
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended June 26, 2016

Commission File Number: 1-11437

LOCKHEED MARTIN CORPORATION
(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1893632

(I.R.S. Employer Identification Number)

6801 Rockledge Drive, Bethesda, Maryland
(Address of principal executive offices)

20817
(Zip Code)

(301) 897-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

There were 302,905,786 shares of our common stock, \$1 par value per share, outstanding as of June 26, 2016.

[Table of Contents](#)

Lockheed Martin Corporation
Form 10-Q
For the Quarterly Period Ended June 26, 2016
Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. Financial Statements.	
Consolidated Statements of Earnings for the Quarters and Six Months Ended June 26, 2016 and June 28, 2015	3
Consolidated Statements of Comprehensive Income for the Quarters and Six Months Ended June 26, 2016 and June 28, 2015	4
Consolidated Balance Sheets as of June 26, 2016 and December 31, 2015	5
Consolidated Statements of Cash Flows for the Six Months Ended June 26, 2016 and June 28, 2015	6
Consolidated Statements of Stockholders' Equity for the Six Months Ended June 26, 2016 and June 28, 2015	7
Notes to Consolidated Financial Statements	8
Review Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	28
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	29
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.	48
ITEM 4. Controls and Procedures.	48
<u>PART II. OTHER INFORMATION</u>	
ITEM 1. Legal Proceedings.	50
ITEM 1A. Risk Factors.	50
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.	51
ITEM 6. Exhibits.	51
<u>SIGNATURE</u>	

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Lockheed Martin Corporation
Consolidated Statements of Earnings
(unaudited; in millions, except per share data)

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales				
Products	\$ 10,045	\$ 9,157	\$ 18,989	\$ 17,010
Services	2,869	2,486	5,627	4,744
Total net sales	12,914	11,643	24,616	21,754
Cost of sales				
Products	(9,086)	(8,102)	(17,178)	(15,053)
Services	(2,548)	(2,216)	(5,011)	(4,167)
Severance charges	—	—	(99)	—
Other unallocated, net	144	46	331	100
Total cost of sales	(11,490)	(10,272)	(21,957)	(19,120)
Gross profit	1,424	1,371	2,659	2,634
Other income, net	142	74	204	167
Operating profit	1,566	1,445	2,863	2,801
Interest expense	(166)	(104)	(330)	(197)
Other non-operating income, net	—	2	1	5
Earnings before income taxes	1,400	1,343	2,534	2,609
Income tax expense	(379)	(414)	(615)	(802)
Net earnings	\$ 1,021	\$ 929	\$ 1,919	\$ 1,807
Earnings per common share				
Basic	\$ 3.37	\$ 2.98	\$ 6.32	\$ 5.76
Diluted	3.32	2.94	6.23	5.68
Cash dividends paid per common share	\$ 1.65	\$ 1.50	\$ 3.30	\$ 3.00

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Lockheed Martin Corporation
Consolidated Statements of Comprehensive Income
(unaudited; in millions)

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net earnings	\$ 1,021	\$ 929	\$ 1,919	\$ 1,807
Other comprehensive income (loss), net of tax				
Postretirement benefit plans				
Recognition of previously deferred postretirement benefit plan amounts	173	213	346	425
Other, net	(23)	46	(6)	(11)
Other comprehensive income, net of tax	150	259	340	414
Comprehensive income	\$ 1,171	\$ 1,188	\$ 2,259	\$ 2,221

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Lockheed Martin Corporation
Consolidated Balance Sheets
(in millions, except par value)

	June 26, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,269	\$ 1,090
Receivables, net	9,275	8,061
Inventories, net	5,136	4,962
Other current assets	393	460
Total current assets	16,073	14,573
Property, plant and equipment, net	5,438	5,490
Goodwill	13,621	13,576
Intangible assets, net	4,051	4,147
Deferred income taxes	5,830	5,931
Other noncurrent assets	5,395	5,411
Total assets	\$ 50,408	\$ 49,128
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 2,778	\$ 1,974
Customer advances and amounts in excess of costs incurred	7,236	6,988
Salaries, benefits and payroll taxes	2,012	1,916
Current maturities of long-term debt	502	956
Other current liabilities	3,067	2,085
Total current liabilities	15,595	13,919
Long-term debt, net	14,307	14,305
Accrued pension liabilities	11,816	11,807
Other postretirement benefit liabilities	1,073	1,070
Other noncurrent liabilities	4,620	4,930
Total liabilities	47,411	46,031
Stockholders' equity		
Common stock, \$1 par value per share	301	303
Additional paid-in capital	—	—
Retained earnings	13,800	14,238
Accumulated other comprehensive loss	(11,104)	(11,444)
Total stockholders' equity	2,997	3,097
Total liabilities and stockholders' equity	\$ 50,408	\$ 49,128

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Lockheed Martin Corporation
Consolidated Statements of Cash Flows
(unaudited; in millions)

	Six Months Ended	
	June 26, 2016	June 28, 2015
Operating activities		
Net earnings	\$ 1,919	\$ 1,807
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	593	490
Stock-based compensation	97	89
Severance charges	99	—
Changes in assets and liabilities		
Receivables, net	(1,214)	(1,183)
Inventories, net	(233)	(154)
Accounts payable	806	453
Customer advances and amounts in excess of costs incurred	239	(211)
Postretirement benefit plans	515	580
Income taxes	237	471
Other, net	82	(122)
Net cash provided by operating activities	3,140	2,220
Investing activities		
Capital expenditures	(386)	(309)
Other, net	59	91
Net cash used for investing activities	(327)	(218)
Financing activities		
Issuance of long-term debt, net of related costs	—	2,213
Repayments of long-term debt	(452)	—
Repurchases of common stock	(1,002)	(1,541)
Dividends paid	(1,034)	(965)
Proceeds from stock option exercises	53	84
Other, net	(199)	(37)
Net cash used for financing activities	(2,634)	(246)
Net change in cash and cash equivalents	179	1,756
Cash and cash equivalents at beginning of period	1,090	1,446
Cash and cash equivalents at end of period	\$ 1,269	\$ 3,202

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Lockheed Martin Corporation
Consolidated Statements of Stockholders' Equity
(unaudited; in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2015	\$ 303	\$ —	\$ 14,238	\$ (11,444)	\$ 3,097
Net earnings	—	—	1,919	—	1,919
Other comprehensive income, net of tax	—	—	—	340	340
Repurchases of common stock	(5)	(159)	(838)	—	(1,002)
Dividends declared	—	—	(1,519)	—	(1,519)
Stock-based awards and ESOP activity	3	159	—	—	162
Balance at June 26, 2016	\$ 301	\$ —	\$ 13,800	\$ (11,104)	\$ 2,997
Balance at December 31, 2014	\$ 314	\$ —	\$ 14,956	\$ (11,870)	\$ 3,400
Net earnings	—	—	1,807	—	1,807
Other comprehensive income, net of tax	—	—	—	414	414
Repurchases of common stock	(8)	(318)	(1,215)	—	(1,541)
Dividends declared	—	—	(1,419)	—	(1,419)
Stock-based awards and ESOP activity	3	318	—	—	321
Balance at June 28, 2015	\$ 309	\$ —	\$ 14,129	\$ (11,456)	\$ 2,982

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

We prepared these consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of U.S. Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. We followed the accounting policies disclosed in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) filed with the SEC.

In the opinion of management, these consolidated financial statements reflect all adjustments that are of a normal recurring nature necessary for a fair presentation of our results of operations, financial condition and cash flows for the interim periods presented. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, accounting for sales and cost recognition, postretirement benefit plans, environmental receivables and liabilities, evaluation of goodwill and other assets for impairment, income taxes including deferred tax assets, fair value measurements and contingencies. The consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation.

We close our books and records on the last Sunday of the calendar quarter, which was on June 26 for the second quarter of 2016 and June 28 for the second quarter of 2015, to align our financial closing with our business processes. The consolidated financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods as our fiscal year ends on December 31.

