NORTHROP GRUMMAN

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August 17, 2010

Mr. Russell Golden, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Number 1840-100, Disclosure of Certain Loss Contingencies

Dear Mr. Golden:

We appreciate the opportunity to provide our comments regarding the proposed Accounting Standards Update (ASU), "Disclosure of Certain Loss Contingencies" (the Exposure Draft).The intent of our letter is to address our position on the Exposure Draft from our perspective as a leading provider of systems, products, and solutions to government and commercial customers.

Overall, we do not feel that substantive changes have been made to the proposed guidance since originally proposed in the second quarter of 2008. As previously indicated in our original comment letter submitted to you on August 8, 2008, we appreciate the good intentions the Financial Accounting Standards Board (FASB) has in mind in drafting increased disclosure requirements. We submit that these good intentions will be undermined by the unintended yet very real economic consequences the Exposure Draft will have by inadvertently advancing the interests of a broader constituency than the current shareholders to which management has a fiduciary duty to protect. The Exposure Draft reflects a profound break from the American Bar Association (ABA) - American Institute for Certified Public Accountants (AICPA) Treaty's carefully considered balance between the need to protect the attorney-client privilege / attorney work product doctrine and the need for reliable and transparent financial reporting. Instead, the Exposure Draft emphasizes broad disclosure at the expense of the attorney-client privilege, unnecessarily and inappropriately putting shareholder interests at risk and providing a roadmap for the plaintiff's attorneys to gain access to previously privileged information.

We acknowledge the attempt to revise the quantitative disclosure guidance by removing the requirement to estimate "maximum exposure to loss", but we still feel that stating public disclosures in our financial statement filings will not provide useful information to the legally untrained reader and aides the plaintiff as these disclosures will inevitably be used against the company. We also still have concerns regarding the enhanced qualitative disclosure requirements for the same reasons. We don't feel that the addition of aggregation language in the guidance addresses the risk of disclosing information that is too detailed, as the board itself indicated that it did not include this language in its 2008 Exposure Draft because many preparers were already aggregating their disclosures in a meaningful way.

In conclusion, we respectfully request that the board revisit the nature of the new quantitative and qualitative disclosures it will require of its constituents. We feel that the information required to be

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disclosed by the current guidance in Accounting Standards Codification (ASC) Topic 450 effectively enables financial statement users to understand the nature of loss contingencies, their potential magnitude, and their potential timing in the appropriate level of detail at the right time (i.e. when probable or reasonably possible). Additionally, we continue to urge the FASB to concentrate on what we believe to be its most important constituents, a company's current shareholders, and weigh the benefits increased disclosures would have in their assessment of future cash flows against the real economic harm these disclosures are likely to cause. In that regard, we recommend that the current guidance in ASC 450 be retained and that the Exposure Draft not be finalized.

We appreciate the opportunity to comment on the Exposure Draft, and would be pleased to discuss further our company's perspective. Please also see attached for our responses to the "Questions for Respondents".

Respectfully,

Kenneth N. Heintz
Corporate Vice President, Controller and
Chief Accounting Officer

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ATTACHMENT: Replies to Questions for Respondents

Question 1: Are the proposed disclosures operational? If not, please explain why.

No, we do not feel that the proposed disclosures are operational. As elaborated in question 4, we feel that the FASB should reach a definitive resolution in their work with the Public Company Accounting Oversight Board (PCAOB), the AICPA, and the ABA before finalizing the Exposure Draft. The nature of the comments we made in our initial letter, as well as by most other respondents in 2008, focused primarily on the legal implications such as the impact to the ABA-AICPA treaty, disclosure of prejudicial information, and disclosure of information that will likely distort a legally untrained user's understanding of the matters disclosed. Thus we feel that resolutions with these parties are imperative before finalization.

We appreciate that you attempted to modify the disclosure requirements, as many commenters indicated that the quantity of required disclosures would effectively "bury" a financial statement user. We feel that this was only addressed to a degree in the Exposure Draft, and in a manner that would still require broad disclosures across an array of open issues such that an external user will not be able to make any meaningful assessment of the information provided. Only company management together with their legal counsel have access to the full set of facts and circumstances with which to assess these contingencies from the company's perspective and it is unrealistic to assume that external users will be able to make comparable assessments to management even if they had access to the full range of requisite information. We believe that the process established through the ABA-AICPA treaty created a workable construct for determining those matters that should be disclosed in the financial statements based on a comprehensive understanding of the matters in question. If you believe that this construct is no longer workable, we suggest that you work with the ABA again to find a means for modifying the treaty so that it once again becomes workable and issuers can limit their disclosures of litigation to only those matters that are appropriate under the circumstances, rather than the "grab bag" of disclosures that the current Exposure Draft proposes.

