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LOCKHEED MARTIN



Rajeev Bhalla  
Vice President and Controller

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Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Via e-mail to [director@fasb.org](mailto:director@fasb.org)

Re: Proposal for a New Agenda Project:  
Issues Related to the Recognition of Revenues and Liabilities

Lockheed Martin Corporation welcomes the opportunity to provide comments to the FASB concerning the proposed new project.

While we agree that revenue and liability recognition are key principles, and acknowledge that some existing guidance may be inconsistent (especially as it applies to different industries), we do have concerns over the potential scope of your proposal.

We do support a focused attempt to reconcile and simplify the guidance on revenue recognition, with the caveat that some provisions for industry-specific issues may need to be retained. For example, the terms and conditions of our contracts with our primary customer, the U.S. Department of Defense, differ significantly from those most often found in the commercial business world. We cannot envision a general standard that would encompass the needed guidance currently found in AICPA Statement of Position No. 81-1.

However, we do not support undertaking an overly broad theoretical expedition that, while academically interesting, yields little or no meaningful improvement in the understandability of financial statements, or defies practical application. The Proposal's reference to Comprehensive Income is a telling one. In our view, when inconsistencies created by the introduction of a new concept of limited value are cited as the justification for creating yet another layer of "clarifying"

guidance, or for taking a radical step such as “eliminating the notion of earnings” (a question posed in the Proposal) because it cannot be reconciled with the “new model,” we are on the wrong path. We find it difficult to equate this with improved clarity, understanding, and usefulness.

We do not believe there is a compelling case for undertaking a project on liabilities. We have found the Concepts Statements and SFAS No. 5 to be useful and adequate guides in our analyses of financial transactions and our ultimate determination of accounting treatment.

Finally, we would hope that, when defining the scope of this project, the Board would consider the issues that led to its other current projects on the need for simplification, codification and retrievability, and disclosure overload. That being said, here are our views on the individual questions raised in the Proposal:

*Question 1: Is there a need for the FASB or others to comprehensively address issues associated with the recognition of revenues and liabilities? If yes, should the FASB take on such an effort or defer to others? If so, to whom?*

We believe the FASB is the logical party to attempt to reconcile and simplify the guidance on revenue recognition. We do not see a need for a project concerning the recognition of liabilities.

*Question 2: Is the proposed scope of such a project as described in this proposal insufficient, appropriate, or too ambitious?*

We do not believe a compelling argument has been made to support the proposed scope of this project concerning certain issues related to revenues, nor concerning liabilities. We further believe that the discussion of the goal of reducing or eliminating the need for industry-specific guidance understates the difficulty of such a task. Therefore, we believe the scope as proposed is too ambitious. A clearer articulation of the expected practical outcome of this project is necessary.

*Question 3: Should specific issues identified above or in the appendix be excluded from the scope of the proposed project? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.*

Concerning Issues Primarily Related to Revenues item #2, we believe the concepts of earnings and the earnings process, as they are used today, are widely understood and accepted. We do not believe that the elimination of the notion of earnings and its replacement with a single comprehensive earnings model has any merit whatsoever, even as a subject of investigation. In our view, the comprehensive income concept has not been widely accepted nor found valuable by users of financial statements. There is no reason we can think of to entertain expanding this model, or for this issue to be addressed by the FASB or anyone else.

Concerning Issues Primarily Related to Revenues item #7, our business as a U.S. Government contractor engaged in large, multi-year projects, many with variable fee terms, requires the extensive use of estimation in managing and reporting on the business. To explore whether revenue recognition should be prohibited if consideration is subject to variability, even if estimable, strikes us as completely without value or merit.

*Question 4: Should specific issues not identified above or in the appendix be addressed as part of the proposed project? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.*

As mentioned above, we believe that the Board should expressly consider the issues that warranted its separate projects on simplification, codification and retrievability, and disclosure overload, when defining and executing this proposed project. Put another way, the Board should take steps to ensure that understandability and practical applicability are enhanced, and that the project does not propose solutions for which there is no problem to begin with.

*Question 5: Should the proposed project, in addition to developing a new, general accounting standard on revenue recognition and revising the related guidance on revenues and liabilities in Concepts Statements 5 and 6, develop a new, general accounting standard on liability recognition?*

No. We do not believe that the Concepts Statements or the SFAS No. 5 model have been shown to be inadequate. Therefore, we see no need to further examine the concept of liability recognition at this time.

We have no other specific comments at this time. If desired, we would be happy to provide more information about our reasoning behind the positions we've outlined above. We also look forward to the opportunity to provide further comment during future stages of this project.

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

Sincerely,

/s/ Rajeev Bhalla  
Vice President and Controller