On November 6, 2015, we completed the acquisition of Sikorsky Aircraft Corporation (Sikorsky) for \$9.0 billion, net of cash acquired, which has been aligned under our Mission Systems and Training (MST) business segment. The financial results of Sikorsky have been included in our consolidated financial results since the November 6, 2015 acquisition date. Accordingly, the results of Sikorsky's operations are included in our consolidated financial results for the quarter and six months ended June 26, 2016 but not for the quarter and six months ended June 28, 2015. See "Note 3 – Acquisitions and Divestitures" for additional information about the acquisition of Sikorsky and related purchase accounting.

On January 26, 2016, we entered into definitive agreements to separate and combine our Information Systems & Global Solutions (IS&GS) business segment with Leidos Holdings, Inc. (Leidos) in a Reverse Morris Trust transaction. The transaction is expected to close in the third quarter of 2016. Until closing, IS&GS will continue to operate as a business segment and the financial results for the IS&GS business segment will be reported in our continuing operations. See "Note 3 – Acquisitions and Divestitures" for additional information about the planned divestiture of our IS&GS business segment.

During the fourth quarter of 2015, we realigned certain programs among our business segments. The amounts, discussion and presentation of our business segments for all periods presented in these consolidated financial statements reflect the program realignment. The realignment did not impact our previously reported consolidated financial statements for 2015.

The results of operations for the interim periods presented are not necessarily indicative of results to be expected for the full year or future periods. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a "per diluted share" basis. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2015 Form 10-K.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 2 – EARNINGS PER COMMON SHARE

The weighted average number of shares outstanding used to compute earnings per common share were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Weighted average common shares outstanding for basic computations	303.1	312.0	303.8	313.7
Weighted average dilutive effect of equity awards	4.0	4.1	4.1	4.5
Weighted average common shares outstanding for diluted computations	307.1	316.1	307.9	318.2

We compute basic and diluted earnings per common share by dividing net earnings by the respective weighted average number of common shares outstanding for the periods presented. Our calculation of diluted earnings per common share also includes the dilutive effects for the assumed vesting of outstanding restricted stock units and performance share units and exercise of outstanding stock options based on the treasury stock method. There were no significant anti-dilutive equity awards during the quarters and six months ended June 26, 2016 or June 28, 2015.

NOTE 3 – ACQUISITIONS AND DIVESTITURES**Acquisition of Sikorsky Aircraft Corporation**

On November 6, 2015, we completed the acquisition of Sikorsky from United Technologies Corporation (UTC) for \$9.0 billion, net of cash acquired. Sikorsky is a global company primarily engaged in the research, design, development, manufacture and support of military and commercial helicopters. Sikorsky's products include military helicopters such as the H-60 Black Hawk, MH-60R Seahawk, CH-53K, H-92, and commercial helicopters such as the S-76 and S-92. The acquisition enables us to extend our core business into the military and commercial rotary wing markets, allowing us to strengthen our position in the aerospace and defense industry. Further, this acquisition will expand our presence in commercial and international markets. Sikorsky has been aligned under our MST business segment.

To fund the \$9.0 billion acquisition price, we utilized \$6.0 billion of proceeds borrowed under our 364-day revolving credit facility (the 364-day Facility), \$2.0 billion of cash on hand and \$1.0 billion from the issuance of commercial paper. In the fourth quarter of 2015, we repaid all outstanding borrowings under the 364-day Facility with the proceeds from the issuance of \$7.0 billion of fixed interest-rate long-term notes in a public offering (the November 2015 Notes). In the fourth quarter of 2015, we also repaid the \$1.0 billion in commercial paper borrowings.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Preliminary Allocation of Purchase Price to Assets Acquired and Liabilities Assumed

We accounted for the acquisition of Sikorsky as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of the net assets acquired is recorded as goodwill. We commenced the appraisals necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date. The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the acquisition date. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the acquisition date, as permitted under GAAP. The size and breadth of the Sikorsky acquisition could necessitate the need to use the full one year measurement period to adequately analyze and assess a number of the factors used in establishing the asset and liability fair values as of the acquisition date including contractual and operational factors underlying the customer programs intangible assets, the trademarks intangible asset, customer contractual obligations, inventories, receivables and customer advances, and the assumptions underpinning certain program and legal reserves. The final values may also result in changes to amortization expense related to intangible assets. Any potential adjustments made could be material in relation to the values presented in the table below.

During the quarter ended June 26, 2016 we continued to obtain information to refine estimated fair values. As a result of the additional information the significant adjustments to the carrying amounts were as follows; deferred income tax assets and inventories were decreased by about \$30 million and \$10 million and goodwill was increased by about \$45 million. As a result of the additional information obtained during the first six months of 2016, the significant adjustments to the carrying amounts were as follows; inventories, customer programs intangible assets and deferred income tax assets were reduced by about \$60 million, \$30 million, and \$20 million, while the carrying amounts of the trademarks intangible asset, goodwill and customer advances and amounts in excess of costs incurred increased by about \$70 million, \$45 million and \$10 million, respectively. The measurement period adjustments did not result in a significant adjustment to amortization expense for intangible assets during the quarter or the six months ended June 26, 2016.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the acquisition date, including the refinements described in the previous paragraph (in millions):

Cash and cash equivalents	\$ 75
Receivables	1,921
Inventories	1,758
Other current assets	25
Property, plant and equipment	653
Goodwill	2,807
Intangible assets:	
Customer programs	3,099
Trademarks	887
Other noncurrent assets	507
Deferred income tax assets	265
Total identifiable assets and goodwill	11,997
Accounts payable	(565)
Customer advances and amounts in excess of costs incurred	(1,229)
Salaries, benefits and payroll taxes	(105)
Other current liabilities	(344)
Customer contractual obligations(a)	(480)
Other noncurrent liabilities	(158)
Deferred income tax liabilities(a)	(38)
Total liabilities assumed	(2,919)
Total purchase price	\$ 9,078

(a) Recorded in Other noncurrent liabilities on the consolidated balance sheets.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Intangible assets related to customer programs were recognized for each major helicopter and aftermarket program and represent the aggregate value associated with the customer relationships, contracts, technology and tradenames underlying the associated program. These intangible assets are being amortized on a straight-line basis over a weighted-average useful life of approximately 15 years. The useful life is based on the period of expected cash flows used to measure the fair value of each of the intangible assets.

Customer contractual obligations represent liabilities on certain development programs where the expected costs exceed the expected sales under contract. We measured these liabilities based on the price to transfer the obligation to a market participant at the measurement date, assuming that the liability will remain outstanding in the marketplace. Based on the estimated net cash outflows of the developmental programs plus a reasonable contracting profit margin required to transfer the contracts to market participants, we recorded assumed liabilities of approximately \$480 million. These liabilities will be liquidated in accordance with the underlying economic pattern of the contractual obligations, as reflected by the estimated future net cash outflows incurred on the associated contracts. From the acquisition date through the period ended June 26, 2016, we recognized approximately \$50 million in sales related to customer contractual obligations. Estimated liquidation of the customer contractual obligations is approximated as follows: \$40 million remaining in 2016, \$90 million in 2017, \$70 million in 2018, \$70 million in 2019, \$70 million in 2020, \$50 million in 2021 and \$40 million thereafter.

The fair values of the assets acquired and liabilities assumed were preliminarily determined using income, market and cost valuation methodologies. The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. The income approach was primarily used to value the customer programs and trademarks intangible assets. The income approach indicates value for an asset or liability based on the present value of cash flows projected to be generated over the remaining economic life of the asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected pricing, remaining developmental effort, operational performance including company-specific synergies, aftermarket retention, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. Where appropriate, the net cash flows are adjusted to reflect the uncertainties associated with the underlying assumptions, as well as the risk profile of the net cash flows utilized in the valuation. The adjusted future cash flows are then discounted to present value using an appropriate discount rate. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost, less an allowance for loss in value due to depreciation.

