

GENERAL DYNAMICS

8 July 2010

Cost Accounting Standards Board
Attention: Raymond J. Wong
Office of Federal Procurement Policy
725 17th Street, NW, Room 9013
Washington, DC 20503
Via e-mail to casb2@omb.eop.gov

Reference: CAS Pension Harmonization NPRM, CAS-2007-02S

Dear Mr. Wong:

Presented below is the response of General Dynamics Corporation to the Cost Accounting Standards (CAS) Board's Notice of Proposed Rulemaking (NPRM) issued in the Federal Register of 10 May 2010. We believe the CAS Board's NPRM shows sound progress toward generating a fair and balanced final rule. However, we share the same concerns addressed in the joint response of the Aerospace Industries Association (AIA) and the National Defense Industrial Association (NDIA).

While we generally agree with the content of the AIA/NDIA joint response to the NPRM, we would like to supplement that letter with additional thoughts and considerations concerning: 1) the effective date of the final rules and their applicability to contracts, and 2) the "Trigger 1" mechanism proposed in the NPRM.

1. Effective Date of the Final Rules and Their Applicability to Contracts

The NPRM as drafted proposes that the final rules be effective immediately upon publication in the Federal Register. Consistent with the views expressed in the AIA/NDIA joint letter, we are concerned about the practical implications associated with two aspects of this proposal – the possibility of a 2010 effective date and the final rules' effectiveness upon publication in the Federal Register.

Generally speaking, we would prefer an effective date in 2011 as opposed to 2010, with an effective date 60 days after publication in the Federal Register. The delayed effective date and 60-day window would afford contractors an opportunity to price the revised pension costs into all contracts bid after the effective date of the final rules. We believe this approach would eliminate the need for a significant portion of contractors' requests

2941 Fairview Park Drive
Suite 100
Falls Church, VA 22042
Tel 703 876 3000
www.generaldynamics.com

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for equitable adjustment (REAs), because the new rules would first be applicable to contracts with costs incurred in 2012.

In addition to the suggested modification to the final rules' effective date, we would appreciate the Board's clarification of the "triggering CAS covered contract" requirement for CAS applicability. As we understand the application of CAS, a required change in CAS does not take effect for a particular contractor until the beginning of the contractor's first accounting period after (1) the revised CAS becomes generally effective and (2) the contractor receives its first CAS-covered contract. Our pension costs (and we believe those of most of our industry peers) are proposed, controlled, and managed by Corporate personnel and audited by Corporate's DCAA, centrally on behalf of each of our U.S. Government contracting business units. Based on our understanding of the CAS, we are making the assumption that once any one of our business units obtains a CAS-covered contract after the effective date of the final rules, the entire corporation would then be subject to the final rules.

This becomes extremely important if the CAS Board elects to make the effective date sometime in 2010, as opposed to 2011¹. If the final rules were effective in 2010, and our assumption regarding CAS applicability was wrong, and some but not all of our nine business units received a CAS-covered contract after that effective date but before 2011, we would have a fragmented pension methodology in which different business units would be required to use different pension cost methodologies. This would involve separate tracking for accounting, forward pricing, and auditing purposes, which in our opinion is not value-added and bears significant risk. Separate pension cost accounting would be especially complex for us given that virtually all pension costs for our nine Government contracting business units flow through a single qualified pension plan. We are not sure how we would implement the rules proposed under the NPRM where pre-harmonized rules apply for certain segments and post-harmonized rules apply for others, all within the same pension plan. We would appreciate the CAS Board's interpretation and opinion on this matter to prevent possible future disagreements between industry and the Government.

2. Trigger 1: Minimum Required Funding Compared With CAS Costs

As discussed in the AIA/NDIA joint response, we also concluded that the use of Trigger 1 prohibits contractors from recovering accumulated prepaid CAS credits (created by the

¹ Since by statute, industry and others are submitting comments on the NPRM by 9 July 2010, we are assuming that the next step, either a second NPRM or Final Rule, will not be published until at least sometime in October or November 2010, thereby shortening the available time to obtain a triggering qualifying CAS-covered contract to a period of only 60 to 90 days. This may have more significant impacts for smaller U.S. Government contractors that do not receive regular CAS-covered contract awards.

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significant pension contributions required by the Pension Protection Act) beyond approximately year seven of the harmonization period. This trigger mechanism will also increase the volatility of future-year contributions and the associated application of allocable/allowable pension costs to the extent actual experience departs from the inherent actuarial assumptions. We have come to this conclusion through extensive data modeling implementing the NPRM as published in the Federal Register. Therefore, consistent with the AIA/NDIA joint response, we strongly recommend eliminating Trigger 1 from the final rules. If Trigger 1 is not eliminated, our previous recommendation of a 2011 effective date notwithstanding, we would advocate expediting the publication of the final rules, in 2010, so that contractors would have the opportunity to possibly recover an additional year of assignable, allocable pension costs, which would be lost with the combination of the Trigger 1 mechanism and an effective date in 2011.

We hope our comments and thoughts on the NPRM will help the Board understand and appreciate our concerns. We are committed to working together during the final stages of the rulemaking process. We appreciate the opportunity to provide our views on these important issues.

Sincerely,

General Dynamics Corporation



Scott E. Zamer
Director Government Accounting and
Internal Controls

2941 Fairview Park Drive
Suite 100
Falls Church, VA 22042
Tel 703 876 3000
www.generaldynamics.com