Question 2: Are the proposed disclosures auditable? If not, please explain why.

We question whether "auditing the proposed disclosures" is even relevant, as in many cases, there are no constructive attributes being disclosed that can be audited. Auditing these disclosures will consist primarily of comparing information to other public documents which is hardly a meaningful auditing process.

Question 3: The June 2008 FASB Exposure Draft, *Disclosure of Certain Loss Contingencies,* had proposed certain disclosures based on management's predictions about a contingency's resolution. The amendments in this proposed Update would eliminate those disclosure requirements such as estimating when a loss contingency would be resolved and the entity's maximum exposure to loss. Do you agree that an explicit exemption from disclosing information that is "prejudicial" to the reporting entity is not necessary because the amendments in this proposed Update would:

> **a. Not require any new disclosures based on management's predictions about a contingency's resolution**
> **b. Generally focus on information that is publicly available**
> **c. Relate to amounts already accrued in the financial statements**
> **d. Permit information to be presented on an aggregated basis with other similar loss contingencies? If not, please explain why.**

As indicated in our previous comment letter, the exemption from disclosing prejudicial information was sufficiently vague and ambiguous as to swallow up the exemption itself. A reasonable interpretation of

this exemption would require the disclosure of those very types of sensitive, often privileged information that would cause harm if revealed. Despite the proposed amendments stated in the question, we feel that the risk of disclosing prejudicial information still remains. Additionally, we have provided our commentary on each of the following proposed amendments:

a. Not require any new disclosures based on management's predictions about a contingency's resolution

We believe that the elimination of the requirement for management to disclose its predictions regarding the future resolution of contingencies, including the maximum potential exposure to loss from a contingency, is a desirable change. These predictions and estimates are not easily made, and can be very subjective in nature which could become more harmful to the reporting entity than if they were to simply not make the prediction in the first place. Furthermore, these types of disclosures would not be protected by safe harbor laws.

b. Generally focus on information that is publicly available

As indicated to you in our original comment letter, we still feel that stating public disclosures in our financial statement filings will not provide useful information to the legally untrained reader and is akin to performing the work of the plaintiff as these disclosures will inevitably be used against the company.

c. Relate to amounts already accrued in the financial statements

We believe that the most meaningful information that a user of the financial statements can evaluate with regard to management's views regarding pending contingencies is to understand what has been accrued in relation to the overall exposure that may exist related to the contingency. As we have previously indicated, by necessity, the user will only have partial information relating to contingencies and thus cannot make the informed decisions regarding such matters that management can perform. By comparing the recorded accrual for a contingency to the disclosed potential value of the contingency, a financial statement user will understand management's assessment of the value of the contingency. However, we remain concerned that publicly disclosing accrued reserves for individual matters will negatively impact settlement discussions with plaintiffs who learn of the accrued reserves from reading the financial statements.

d. Permit information to be presented on an aggregated basis with other similar loss contingencies? If not, please explain why.

We do not feel that the addition of aggregation language in the guidance addresses the risk of disclosing information that is too detailed, as the board itself indicated that it did not include this language in its 2008 Exposure Draft because many preparers were already aggregating their disclosures in a meaningful way.

Question 4: Is the proposed effective date operational? If not, please explain why.

Our preference is for the Exposure Draft to not be finalized, but if the proposed Exposure Draft is adopted in its current form, we do not feel that the proposed effective date is operational. The disclosures will be arduous for reporting entities to prepare, and it will require a significant amount of time and effort to determine what information can be disclosed that will meet the requirements while not being prejudicial in nature, and be meaningful to the user (although we argue that under the proposed requirements, this balance does not exist).