The preliminary purchase price allocation resulted in the recognition of \$2.8 billion of goodwill, all of which is expected to be amortizable for tax purposes. All of the goodwill was assigned to our MST business segment. The goodwill recognized is attributable to expected revenue synergies generated by the integration of our products and technologies with those of Sikorsky, cost synergies resulting from the consolidation or elimination of certain functions, and intangible assets that do not qualify for separate recognition, such as the assembled workforce of Sikorsky.

Determining the fair value of assets acquired and liabilities assumed requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The cash flows employed in the discounted cash flow analyses are based on our best estimate of future sales, earnings and cash flows after considering factors such as general market conditions, customer budgets, existing firm orders, expected future orders, contracts with suppliers, labor agreements, changes in working capital, long term business plans and recent operating performance. Use of different estimates and judgments could yield different results.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Supplemental Pro Forma Financial Information (unaudited)

Sikorsky's financial results have been included in our consolidated financial results for the periods subsequent to the November 6, 2015 acquisition date. The following table presents summarized unaudited pro forma financial information as if Sikorsky had been included in our financial results for the quarter and six months ended June 28, 2015 (in millions):

	Quarter Ended June 28, 2015	Six Months Ended June 28, 2015
Net sales	\$ 13,309	\$ 24,653
Net earnings	935	1,777
Basic earnings per common share	3.00	5.66
Diluted earnings per common share	2.96	5.58

The unaudited supplemental pro forma financial data above have been calculated after applying our accounting policies and adjusting the historical results of Sikorsky with pro forma adjustments, net of tax, that assume the acquisition occurred on January 1, 2014. Significant pro forma adjustments include the recognition of additional amortization expense related to acquired intangible assets (based on our preliminary purchase accounting estimates) and additional interest expense related to the debt used to finance the majority of the Sikorsky purchase price. These adjustments assume the Sikorsky acquisition and debt issued to finance most of the purchase price occurred on January 1, 2014. The adjustments include amortization expense of about \$40 million and about \$80 million and interest expense of about \$45 million and about \$90 million for the quarter and six months ended June 28, 2015, respectively.

The unaudited supplemental pro forma financial information does not reflect the realization of any expected ongoing revenue or cost synergies relating to the integration of the two companies. Further, the pro forma data should not be considered indicative of the results that would have occurred if the acquisition, related financing and the associated notes issuance and repayment of the 364-day credit facility had been consummated on January 1, 2014, nor are they indicative of future results.

Planned Divestiture of the Information Systems & Global Solutions Business

On January 26, 2016, we entered into definitive agreements to separate and combine our IS&GS business with Leidos in a Reverse Morris Trust transaction. The transaction will be structured such that initially the IS&GS business segment will be contributed to a newly formed wholly owned subsidiary, Abacus Innovations Corporation (Abacus), and the common stock of Abacus will be distributed to Lockheed Martin stockholders either through a pro rata dividend in a spin-off transaction, an exchange offer pursuant to which Lockheed Martin shareholders will elect whether to exchange shares of Lockheed Martin common stock for shares of Abacus common stock in a split-off transaction, or a combination split-off and spin-off transaction. Following the distribution, Abacus will merge with a subsidiary of Leidos and each share of Abacus common stock held by Lockheed Martin stockholders will automatically convert into one share of Leidos common stock upon completing the merger. Immediately after the completion of the transactions, approximately 50.5% of the outstanding shares of Leidos common stock (approximately 77 million shares) are expected to be held by pre-merger Abacus (former Lockheed Martin) stockholders on a fully-diluted basis. Pre-merger Leidos stockholders are expected to hold approximately 49.5% of the outstanding shares of Leidos common stock on a fully diluted basis. Lockheed Martin will not receive or hold any shares of Leidos common stock. As part of the transaction, we will also receive a one-time special cash payment of \$1.8 billion.

On July 11, 2016 we announced that we had commenced an exchange offer in which Lockheed Martin stockholders have the opportunity, but are not required, to exchange shares of Lockheed Martin common stock for shares of Abacus common stock, which will automatically convert into shares of Leidos common stock upon completion of the merger. Only those stockholders that elect to participate in the exchange offer will receive shares of Leidos common stock in the merger transaction, provided that, if the exchange offer is not fully subscribed, we will distribute the remaining shares pro rata to all shares not tendered, and the shares distributed will also be converted into Leidos common stock in the merger.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

We retain the right to distribute the shares of Abacus common stock by means of a spin-off or split-off transaction until the exchange offer is completed. Both the exchange and merger are expected to qualify as tax-free transactions to Lockheed Martin and its stockholders, except to the extent that cash is paid to Lockheed Martin stockholders in lieu of fractional shares.

The transactions remain subject to customary closing conditions, including approval by Leidos' stockholders of the issuance of the Leidos shares in the merger, regulatory approvals, the absence of a material adverse change with respect to each of IS&GS and Leidos, and the receipt of solvency opinions and opinions of tax counsel. The antitrust and competition reviews in the U.S. and the U.K., which were each conditions to closing, have been completed. The transaction is expected to close in the third quarter of 2016.

Upon completing the separation of the IS&GS business, we will classify the financial results of the IS&GS business as discontinued operations in our historical financial statements. We anticipate that the number of Lockheed Martin's outstanding shares of common stock will be reduced as a result of the exchange offer and also expect to recognize a significant gain on the transaction. The gain would represent the difference between the fair value of the shares of Lockheed Martin common stock tendered by our stockholders over the carrying value of the net assets of the IS&GS business. Additionally, the gain will include the acceleration of deferred pension service credits. Any such gain will be included in the results of discontinued operations. However, the value of the shares of Leidos stock to be received and the number of any shares of our stock retired in the exchange offer and the amount of any book gain will depend on the average trading price of Leidos and Lockheed Martin common stock during an averaging period prior to the closing of the transaction (in the case of Leidos common stock, adjusted for the special dividend of \$13.64 per share to be paid to Leidos stockholders in connection with the transaction). However, there is no guarantee that the transaction will be structured as a split-off transaction or that it will result in a reduction in our shares or a gain at closing.

Other Divestitures

During the second quarter of 2016, we completed the sale of Lockheed Martin Commercial Flight Training (LMCFT), which was classified as held for sale in the fourth quarter of 2015. LMCFT's financial results are not material and there was no significant impact on our consolidated financial results as a result of completing the sale of LMCFT. Accordingly, LMCFT's financial results are not classified in discontinued operations.

NOTE 4 – GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by segment were as follows (in millions):

	Aeronautics	IS&GS	MFC	MST	Space Systems	Total
Balance at December 31, 2015	\$ 171	\$ 2,881	\$ 2,198	\$ 6,738	\$ 1,588	\$ 13,576
Acquisitions	—	—	—	43	—	43
Divestitures	—	—	—	(7)	—	(7)
Foreign currency translation	—	(13)	(5)	28	(1)	9
Balance at June 26, 2016	\$ 171	\$ 2,868	\$ 2,193	\$ 6,802	\$ 1,587	\$ 13,621

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Acquired intangible assets consisted of the following (in millions):

	June 26, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-Lived:						
Customer programs	\$ 3,099	\$ (145)	\$ 2,954	\$ 3,127	\$ (38)	\$ 3,089
Customer relationships	309	(167)	142	309	(166)	143
Other	171	(121)	50	171	(90)	81
Total finite-lived intangibles	3,579	(433)	3,146	3,607	(294)	3,313
Indefinite Lived:						
Trademarks	905	—	905	834	—	834
Total acquired intangibles	\$ 4,484	\$ (433)	\$ 4,051	\$ 4,441	\$ (294)	\$ 4,147

Acquired finite-lived intangible assets are amortized to expense over the following estimated useful lives: customer programs from nine to 20 years, customer relationships from four to 10 years, other finite-lived intangible assets from two to 10 years. During the quarter and six months ended June 26, 2016, we continued to obtain information and refine the appraisals of the fair values of intangible assets related to the Sikorsky acquisition. For further details on changes in intangible asset values (See Note 3).

