Lockheed Martin Corporation 6801 Rockledge Drive Bethesda, MD 20817 Letter of Comment No: 15 File Reference: 1099-001

LOCKHEED MARTIN

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Vice President and Controller

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Technical Director – File Reference 1099-001 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 1099-001

Proposed Interpretation:

Accounting for Conditional Asset Retirement Obligations

- an interpretation of FASB Statement No. 143

Lockheed Martin Corporation welcomes the opportunity to provide comments on this proposed interpretation. 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.

In the abstract, we agree with the two primary conceptual points expressed in the Exposure Draft (ED), namely that a liability exists regardless of whether its timing and method of discharge are known, and that its value must be able to be estimated reasonably before the liability can be recognized on the balance sheet. However, we believe the ED wrongly considers the inability to estimate reasonably to be solely an issue of timing and unnecessarily deviates from principles established in FAS 5, and in so doing broadens the scope of FAS 143 beyond that to which it can be usefully or meaningfully applied. Concerning one of the more widespread situations in practice – the presence of asbestos in buildings that have not recently been acquired and that are not planned to be sold or demolished in the foreseeable future – we do not believe the ED adds much in clarity or meaningful guidance. We therefore question whether this proposed interpretation is necessary.

Following are our comments, organized by issue as presented in the ED.

Issue 1: Uncertainty surrounding timing and method of settlement should not affect whether a liability would be recognized, but rather would be reflected in its measurement

While we agree with this statement as expressed in the abstract, we strongly disagree with FASB's (the Board's) characterization of the issue in these terms. In our view, the key issue of liability recognition concerning FAS 143 is not rooted in timing or method of settlement that, as the Board concluded, are not determinants of whether the liability exists. Rather, the key issue surrounding liability recognition on the balance sheet pertains to the ability or inability to reliably measure the liability. We believe that, in many cases, the liability described in FAS 143 is a classic example of a contingent liability as defined in FAS 5.

Consider the case of a building containing asbestos. The building is in good repair, used in the normal course of business, and there are neither plans nor need to remodel, demolish, or sell the building. At some undefined point in the future, under some unknown scenario, the asbestos will need to be addressed using some undefined remediation method (which, given changes in technology, may not even yet exist). Under this scenario, we would assert that there is no information upon which to base any sort of meaningful calculation of liability. With so many unknown variables (in fact, with no values known with any degree of certainty), we would argue that any resulting calculated value of the liability would be arbitrary at best. An arbitrary number, in our view, is neither reliable nor an example of improved financial reporting.

On the other hand, a liability that cannot be meaningfully quantified – a contingent liability – likely does exist and, if so, should be disclosed if material. We would add that such disclosure under these circumstances would, in all likelihood and by necessity, take a very generic form at the outset, over time becoming more specific and, ultimately, being replaced by a liability on the balance sheet once it can be estimated reasonably.

We believe there is sufficient guidance in the existing literature to support such an approach, and we do not believe the ED adds any clarity in this area. The asbestos scenario described in Example 1 in Appendix A uses a residual approach to determine a liability value at the date of asset acquisition, a very limited application. We do not believe this is a useful approach for measuring a liability associated with asbestos-containing plant assets already owned. If such assets were to be sold, a residual approach could be applied when the sales price has been determined and a comparison made with market prices for similar asbestos-free assets. However, we believe a simpler approach, and one that achieves the same accounting result, would be to merely reflect the asbestos liability in the calculation of the gain or loss on sale. In our view, the timing of the accounting entry would be the same as under the ED and FAS 143 (the liability would only become reliably estimable near the transaction date when market values are known and the form of remediation negotiated).

We also question the usefulness of a "probability-weighted" fair value calculation, as prescribed by the ED. We fail to see how such a calculation would give the financial statement user any meaningful insight concerning future cash flows, one of the Board's objectives in issuing this interpretation.

Finally, we take issue with the Board's argument that a remediation liability automatically exists because "no tangible asset will last forever" (as stated in the Notice to Recipients of the ED). This is tantamount to refuting the going-concern principle because "no entity will last forever" and requiring all balance sheets to be presented at liquidation value. While both are true statements, neither are valid arguments taken at face value, and the "last forever" point should not be the cornerstone of the Board's position.

Issue 2: Can an entity permanently avoid settling the obligation?

We agree with the Board that an argument of "permanent avoidance" is not a compelling reason for not recognizing a liability (when the liability can be estimated reasonably) or not disclosing a contingent liability (if material, when it cannot be estimated reasonably). We believe this argument has been rejected in a number of previous applications over many years, such as when the idea of "permanently deferred income taxes" was rejected in the deliberations leading to the issuance of FAS 109. However, we would add that "permanent avoidance" should not be confused with the valid issue of uncertainty over whether an obligation truly exists (as discussed in our concluding remarks under Issue 1).

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

Sincerely,

/s/ Rajeev Bhalla
Vice President and Controller