GENERAL DYNAMICS

Kimberly A. Kuryea
Vice President and Controller

January 9, 2015

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
Norwalk, CT 06856-5116

Subject: FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers

Dear Ms. Cosper:

In light of the FASB's recent discussions on Topic 606, General Dynamics wishes to provide you our perspective on the implementation of the new standard, in particular with respect to interpretive guidance and the timing of implementation. General Dynamics, with over $30 billion of annual revenues, is an aerospace and defense company that offers a broad portfolio of products and services in business aviation, combat vehicles, weapons systems and munitions, shipbuilding, and communication and information technology systems and solutions. We currently recognize the majority of our revenues under the percentage of completion method in accordance with Topic 605. Although we feel that Topic 605 is a comprehensive (and well understood) accounting model, we have supported the FASB and International Accounting Standards Board objective of a single, common revenue recognition model. Accordingly, since the issuance of Accounting Standards Update 2014-09 (Update), we have worked diligently on an implementation plan to meet the effective date of January 1, 2017. We have been following the public concerns related to the standard, including the need for interpretive guidance and additional time for implementation. We would like to share our experience and opinions on these matters.

We understand some have expressed that there is a need for clarification of the principles outlined in the Update. We believe this is a natural reaction to a standard that is more principles-based than rules-based. In fact, questions continue to arise as we analyze our contracts under the provisions of the Update. However, we have accepted that judgment is required and believe we can apply that judgment consistently across our contract portfolio. We also know concerns have been raised regarding whether the Update will yield consistent application among companies. We believe the FASB has made a number of decisions in writing the Update that have improved comparability. Therefore, we urge that caution be exercised as consideration is given to issuing interpretive guidance that could convert this principles-based standard into a set of prescriptive rules. The result may appear to increase consistency, but the rules may not

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adequately consider the nuances of individual contracts. We believe when practitioners appropriately use judgment in applying principles to varying facts and circumstances and disclose these key judgments in the notes to the financial statements that investors are better informed.

For example, there has been much discussion over the proper application of the second criteria in 606-10-25-19 (distinct within the context of the contract). In our defense businesses, we produce highly complex systems designed to our customer’s unique specifications. Although we may produce more than one unit, we believe there are frequently either significant integration services or highly interrelated activities that do not make the individual units distinct within the context of the contract. This conclusion requires significant judgment and a close examination of the complex facts and circumstances. We are concerned that interpretative guidance in this area could inadvertently create an arbitrary rule that in practice would require these contracts to be accounted for in a manner that may not reflect the substance of the contract. Although rules may drive uniformity, the most representationally faithful answer may not result.

We also understand that others have expressed their desire for a delay in the effective date of the Update to provide more time for implementation. We would like to apply the amendments in the Update retrospectively to each prior period and are preparing to gather the necessary data beginning with the first quarter of 2015 (i.e., running parallel). If you are considering a delay in the effective date, we ask that you do not penalize the companies that have moved forward on a project plan to meet the January 1, 2017 effective date by preventing the adoption of the Update on the existing schedule. There are significant internal efforts and consulting costs being incurred for IT and non-IT-related implementation activities. These costs will naturally and inevitably grow if the implementation period is extended. We appreciate there are circumstances where certain companies or industries may need more time, but we believe there are other companies who committed themselves financially and strategically in good faith to the original timeline and they should not be disqualified from transitioning on January 1, 2017.

We appreciate the opportunity to present our views on this subject and thank you for your attention and consideration of our comments. If you should have any questions or wish to meet with us with respect to these matters, please feel free to contact me at 703-876-3360.

Respectfully,

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