Amortization expense for acquired finite-lived intangible assets was \$70 million and \$139 million for the quarter and six months ended June 26, 2016 and \$20 million and \$41 million for the quarter and six months ended June 28, 2015. Estimated future amortization expense is as follows: \$139 million remaining in 2016; \$262 million in 2017; \$248 million in 2018; \$243 million in 2019; \$236 million in 2020; \$231 million in 2021 and \$1.8 billion thereafter. Our estimates of amortization expense for finite-lived intangible assets are subject to change, pending the final determination of the fair value of intangible assets acquired in connection with the Sikorsky acquisition (See Note 3).

NOTE 5 – BUSINESS SEGMENTS INFORMATION

We operate in five business segments: Aeronautics, IS&GS, Missiles and Fire Control (MFC), MST and Space Systems. We organize our business segments based on the nature of the products and services offered. The results of our MST business segment include the operations of Sikorsky since its November 6, 2015 acquisition date. Accordingly, the financial results of Sikorsky operations are included in the financial results of our MST business segment for the quarter and six months ended June 26, 2016 but not for the quarter and six months ended June 28, 2015.

Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation. Operating profit of our business segments includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments. United Launch Alliance (ULA), which is part of our Space Systems business segment, is our primary equity method investee. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to goodwill impairments and significant severance actions; gains or losses from divestitures; the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See Note 10 (under the caption "Changes in Estimates") for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Our business segments' results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension cost through the pricing of our products and services on U.S. Government contracts and, therefore, the CAS pension cost is recognized in each of our business segments' net sales and cost of sales. Since our consolidated financial statements must present pension expense calculated in accordance with the financial accounting standards (FAS) requirements under GAAP, which we refer to as FAS pension expense, the FAS/CAS pension adjustment increases or decreases the CAS pension cost recorded in our business segments' results of operations to equal the FAS pension expense.

Summary operating results for each of our business segments were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales				
Aeronautics	\$ 4,375	\$ 4,131	\$ 8,174	\$ 7,265
Information Systems & Global Solutions	1,337	1,408	2,671	2,798
Missiles and Fire Control	1,680	1,649	3,114	3,032
Mission Systems and Training	3,303	2,165	6,307	4,144
Space Systems	2,219	2,290	4,350	4,515
Total net sales	\$ 12,914	\$ 11,643	\$ 24,616	\$ 21,754
Operating profit				
Aeronautics	\$ 478	\$ 444	\$ 898	\$ 815
Information Systems & Global Solutions	151	107	260	252
Missiles and Fire Control	253	293	474	579
Mission Systems and Training	202	262	431	442
Space Systems	340	294	584	618
Total business segment operating profit	1,424	1,400	2,647	2,706
Unallocated items				
FAS/CAS pension adjustment				
FAS pension expense	(254)	(284)	(508)	(568)
Less: CAS pension cost	497	404	997	807
FAS/CAS pension adjustment	243	120	489	239
Stock-based compensation	(53)	(49)	(97)	(89)
Severance charges	—	—	(99)	—
Other, net	(48)	(26)	(77)	(55)
Total unallocated items	142	45	216	95
Total consolidated operating profit	\$ 1,566	\$ 1,445	\$ 2,863	\$ 2,801
Intersegment sales				
Aeronautics	\$ 39	\$ 26	\$ 74	\$ 46
Information Systems & Global Solutions	29	3	53	5
Missiles and Fire Control	69	81	144	155
Mission Systems and Training	462	384	907	703
Space Systems	36	35	69	68
Total intersegment sales	\$ 635	\$ 529	\$ 1,247	\$ 977

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Total assets for each of our business segments were as follows (in millions):

	June 26, 2016	December 31, 2015
Assets		
Aeronautics	\$ 7,768	\$ 6,618
Information Systems & Global Solutions	4,103	4,206
Missiles and Fire Control	4,003	4,027
Mission Systems and Training	19,008	19,187
Space Systems	5,056	4,861
Total business segment assets	39,938	38,899
Corporate assets (a)	10,470	10,229
Total assets	\$ 50,408	\$ 49,128

(a) Corporate assets primarily include cash and cash equivalents, deferred income taxes, environmental receivables and investments held in a separate trust to fund certain of our non-qualified deferred compensation plans.

Our Aeronautics business segment includes our largest program, the F-35 Lightning II Joint Strike Fighter, an international multi-role, multi-variant, stealth fighter aircraft. Net sales for the F-35 program represented approximately 21% and 20% of our total consolidated net sales for the quarter and six months ended June 26, 2016 and 20% and 19% of our total consolidated net sales for the quarter and six months ended June 28, 2015.

NOTE 6 – INVENTORIES, NET

Inventories, net consisted of the following (in millions):

	June 26, 2016	December 31, 2015
Work-in-process, primarily related to long-term contracts and programs in progress	\$ 8,996	\$ 8,199
Less: customer advances and progress payments	(5,345)	(5,035)
	3,651	3,164
Other inventories	1,485	1,798
Total inventories, net	\$ 5,136	\$ 4,962

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 7 – POSTRETIREMENT BENEFIT PLANS

Our pretax net periodic benefit cost related to our qualified defined benefit pension plans and retiree medical and life insurance plans consisted of the following (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Qualified defined benefit pension plans				
Service cost	\$ 212	\$ 218	\$ 424	\$ 435
Interest cost	466	447	931	895
Expected return on plan assets	(666)	(683)	(1,333)	(1,367)
Recognized net actuarial losses	339	400	679	800
Amortization of prior service (credits) costs	(97)	(98)	(193)	(195)
Total net periodic benefit cost	\$ 254	\$ 284	\$ 508	\$ 568
Retiree medical and life insurance plans				
Service cost	\$ 6	\$ 5	\$ 12	\$ 10
Interest cost	29	27	59	55
Expected return on plan assets	(35)	(37)	(69)	(74)
Recognized net actuarial losses	9	11	17	22
Amortization of prior service costs	6	1	11	2
Total net periodic benefit cost	\$ 15	\$ 7	\$ 30	\$ 15

The recognized net actuarial losses and the amortization of net prior service (credits) costs in the table above, as well as similar amounts related to our other postretirement benefit plans (\$10 million and \$21 million during the quarter and six months ended June 26, 2016 and \$15 million and \$28 million for the quarter and six months ended June 28, 2015), include amounts that were reclassified from accumulated other comprehensive loss (AOCL) and recorded as a component of net periodic benefit cost for the periods presented. These costs totaled \$173 million (net of \$94 million of tax expense) and \$346 million (net of \$189 million of tax expense) for the quarter and six months ended June 26, 2016 and \$213 million (net of \$116 million of tax expense) and \$425 million (net of \$232 million of tax expense) for the quarter and six months ended June 28, 2015, which were recorded on our Statements of Comprehensive Income as an increase to other comprehensive income.

The funding of our qualified defined benefit pension plans is determined in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA), and in a manner consistent with CAS and Internal Revenue Code rules. There were no contributions to our qualified defined benefit pension plans during the quarters and six months ended June 26, 2016 and June 28, 2015, other than insignificant contributions to the pension plans we assumed in the Sikorsky acquisition. We do not plan to make contributions to our pension plans in 2016 or 2017, other than insignificant contributions to the pension plans we assumed in the Sikorsky acquisition, because none are required using current assumptions, including anticipated investment returns on plan assets.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 8 – LEGAL PROCEEDINGS AND CONTINGENCIES

We are a party to or have property subject to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described below, will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular interim reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment and how we intend to respond to the proceeding or claim. Our assessment of these factors may change as individual proceedings or claims progress.

Although we cannot predict the outcome of legal or other proceedings with certainty, where there is at least a reasonable possibility that a loss may have been incurred, GAAP requires us to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made. We follow a thorough process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion of legal proceedings, a reasonably possible loss or range of loss associated with any individual legal proceeding cannot be estimated.