We request that the effective date be deferred indefinitely until the FASB staff have reached a definitive resolution in their work with the PCAOB, the AICPA, and the ABA. We anticipate that there will be significant potential implications of the proposed requirements raised by these parties, and if these parties do in fact raise issues, then finalizing the Exposure Draft before final resolution with these parties will

cause unnecessary economic harm as reporting entities will be spending time and resources as they work to prepare disclosures that may or may not be ultimately required, and which they expressly did not agree with providing.

Question 5: Do you believe that the proposed disclosures will enhance and improve the information provided to financial statement users about the nature, potential magnitude, and potential timing (if known) of loss contingencies?

We believe that the proposed disclosures will enhance the quantity of information presented, but will not improve the quality of information provided to financial statement users about the nature, potential magnitude, and potential timing (if known) of loss contingencies. As proposed, the significant increase in disclosures that an entity is required to provide will likely just result in greater confusion for financial statement users as the legally untrained reader will be unable to effectively determine which of the many disclosures provided are significant. The financial statement user should not have to determine which disclosures are significant. We believe that all required disclosures should provide decision useful information, and as currently proposed the disclosures will not achieve this objective.

Litigation is an inherently arduous and lengthy technical process that cannot be adequately appreciated and interpreted by the average financial statement user without the benefit of years of legal training and experience. Assessments are carefully and meticulously evaluated by the company based on an intimate understanding of facts discovered in the confines of the case, along with the context of legal complexities such as legal precedence and judicial process (e.g. venue, jurisdiction, presiding judge, jury composition and appeal status). Providing insight into the details surrounding a company's exposure to loss along an assessment of its potential impacts and the critical assumptions made by the company in reaching its assessment assumes a level of sophistication and understanding of complicated legal issues on the part of an investor that is unrealistic. What may seem significant when disclosed to an untrained reader may actually be a benign development or fact unworthy of note. For example, the Exposure Draft requires a corporation to disclose all amounts claimed (including punitive or treble damages), no matter how wildly inflated. This could even include remote loss contingencies (if the impact could be "severe", such as a lawsuit seeking to bar the company from doing business) or any loss contingency for which the company does not yet have enough information to determine that the risk of loss is remote. Doing so cannot help but elevate their significance, regardless of any explanatory text that attempts to put them in context. Disclosing such artificial, arbitrary valuations would provide no meaningful insight into a corporation's future cash flows and would likely have the ironic, unintended consequence of leaving the financial statement user with an overstated, inaccurate view of potential losses. Even more concerning is the possibility that disclosure of uncertain estimates and projections, based on early assessments or mere claims, could lead to additional litigation and claims if the information is later deemed inaccurate and a third party claimed reliance on such information, as these disclosures are not protected by safe harbor rules.

Question 6: Do you agree that *nonpublic entities* should be exempt from the tabular reconciliation disclosures required in the amendments in this proposed Update? If not, please explain why. Are there any other aspects of the amendments that should be applied differently to nonpublic entities? If so, please identify and explain why.

No, we do not feel that nonpublic entities should be exempt from tabular reconciliation disclosures. Legal matters are significant to all entities, public or nonpublic. If the board determines that the tabular reconciliation provides meaningful and useful information, then it should be required for all entities. We believe that the conclusion that users of financial statements on nonpublic entities have access to information that is not available to users of financial statements of public entities is a broad assumption that may not be accurate in all cases where financial statements of nonpublic entities may be required. Therefore, disclosures relating to contingencies are an integral part of the completeness of the overall information disclosure process to enable users of financial statements to make informed judgments about the reporting entity.

Question 7: The amendments in this proposed Update would defer the effective date for nonpublic entities for one year. Do you agree with the proposed deferral? If not, please explain why.

No, we do not feel that the effective date should be deferred for nonpublic entities. Legal matters are significant to all entities, public or nonpublic. If the board determines that the proposed disclosures are meaningful and useful, then they should be adopted by all entities on the same date.

Question 8: Do you believe that the proposed and existing XBRL elements are sufficient to meet the Securities and Exchange Commission's requirements to provide financial statement information in the XBRL interactive data format? If not, please explain why.

We believe that the existing XBRL elements are sufficient to meet the Securities and Exchange Commission's requirements to provide financial statement information in the XBRL interactive data format. However, we have a broader concern regarding the overall utility and usefulness of XBRL disclosures in general and believe that these disclosures represent an added cost to the reporting entity for which there is no requisite added value.