Lockheed Martin Corporation
6801 Rockledge Drive Bethesda, MD 20817
Telephone 301-897-6764 Facsimile 301-897-6813

Letter of Comment No: File Reference: FSPFAS106B Date Received: 04-12-04

LOCKHEED MARTIN

Rajeev Bhalla Vice President and Controller

April 12, 2004

Director, TA & I—FSP Financial Accounting Standards Board 401 Mcrritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Sent via email to director@fasb.org, File Reference FSP FAS 106-b

Re: FSP FAS 106-b

Proposed FASB Staff Position

Accounting and Disclosure Requirements Related to the Medicare Prescription Drug,

Improvement and Modernization Act of 2003

Lockheed Martin Corporation welcomes the opportunity to provide comments on the proposed FASB Staff Position (FSP 106-b) concerning FAS 106 and the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). 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 hillion

This FSP is both necessary and welcome after the recent passage of the Act. We commend the Board and its staff for acting promptly to provide guidance and solicit comments

The guidance provided in the FSP focuses mainly on accounting for the impact of the subsidy, as opposed to the potential impact from the coordination of company-provided drug benefits with Medicare. We agree that this approach is appropriate. Accounting for the impact of the coordination of benefits is already covered under FAS 106. Since the subsidy was not anticipated by FAS 106 (and obviously could not have been anticipated by FAS 106), additional guidance focusing on this specific issue is necessary.

The draft guidance suggests that the effect of the subsidy on the Accumulated Postretirement Benefit Obligation (APBO) should be treated as an experience gain. We do not agree with this approach. Experience gains and losses arise from differences in the impact on the APBO between that which is predicted by actuarial assumptions, and that which is realized by actual experience. The effect of the subsidy on the APBO does not result from differences between actuarial assumptions and actual experience. The subsidy causes a change in the cost structure of the benefit program. In our view, it should be treated in the same way as other fundamental changes to a benefit program. Conceptually, the introduction of the subsidy is much more similar to a plan amendment than to an experience gain. We therefore believe the proper accounting would be to treat the effect of the subsidy as a prior service cost.

Actuarial assumptions will be introduced into the expense calculations to predict the impact of the subsidy. To the extent that each year's actual experience varies from those assumptions, the variance should be treated as an experience gain or loss. Treating the entire initial impact of the subsidy as an experience gain is not conceptually sound and inconsistent with the FAS 106 framework.

The FSP also implies that payment of the subsidy will be based solely on the determination of actuarial equivalence. In fact, there are documentation requirements that each company will need to maintain in order to receive the subsidy payments. Not only are there uncertainties in the Act regarding the determination of actuarial equivalence, there are also similar uncertainties regarding the documentation requirements. As is mentioned in the FSP, specific regulations regarding the documentation requirements and payment/reimbursement mechanism for the subsidy are yet to be defined by the appropriate administrative agency.

It is our hope that the documentation requirements, when established, will not be overly burdensome and administratively impractical. However, if the practical application of the requirements should prove to be problematic, then the subsidy payment process may also turn out to be unworkable. We believe that, wherever the FSP implies that the determination of actuarial equivalent benefits will allow for the payment of the subsidy, a clarification should be made so that the implication of eligibility for the subsidy is tied to both actuarial equivalence and to the documentation requirements. This could be addressed by making reference to both the determination of actuarial equivalency and to anticipated compliance with the documentation requirements when discussing eligibility for the subsidy.

Finally, we have concerns related to the guidance for income tax accounting found in paragraph 18 of the draft. It appears to us that this paragraph could require each company that receives a subsidy to prepare two sets of expense calculations each year: one set of numbers would ignore the impact of the subsidy, while the other set of numbers would reflect the subsidy. We believe this would significantly and unnecessarily complicate the expense calculations. We recommend that any guidance related to the application of FAS 109 be clarified to avoid this result.

Page 3

We appreciate the Board's and staff's timeliness in addressing the accounting issues raised by this new legislation. Thank you for considering our comments during your further deliberations.

Sincerely,

/s/ Rajeev Bhalla Vice President and Controller