Legal Proceedings

As a result of our acquisition of Sikorsky, we assumed the defense of and any potential liability for the following civil False Claims Act lawsuit. In October 2014, the U.S. Government filed a complaint in the U.S. District Court for the Eastern District of Wisconsin alleging that Sikorsky and two of its wholly-owned subsidiaries, Derco Aerospace (Derco) and Sikorsky Support Services, Inc. (SSSI), violated the civil False Claims Act in connection with a contract that the U.S. Navy awarded to SSSI in June 2006 to support the Navy's T-34 and T-44 fixed-wing turboprop training aircraft. SSSI subcontracted with Derco primarily to procure and manage the spare parts for the training aircraft. The Government alleges that SSSI overbilled the Navy on the contract because Derco added profit and overhead costs to the price of the spare parts that Derco procured and then sold to SSSI. The Government also claims that SSSI submitted false Certificates of Final Indirect Costs in the years 2006 through 2012.

The Government's complaint asserts numerous claims for violations of the False Claims Act, breach of contract and unjust enrichment. In a late April 2015 court filing, the Government disclosed that it seeks damages of approximately \$45 million, subject to trebling, plus statutory penalties of approximately \$13 million, all totaling approximately \$148 million. We believe that we have legal and factual defenses to the government's claims. Although we continue to evaluate our liability and exposure, we do not currently believe that it is probable that we will incur a material loss. If, contrary to our expectations, the Government prevails in this matter and proves damages at the high end of the range sought and is successful in having these trebled, the outcome could have an adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

On April 24, 2009, we filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA is in material breach of our agreement based on the MTA's failure to provide access to sites where work must be performed and the customer-furnished equipment necessary to complete the contract. The MTA filed an answer and counterclaim alleging that we breached the contract and subsequently terminated the contract for alleged default. The primary damages sought by the MTA are the cost to complete the contract and potential re-procurement costs. While we are unable to estimate the cost of another contractor completing the contract and the costs of re-procurement, we note that our contract with the MTA had a total value of \$323 million, of which \$241 million was paid to us, and that the MTA is seeking damages of approximately \$190 million. We dispute the MTA's allegations and are defending against them. Additionally, following an investigation, our sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA's termination of the contract was improper. Finally, our declaratory judgment action was later amended to include claims for monetary damages against the MTA of approximately \$95 million. This matter was taken under submission by the District Court in December 2014, after a five-week bench trial and the filing of post-trial pleadings by the parties. We expect a decision in 2016.

Environmental Matters

We are involved in environmental proceedings and potential proceedings relating to soil, sediment and groundwater contamination, disposal of hazardous waste and other environmental matters at several of our current or former facilities or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix and our history of receiving reimbursement of such costs. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to not be recoverable under U.S. Government contracts, in our cost of sales at the time the liability is established.

At both June 26, 2016 and December 31, 2015, the aggregate amount of liabilities recorded relative to environmental matters was \$1.0 billion, most of which are recorded in other noncurrent liabilities on our Balance Sheets. We have recorded receivables totaling \$897 million and \$858 million at June 26, 2016 and December 31, 2015, most of which are recorded in other noncurrent assets on our Balance Sheets, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. We project costs and recovery of costs over approximately 20 years.

We also are pursuing claims for recovery of costs incurred or contribution to site cleanup costs against other PRPs, including the U.S. Government, and are conducting remediation activities under various consent decrees and orders relating to soil, groundwater, sediment or surface water contamination at certain sites of former or current operations. Under an agreement related to our Burbank and Glendale, California, sites, the U.S. Government reimburses us an amount equal to approximately 50% of expenditures for certain remediation activities in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

On July 1, 2014, a regulation became effective in California setting the maximum level of the contaminant hexavalent chromium in drinking water at 10 parts per billion (ppb). In May 2014, the California Manufacturers and Technology Association filed a suit alleging the 10 ppb threshold is lower than is required to protect public health and thus imposes unjustified costs on the regulated community. We cannot predict the outcome of this suit or whether other challenges may be advanced by the regulated community or environmental groups which had sought a significantly higher and lower standard, respectively. If the new standard remains at 10 ppb, it will not have a material impact on our existing remediation costs in California.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

In addition, California is reevaluating its existing drinking water standard with respect to a second contaminant, perchlorate, and the U.S. Environmental Protection Agency (U.S. EPA) is also considering whether to regulate perchlorate and hexavalent chromium in drinking water. In February 2016, the Natural Resources Defense Council filed suit in federal court in New York against the U.S. EPA to compel the U.S. EPA to set an enforceable drinking water standard for perchlorate. If a substantially lower standard is adopted, in either California or at the federal level, for perchlorate, or if the U.S. EPA were to adopt a standard for hexavalent chromium lower than 10 ppb, we expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to not be recoverable under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

Letters of Credit, Surety Bonds and Third-Party Guarantees

We have entered into standby letters of credit, surety bonds and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as ventures in which we participate or venture partners. We had total outstanding letters of credit, surety bonds and third-party guarantees aggregating \$3.9 billion and \$3.8 billion at June 26, 2016 and December 31, 2015. We do not consider guarantees of subsidiaries and other consolidated entities to be third-party guarantees and they are not included in this figure.

At June 26, 2016 and December 31, 2015, third-party guarantees totaled \$679 million and \$678 million, of which approximately 78% and 79% related to guarantees of contractual performance of ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the venture or the venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a venture partner. We believe our current and former venture partners will be able to perform their obligations, as they have done through June 26, 2016, and that it will not be necessary to make significant payments under the third-party guarantees with respect to the non-performance of the venture partners. In determining our exposures, we evaluate the reputation, performance on contractual obligations, technical capabilities and credit quality of our current and former venture partners. There were no material amounts recorded in our financial statements related to third-party guarantees.

United Launch Alliance

In connection with our 50% ownership interest of ULA, we and The Boeing Company (Boeing) are required to provide ULA an additional capital contribution if ULA is unable to make required payments under its inventory supply agreement with Boeing. As of June 26, 2016, ULA's total remaining obligation to Boeing under the inventory supply agreement was \$120 million. The parties have agreed to defer the remaining payment obligation, as it is more than offset by other commitments to ULA. Accordingly, we do not expect to be required to make a capital contribution to ULA under this agreement.

In addition, both we and Boeing have cross-indemnified each other for guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through June 26, 2016, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 9 – FAIR VALUE MEASUREMENTS

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following (in millions):

	June 26, 2016			December 31, 2015		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Equity securities	\$ 74	\$ 74	\$ —	\$ 89	\$ 89	\$ —
Mutual funds	712	712	—	745	745	—
U.S. Government securities	131	—	131	119	—	119
Other securities	155	—	155	147	—	147
Derivatives	73	—	73	15	—	15
Liabilities						
Derivatives	58	—	58	35	—	35

Substantially all assets measured at fair value, other than derivatives, represent investments classified as trading securities held in a separate trust to fund certain of our non-qualified deferred compensation plans and are recorded in other noncurrent assets on our Balance Sheets. The fair values of equity securities and mutual funds are determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair values of U.S. Government and other securities are determined using pricing models that use observable inputs (e.g., interest rates and yield curves observable at commonly quoted intervals), bids provided by brokers or dealers or quoted prices of securities with similar characteristics. The fair values of derivative instruments, which consist of foreign currency exchange forward and interest rate swap contracts, primarily are determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates, credit spreads and foreign currency exchange rates. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the six months ended June 26, 2016.

We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exchange rates and interest rates. We do not enter into or hold derivative instruments for speculative trading purposes. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. We designate foreign currency hedges as cash flow hedges. We also are exposed to the impact of interest rate changes primarily through our borrowing activities. For fixed rate borrowings, we may use variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings in order to reduce the amount of interest paid. These swaps are designated as fair value hedges. For variable rate borrowings, we may use fixed interest rate swaps, effectively converting variable rate borrowings to fixed rate borrowings in order to mitigate the impact of interest rate changes on earnings. These swaps are designated as cash flow hedges. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to mitigate certain economic exposures.

