Lockheed Martin Corporation 6801 Rockledge Drive Bethesda, MD 20817 Letter of Comment No: 63 File Reference: 1201-100

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LOCKHEED MARTIN

Rajeev Bhalla Vice President and Controller

September 7, 2004

Technical Director – File Reference No. 1201-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Sent via email to director@fasb.org

Re: File Reference No. 1201-100

Proposed Statement of Financial Accounting Standards:

Fair Value Measurements

Lockheed Martin Corporation welcomes the opportunity to provide comments on the Exposure Draft (ED) of this proposed standard. Lockheed Martin is a publicly traded corporation principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. We reported 2003 sales of \$31.8 billion.

Before responding to some of the specific questions posed in the ED, we have some general comments.

We recognize and commend the FASB (the Board) for striving to provide more structure to the application of fair value measurement to financial reporting. However, we believe the ED does more to illustrate the fundamental flaws inherent in the widespread application of fair value concepts throughout the balance sheet than to address them. As noted in our comments regarding Issue 1 below, we don't believe issuing the ED avoids the need for additional issue-specific application guidance; this limits the usefulness of this proposed standard, and is contrary to the Board's objective for issuing it. Finally, we think "a framework clarifying the fair value measurement objective and its application" (as the Board characterizes this proposed standard in its "Reasons for Issuing this Proposed Statement" in the ED's summary section) would more appropriately be addressed in a FASB Concepts Statement.

In our view, the hierarchy of fair value measurement techniques presented in the ED does not significantly lessen the high degree of subjectivity and inconsistency that fair value reporting introduces, and which does not exist in a cost-based reporting methodology. With this subjectivity comes an accompanying lack of reliability that encourages manipulation.

We are concerned that the institutionalization of this subjectivity will detract from, rather than improve, the real-world relevance and utility of financial statements. We further believe that, taken to its logical end, the potentially open-ended requirement for reliance on valuation experts will likely result in significantly higher financial reporting costs to accompany this negative benefit.

We believe the Board should give further consideration to the "end game" as it expands and promotes the application of fair value reporting, and should do so at the outset of this project rather than during some later phase. In theory, we suppose the ultimate achievement of fair value balance sheet reporting would be for the reporting entity's stockholders' equity to equal its market capitalization. However, the volatility of the equity marketplace seems to us an inappropriate foundation for revaluing individual assets and liabilities on the balance sheet on an ongoing basis. In our view, such an allocation of an entity's fair value in its entirety to its individual assets and liabilities would be both arbitrary and misleading, and it would not yield the same values as the fair values of individual balance sheet line items measured on a stand alone basis. It is unclear to us if these "fair values" are relevant and, if they are, which is more so. We would suggest that one criterion for relevance should be "realizability." We would also point out that purchase accounting "works" using this methodology, but it works because it represents an allocation of cost.

Following are additional comments on several of the specific issues presented in the ED (we have paraphrased the issues for brevity).

Issue 1: Is the definition of fair value able to be applied and implemented? Is additional guidance needed?

We believe the definition in paragraph 4 of the ED is problematic, in that it defines what is purportedly a single value ("Fair value is *the* price...") by words that in practical terms constitute a range of values ("...at which an asset or liability *could be exchanged*..."). In our view, this is not a minor point.

Rather than establishing a principle, which can be broadly applied to a variety of situations with minimum guidance, this definition requires additional, specific guidance for each application to be meaningful. For example, paragraph 11 of the ED is necessary because this definition is not meaningful in different market scenarios. Using only the definition in paragraph 4, there can be many values representing "fair value" at any point in time. If this definition does not provide meaningful guidance on its own merits, we question its usefulness as an overarching principle

that can be used in lieu of specific, application oriented guidance already provided in the literature or that will need to be provided in future standards. Accordingly, we do not believe this definition meets the objectives the Board set as the basis for issuing this standard.

Issue 5: Is the guidance concerning the hierarchy of inputs in valuation techniques sufficient?

We do not believe the hierarchy is operational or consistent with the realities of fair value measurement issues. The premise of a hierarchy is that the range of alternatives, and the ranking of those alternatives, may be applied consistently to each different scenario. We do not believe this is the case with fair value measurement techniques. In our view, some fair value methodologies (and data inputs) are preferable in some circumstances and not in others, or more relevant to some situations than others, and not just due to the availability or unavailability of information.

Issue 7: Is the use of bid and asked prices instead of closing prices in certain cases appropriate?

We agree that different prices may be indicative of fair value, and refer to our comment concerning Issue 1 above and the implication that fair value is a single value in the ED's definition.

Issue 8: Agree with Board's decision to defer defining block trading and blockage factors?

We believe that the concept of a blockage factor or "block discount" is valid and potentially is applicable to assets other than shares of stock. We believe this issue is elemental and should be addressed in a standard that purports to provide fundamental guidance. However, we understand the difficulties in developing meaningful definitions, and encourage the Board to fully consider the blockage concept and its broader applications in future deliberations.

Issue 9: Is guidance for applying multiple valuation techniques sufficient?

We believe additional clarity and context is necessary to ensure that only relevant approaches need be considered under the multiple valuation approach, and that such approaches will be applied only within the parameters of a favorable cost-benefit analysis.

Issue 10: Is guidance concerning estimating value of restricted securities sufficient?

We agree that this guidance is sufficient.

Issue 11: Are expanded disclosures necessary and relevant?

We believe the Board should reevaluate the proposed additional disclosures and distinguish between the quantity of the information being requested and the quality of its relevance – in other

words, the cost versus benefit. In particular, we believe greater discretion should be applied when establishing interim versus annual requirements.

Issue 12: Does the proposed effective date provide sufficient time to prepare?

The answer to this question depends on the amount of time required by the Board to redeliberate the issues and publish the final standard. We would encourage the Board to take whatever time is required to ensure a high-quality standard, but to consider adjusting the effective date if that effort takes longer than anticipated.

Issue 13: What other issues should be addressed, and in what priority?

As we stated above in our general comments, we believe the Board should develop a clearer picture of its desired end state concerning fair value reporting, and fully consider the ramifications thereof, before proceeding further with the fair value project. We are concerned that the Board has embraced a "fair value for fair value's sake" approach, and has inverted the logical order for issuing guidance. In our view, detailed application and methodology guidance has been proposed, while a comprehensive examination of the implications of fair value reporting (both beneficial and detrimental) has been deferred to "later in the project" or "the next phase." Despite the well-known limitations of historical cost-based financial statements, we do not believe that a convincing case has yet been made for the superiority of a fair value balance sheet, particularly concerning the reliability of reported information and its susceptibility to manipulation. The potential marginalization of the income statement under a fair value approach is especially troubling, and we do not believe the further comingling of realized and unrealized gains improves financial reporting. These are difficult issues, and we encourage the Board to address them openly, thoroughly, and explicitly.

Thank you for considering our comments during the Board's further deliberations.

Sincerely,

/s/ Rajeev Bhalla
Vice President and Controller