclosure requirements be reduced to provide decision-useful information on unusual and infrequently occurring contract situations. Any further disclosures of contract assets and liabilities, particularly the reconciliations of our balance sheet accounts, should be deferred and considered separately with the financial statement presentation project. The Exposure Draft requirements as currently written require disclosure at a very detailed level which would not be meaningful to users of the financial statements.

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?

The disclosures of contracts with durations beyond one year (Paragraph 78) and the expected allocation of the transaction price should be deleted. This disclosure would result in what is currently material, non-public competition-sensitive information being included in the audited footnotes. This level of information goes beyond the information currently provided in the Outlook/Guidance provided in our Earnings Releases. Additionally, auditors would be required to audit long-range planning information that is subject to many changes and variability. Lastly, inclusion in the footnotes of the financial statements versus the MD&A section of our SEC filings, would lose any protections afforded by SEC Regulation FD. If the Boards view this information as necessary, we would suggest more of a principles-based discussion in the notes to the financial statements.

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?

Conceptually, we believe that there is a basis for an entity to disaggregate revenue into categories to provide more useful information to financial statements users; however, we disagree with the detailed level of disaggregation advocated in Paragraph 74 of the Exposure Draft. Specifically, we believe that given the broad range of the goods and services provided by our company, disaggregation of revenue by major product lines or geography (customer or region) provides an unnecessary level of detail. Such disclosures could be enhanced to provide additional useful information for financial statement users such as revenue by type of contract (i.e., fixed price, cost-reimbursable, and time and materials). We believe that this level of disaggregation for disclosure purposes would provide better information to users of financial statements.

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?

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.

No, we strongly believe that the new proposed revenue recognition model should not be applied retrospectively. Current systems limitations and the effort required to retrospectively apply this standard would be extremely cost prohibitive and would not result in significantly more useful financial information for users. We would have thousands of contracts to assess, most that span multiple years, in order to make a fully retrospective transition. In some instances, we have contracts that span in excess of five years which would make compliance with the retrospective application of the proposed standard a massive undertaking. Re-creating the conditions present and judgments made years afterward would be difficult to implement. We suggest a prospective approach to transition as was done with Accounting Standards Update 2009-13 (ASU 2009-13), *Revenue Recognition (Topic 605) – Multiple Element Revenue Arrangements*, and that a qualitative disclosure be provided for the impact of the adoption of the new revenue recognition standard as compared to the historical financial results for prior presented years under the prior standard.

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?

We don't believe the implementation guidance contains examples that are sufficiently complex to address operational issues for long-term construction and performance-type contracts for our industry. Given the highly customized, integrated nature of our contracts, we believe that Example 11 (Construction contract), Example 15 (Manufactured services vs. manufactured equipment), and Example 19 (Consulting services with a performance bonus/penalty) should be expanded upon to focus more on interpretive areas of the Exposure Draft on these topics.

Also, we would recommend that some of the information contained in the Basis for Conclusion (BC) sections of the Exposure Draft be moved to the standard to add clarity. Specifically, some of the guidance contained in the BC Paragraphs 42 – 56 on the identification of performance obligations would be helpful if included in the final standard. In addition, the BC Paragraphs 35 – 38 provide further guidance on combining and segmenting of contracts which would be useful in implementing these concepts in the final standard. We believe that these areas could be augmented by adding information contained in the Basis for Conclusion sections.

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.**

We support the Board's proposal to distinguish the different types of product warranties and agree that a warranty for a product defect ("latent defect") should not be distinguished as a distinct performance obligation. However, we have concerns about the application of warranties that arise after a product is transferred to a customer ("insurance warranty") that could result in a deferral of revenue for what are considered highly unlikely events versus an accrual of costs under current GAAP. Specifically, we have certain obligations to stand ready to perform in the event that a product fails to continue to perform over a long-term period, although product issues are most likely to arise within the first year of delivery. We believe that some type of guidance on these types of insurance warranties should be based on our historical experience under similar or identical types of contracts. This will ensure that the accounting for insurance warranties as a performance obligation is consistent with the underlying economics of contract performance.