The aggregate notional amount of our outstanding interest rate swaps at June 26, 2016 and December 31, 2015 was \$1.0 billion and \$1.5 billion. The aggregate notional amount of our outstanding foreign currency hedges at June 26, 2016 and December 31, 2015 was \$4.6 billion and \$4.1 billion. Derivative instruments did not have a material impact on net earnings and comprehensive income during the quarters and six months periods ended June 26, 2016 and June 28, 2015. Substantially all of our derivatives are designated for hedge accounting.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

In addition to the financial instruments listed in the table above, we hold other financial instruments, including cash and cash equivalents, receivables, accounts payable and debt. The carrying amounts for cash and cash equivalents, receivables and accounts payable approximated their fair values. The estimated fair value of our outstanding debt was \$17.4 billion and \$16.5 billion at June 26, 2016 and December 31, 2015 and the outstanding principal amount was \$15.8 billion and \$16.2 billion at June 26, 2016 and December 31, 2015, excluding unamortized discounts and deferred financing costs of \$1.0 billion at both June 26, 2016 and December 31, 2015. The estimated fair values of our outstanding debt were determined based on quoted prices for similar instruments in active markets (Level 2).

NOTE 10 – OTHER

Changes in Estimates

Accounting for contracts using the percentage-of-completion method requires judgment relative to assessing risks, estimating contract sales and costs (including estimating award and incentive fees and penalties related to performance) and making assumptions for schedule and technical issues. Due to the number of years it may take to complete many of our contracts and the scope and nature of the work required to be performed on those contracts, the estimation of total sales and costs at completion is complicated and subject to many variables and, accordingly is subject to change. When adjustments in estimated total contract sales or estimated total costs are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of such changes. When estimates of total costs to be incurred on a contract exceed estimates of total sales to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate.

Comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts accounted for using the percentage-of-completion method of accounting. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated total costs to complete and a reduction in the profit booking rate. Segment operating profit and margins may also be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters, cost recoveries on restructuring charges, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; restructuring charges, except for significant severance actions which are excluded from segment operating results; reserves for disputes; asset impairments; and losses on sales of assets.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters, increased segment operating profit by approximately \$435 million and \$840 million in the quarter and six months ended June 26, 2016 and \$550 million and \$1.0 billion in the quarter and six months ended June 28, 2015. These adjustments increased net earnings by approximately \$280 million (\$0.91 per share) and \$545 million (\$1.77 per share) in the quarter and six months ended June 26, 2016 and \$355 million (\$1.12 per share) and \$675 million (\$2.12 per share) in the quarter and six months ended June 28, 2015.

Long-Term Debt Repayment

In May 2016, we repaid \$452 million of long-term notes with a fixed interest rate of 7.65% according to their scheduled maturities. We also had related variable interest rate swaps with a notional amount of \$450 million mature, which did not have a significant impact on net earnings or comprehensive income.

February 2015 Debt Issuance

On February 20, 2015, we issued \$2.25 billion of notes (the February 2015 Notes) in a registered public offering. The February 2015 Notes consist of \$750 million maturing in 2025 with a fixed interest rate of 2.90%, \$500 million maturing in 2035 with a fixed interest rate of 3.60% and \$1.0 billion maturing in 2045 with a fixed interest rate of 3.80%.

Restructuring Charges

2016 Actions

During the first quarter of 2016, we recorded severance charges totaling approximately \$99 million, of which \$80 million related to our Aeronautics business segment and \$19 million related to our IS&GS business segment. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid by the end of 2016. As of June 26, 2016, we have paid approximately \$34 million in severance payments associated with these actions, substantially all of which was paid during the quarter ended June 26, 2016.

2015 Actions

During the third and fourth quarters of 2015, we recorded severance charges totaling \$102 million, of which \$67 million related to our MST business segment and \$35 million related to our IS&GS business segment (prior to our fourth quarter 2015 program realignment). The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid over the next several quarters. As of June 26, 2016, we have paid approximately \$49 million in severance payments associated with these actions, of which approximately \$17 million was paid in the quarter ended June 26, 2016.

In connection with the Sikorsky acquisition, we assumed obligations related to certain restructuring actions committed to by Sikorsky in June 2015. Net of amounts we anticipate to recover through the pricing of our products and services to our customers, we also expect to incur an additional \$40 million of costs in 2016 related to these actions. During the six months ended June 26, 2016 we incurred about \$15 million of costs and the remaining \$25 million are expected to be incurred during the second half of 2016.

We expect to recover a substantial amount of the restructuring charges through the pricing of our products and services to the U.S. Government and other customers in future periods, with the impact included in the respective business segment's results of operations.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Income Taxes

Our effective income tax rates were 27.1% and 24.3% for the quarter and six months ended June 26, 2016 and 30.8% and 30.7% for the quarter and six months ended June 28, 2015. The rates for both periods benefited from tax deductions for U.S. manufacturing activities and for dividends paid to our defined contribution plans with an employee stock ownership plan feature. The rates in the quarter and six months ended June 26, 2016 also benefited from the research and development tax credit, which was permanently extended and reinstated in the fourth quarter of 2015, and from additional tax benefits related to employee share-based payment awards which are now recorded as income tax benefit or expense in earnings effective with the adoption of an accounting standard update during the quarter ended June 26, 2016. We early adopted the accounting standard update during the second quarter of 2016 and are therefore required to report the impacts as though the accounting standard update had been adopted on January 1, 2016. Accordingly, we recognized additional income tax benefits of \$11 million and \$115 million during the quarter and six months ended June 26, 2016. The adjustments for the second quarter included only the quarterly impacts, whereas the adjustments for the first six months of 2016 include the second quarter impacts and the reclassification of income tax benefits of \$104 million originally recognized in additional paid-in capital and cash flows from financing activities in the first quarter of 2016.

Stockholders' Equity*Repurchases of Common Stock*

During the six months ended June 26, 2016, we repurchased 4.5 million shares of our common stock for \$1.0 billion. The total remaining authorization for future common share repurchases under our share repurchase program was \$2.6 billion as of June 26, 2016. As we repurchase our common shares, we reduce common stock for the \$1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings.

Dividends

We declared cash dividends totaling \$1.0 billion (\$3.30 per share) and \$1.5 billion (\$4.95 per share) during the quarter and six months ended June 26, 2016. The 2016 dividend amounts include the declaration of our 2016 third quarter dividend of \$1.65 per share, which totaled \$503 million. We declared cash dividends totaling \$942 million (\$3.00 per share) and \$1.4 billion (\$4.50 per share) during the quarter and six months ended June 28, 2015. The 2015 dividend amounts include the declaration of our 2015 third quarter dividend of (\$1.50 per share), which totaled \$471 million.

Restricted Stock Unit Grants

During the three months ended June 26, 2016, there were no significant grants of restricted stock units (RSUs). During the six months ended June 26, 2016, we granted certain employees approximately 0.7 million RSUs with a grant-date fair value of \$206.69 per RSU. The grant-date fair value of these RSUs is equal to the closing market price of our common stock on the grant date less a discount to reflect the delay in payment of dividend-equivalent cash payments that are made only upon vesting, which is generally three years from the grant date. We recognize the grant-date fair value of RSUs, less estimated forfeitures, as compensation expense ratably over the requisite service period, which is shorter than the vesting period if the employee is retirement eligible on the date of grant or will become retirement eligible before the end of the vesting period.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Accumulated Other Comprehensive Loss

Changes in the balance of AOCL, net of tax, consisted of the following (in millions):

	Postretirement Benefit Plans	Other, net	AOCL
Balance at December 31, 2015	\$ (11,314)	\$ (130)	\$ (11,444)
Other comprehensive loss before reclassifications	—	(7)	(7)
Amounts reclassified from AOCL			
Recognition of net actuarial losses (a)	469	—	469
Amortization of net prior service credits (a)	(123)	—	(123)
Other	—	1	1
Total reclassified from AOCL	346	(6)	340
Total other comprehensive income (loss)	346	(6)	340
Balance at June 26, 2016	\$ (10,968)	\$ (136)	\$ (11,104)
Balance at December 31, 2014	\$ (11,813)	\$ (57)	\$ (11,870)
Other comprehensive loss before reclassifications	—	(11)	(11)
Amounts reclassified from AOCL			
Recognition of net actuarial losses (a)	554	—	554
Amortization of net prior service credits (a)	(129)	—	(129)
Total reclassified from AOCL	425	—	425
Total other comprehensive income (loss)	425	(11)	414
Balance at June 28, 2015	\$ (11,388)	\$ (68)	\$ (11,456)

(a) Reclassifications from AOCL, net of tax, related to our postretirement benefit plans were recorded as a component of net periodic benefit cost for each period presented (Note 7). These amounts include \$173 million and \$213 million for the quarters ended June 26, 2016 and June 28, 2015, which are comprised of the recognition of net actuarial losses of \$235 million and \$277 million for the quarters ended June 26, 2016 and June 28, 2015 and the amortization of net prior service (credits) costs of \$(62) million and \$(64) million for the quarters ended June 26, 2016 and June 28, 2015.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended (*Topic 606*): that will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of the ASU to 2018 for public companies, with an option that would permit companies to adopt the ASU in 2017. Early adoption prior to 2017 is not permitted. This ASU may be adopted either retrospectively or on a modified retrospective basis whereby the ASU would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings at the effective date for existing contracts with remaining performance obligations. We are currently evaluating the methods of adoption allowed by the ASU and the effect the ASU is expected to have on our consolidated financial statements and related disclosures. As the ASU will supersede substantially all existing revenue guidance affecting us under GAAP, it could impact revenue and cost recognition on thousands of contracts across all our business segments, in addition to our business processes and our information technology systems. As a result, our evaluation of the effect of the ASU will extend over future periods.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*: that increases transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements for both lessees and lessors. The ASU is effective January 1, 2019 for public companies, with early adoption permitted. The ASU will be applied using a modified retrospective approach to the beginning of the earliest period presented in the financial statements. We are currently evaluating when we will adopt the ASU and the expected impact to our consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changed the accounting for certain aspects of employee share-based payments. The ASU requires companies to recognize additional tax benefits or expenses related to the vesting or settlement of employee share-based awards (the difference between the actual benefit for tax purposes and the tax benefit initially recognized for financial reporting purposes) as income tax benefit or expense in earnings, rather than in additional paid-in capital, in the reporting period in which they occur. The ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities rather than financing activities. Although this change will reduce some of the administrative complexities of tracking share-based awards, it will increase the volatility of our income tax expense and cash flows from operations. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We early adopted the ASU during the second quarter of 2016 and are therefore required to report the impacts as though the ASU had been adopted on January 1, 2016. Accordingly, we recognized additional income tax benefits as an increase to earnings of \$11 million (\$0.04 per share) and \$115 million (\$0.37 per share) during the quarter and six months ended June 26, 2016. Additionally, we recognized additional income tax benefits as an increase to operating cash flows of \$11 million and \$115 million during the quarter and six months ended June 26, 2016. The adjustments for the second quarter included only the quarterly impacts, whereas the adjustments for the first six months of 2016 include the second quarter impacts and the reclassification of income tax benefits of \$104 million originally recognized in additional paid-in capital and cash flows from financing activities in the first quarter of 2016. The new accounting standard did not impact any periods prior to January 1, 2016, as we applied the changes in the ASU on a prospective basis.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805)*; that simplifies the accounting for adjustments made to preliminary amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. Instead, adjustments will be recognized in the period in which the adjustments are determined, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. We adopted the ASU on January 1, 2016 and are prospectively applying the ASU to business combination adjustments identified after the date of adoption.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740)*; that simplifies the presentation of deferred income taxes and requires that deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent in our consolidated balance sheets. We applied the provisions of the ASU retrospectively and reclassified approximately \$1.6 billion from current to noncurrent assets and approximately \$140 million from current to noncurrent liabilities in our consolidated balance sheet as of December 31, 2015.

**Review Report of Ernst & Young LLP,
Independent Registered Public Accounting Firm**

Board of Directors
Lockheed Martin Corporation

We have reviewed the consolidated balance sheet of Lockheed Martin Corporation as of June 26, 2016, and the related consolidated statements of earnings and comprehensive income for the quarters and six months ended June 26, 2016 and June 28, 2015, and the consolidated statements of cash flows and stockholders' equity for the six months ended June 26, 2016 and June 28, 2015. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2015, and the related consolidated statements of earnings, comprehensive income, cash flows, and stockholders' equity for the year then ended (not presented herein), and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 24, 2016. In our opinion, the accompanying consolidated balance sheet as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
McLean, Virginia
July 20, 2016

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

BUSINESS OVERVIEW

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics and information services. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. In 2015, 78% of our \$46.1 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 58% from the Department of Defense (DoD)), 21% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity.

On January 26, 2016, we entered into definitive agreements to separate and combine our Information Systems & Global Solutions (IS&GS) business segment with Leidos Holdings, Inc. (Leidos) in a Reverse Morris Trust transaction. The transaction is expected to close in the third quarter of 2016. Until closing, IS&GS will continue to operate as a business segment and financial results for the IS&GS business segment will be reported in our continuing operations. See Note 3 under the caption "Planned Divestiture of the Information Systems & Global Solutions Business" for an update regarding the state of the transaction.

Our 2016 outlook currently includes amounts for the government IT infrastructure services and technical services businesses we expect to divest. The 2016 outlook will not be adjusted to exclude these business until a divestiture is completed. We expect 2016 net sales will increase in the high single to low-double digit range from 2015 levels. The projected growth is driven by the addition of Sikorsky Aircraft and increased volume expected on the F-35 program, partially offset by volume declines in three of our five business segments. We expect our 2016 segment operating profit will decline in mid-single digit range from 2015 levels due to an expected decrease in segment operating profit at three of the five business segments. Accordingly, we expect 2016 segment operating profit margin will be below the 2015 levels, in the 10% to 10.5% range.

The following discussion is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and notes thereto and with our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K).

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

CONSOLIDATED RESULTS OF OPERATIONS

Since our operating cycle is primarily long-term and involves many types of contracts for the design, development and manufacture of products and related activities with varying delivery schedules, the results of operations of a particular period, or period-to-period comparisons of sales and profits, may not be indicative of future operating results. The following discussions of comparative results among periods should be reviewed in this context. All per share amounts cited in these discussions are presented on a "per diluted share" basis, unless otherwise noted. Our consolidated results of operations were as follows (in millions, except per share data):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 12,914	\$ 11,643	\$ 24,616	\$ 21,754
Cost of sales	(11,490)	(10,272)	(21,957)	(19,120)
Gross profit	1,424	1,371	2,659	2,634
Other income, net	142	74	204	167
Operating profit	1,566	1,445	2,863	2,801
Interest expense	(166)	(104)	(330)	(197)
Other non-operating income, net	—	2	1	5
Earnings before income taxes	1,400	1,343	2,534	2,609
Income tax expense	(379)	(414)	(615)	(802)
Net earnings	1,021	929	1,919	1,807
Diluted earnings per common share	\$ 3.32	\$ 2.94	\$ 6.23	\$ 5.68

Certain amounts reported in other income, net, primarily our share of earnings or losses from equity method investees, are included in the operating profit of our business segments. Accordingly, such amounts are included in the discussion of our business segment results of operations.

Net Sales

We generate sales from the delivery of products and services to our customers. Product sales are predominantly generated in our Aeronautics, MFC, MST and Space Systems business segments and most of our service sales are generated in our Aeronautics, IS&GS and MST business segments. Our consolidated net sales were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Products	\$ 10,045	\$ 9,157	\$ 18,989	\$ 17,010
Services	2,869	2,486	5,627	4,744
Total net sales	\$ 12,914	\$ 11,643	\$ 24,616	\$ 21,754

Substantially all of our contracts are accounted for using the percentage-of-completion method. Under the percentage-of-completion method, we record net sales on contracts based upon our progress towards completion on a particular contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our consolidated net sales should be read in tandem with the subsequent discussion of changes in our consolidated cost of sales and our business segment results of operations because changes in our sales are typically accompanied by a corresponding change in our cost of sales due to the nature of the percentage-of-completion method.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Product Sales

Our product sales represented 78% of our total net sales during the quarter ended June 26, 2016 and 79% of total net sales during the quarter ended June 28, 2015. Product sales increased \$888 million, or 9.7%, in the quarter ended June 26, 2016 compared to the same period in 2015, primarily due to increased product sales of about \$890 million at MST and about \$165 million at Aeronautics, partially offset by decreased products sales of about \$95 million at Space Systems and \$75 million at IS&GS. The increase in product sales at MST was attributable to sales from Sikorsky which was acquired in the fourth quarter of 2015. The increase at Aeronautics was primarily attributable to the F-35 program due to increased volume partially offset by decreased aircraft deliveries (C-5 program). The decrease in product sales at Space Systems was primarily attributable to decreased volume for government satellite programs (Space Based Infrared System (SBIRS) and Advanced Extremely High Frequency (AEHF) programs), partially offset by increased volume for strategic missile systems programs. The decrease in product sales at IS&GS was primarily attributable to lower net sales as a result of completion of certain programs and lower volume.

Our product sales represented 77% of our total net sales during the six months ended June 26, 2016 and 78% of total net sales during the six months ended June 28, 2015. Product sales increased \$2.0 billion, or 11.6%, in the six months ended June 26, 2016 compared to the same period in 2015, primarily due to increased product sales of about \$1.6 billion at MST and about \$630 million at Aeronautics, partially offset by decreased products sales of about \$180 million at Space Systems and about \$120 million at IS&GS. The increase in product sales at MST is primarily attributable to sales from Sikorsky which was acquired in the fourth quarter of 2015. The increase at Aeronautics was primarily attributable to the F-35 program due to increased volume and increased aircraft deliveries (C-130). The decrease in product sales at Space Systems was primarily attributable to decreased volume for government satellite programs (primarily SBIRS, AEHF and MUOS), partially offset by increased volume for the Orion and strategic missile systems programs. The decrease in product sales at IS&GS was primarily attributable to lower net sales as a result of completion of certain programs and lower volume.

Service Sales

Our service sales represented 22% of our total net sales during the quarter ended June 26, 2016 and 21% of total net sales during the quarter ended June 28, 2015. Service sales increased \$383 million, or 15.4%, in the quarter ended June 26, 2016 compared to the same period in 2015. The increase in service sales is primarily due to increased sales of about \$250 million at MST attributable to sales from Sikorsky and increased sales of about \$80 million at Aeronautics, primarily attributable to increased sustainment activities for the F-35 program and higher volume for the F-22 program.

Our service sales represented 23% of our total net sales during the six months ended June 26, 2016 and 22% of total net sales during the six months ended June 28, 2015. Service sales increased \$883 million, or 18.6%, in the six months ended June 26, 2016 compared to the same period in 2015. The increase in service sales is primarily due to increased sales of about \$540 million at MST attributable to sales from Sikorsky and increased sales of \$280 million at Aeronautics, primarily attributable to increased sustainment activities for the F-35 program and higher volume for the F-22 program.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, subcontracting costs, an allocation of indirect costs (overhead and general and administrative), as well as the costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers. For each of our contracts, we monitor the nature and amount of costs at the contract level, which form the basis for estimating our total costs to complete the contract. Our consolidated cost of sales were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Cost of sales - products	\$ (9,086)	\$ (8,102)	\$ (17,178)	\$ (15,053)
% of product sales	90.5%	88.5%	90.5%	88.5%
Cost of sales - services	(2,548)	(2,216)	(5,011)	(4,167)
% of service sales	88.8%	89.1%	89.1%	87.8%
Severance charges	—	—	(99)	—
Other unallocated, net	144	46	331	100
Total cost of sales	\$ (11,490)	\$ (10,272)	\$ (21,957)	\$ (19,120)

The following discussion of material changes in our consolidated cost of sales for products and services should be read in tandem with the preceding discussion of changes in our consolidated net sales and our business segment results of operations. We have not identified any developing trends in cost of sales for products and services that would have a material impact on our future operations.

Product Costs

Product costs increased \$984 million, or 12.1%, during the quarter ended June 26, 2016 compared to the same period in 2015, primarily due to increased product costs of about \$980 million at MST and about \$130 million at Aeronautics partially offset by decreased product costs of about \$95 million at IS&GS and about \$70 million at Space Systems. The increase at MST is primarily attributable to operating costs generated by Sikorsky, which was acquired in the fourth quarter of 2015. The increase at Aeronautics is primarily attributable to increased volume for the F-35 program partially offset by decreased aircraft deliveries (C-5 program). The decrease at IS&GS is primarily attributable to lower costs due to close-out activities on the completion of various programs. The decrease at Space Systems is primarily attributable to decreased volume for government satellite programs (SBIRS and AEHF), partially offset by increased volume for strategic missile systems programs.

Product costs increased \$2.1 billion, or 14.1%, during the six months ended June 26, 2016 compared to the same period in 2015, primarily due to increased product costs of about \$1.7 billion at MST and about \$565 million at Aeronautics partially offset by decreased products costs of about \$125 million at IS&GS and about \$110 million at Space Systems. The increase at MST is primarily attributable to operating costs generated by Sikorsky, which was acquired in the fourth quarter of 2015. The increase at Aeronautics is primarily attributable to increased volume for the F-35 program and increased aircraft deliveries (C-130 program). The decrease at IS&GS is primarily attributable to lower costs as a result of completion of certain programs and lower volume. The decrease at Space Systems is primarily attributable to decreased volume for government satellite programs (SBIRS, AEHF and MUOS), partially offset by increased volume for the Orion program as well as strategic missile systems programs.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

Service Costs

Service costs increased \$332 million, or 15.0%, during the quarter ended June 26, 2016 compared to the same period in 2015, primarily due to increased service costs of about \$225 million at MST and \$85 million at Aeronautics. The increase at MST is primarily attributable to operating costs generated by Sikorsky, which was acquired in the fourth quarter of 2015. The increase at Aeronautics is primarily attributable to increased sustainment activities for the F-35 program and higher volume for the F-22 program.

Service costs increased \$844 million, or 20.3%, during the six months ended June 26, 2016 compared to the same period in 2015, primarily due to increased service costs of about \$495 million at MST and about \$270 million at Aeronautics. The increase at MST is primarily attributable to operating costs generated by Sikorsky, which was acquired in the fourth quarter of 2015. The increase at Aeronautics is primarily attributable to increased sustainment activities for the F-35 program and higher volume for the F-22 program.

Severance Charges

During the first quarter of 2016, we recorded severance charges totaling approximately \$99 million, of which \$80 million related to our Aeronautics business segment and \$19 million related to our IS&GS business segment. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid by the end of 2016. As of June 26, 2016, we have paid approximately \$34 million in severance payments associated with these actions, substantially all of which was paid in the quarter ended June 26, 2016.

We expect to recover a substantial amount of these charges through the pricing of our products and services to the U.S. Government and other customers. During the quarter and six months ended June 26, 2016, we recovered about \$50 million and \$75 million related to severance actions initiated in periods prior to the quarter ended June 26, 2016.

Other Unallocated, Net

Other unallocated, net primarily includes the FAS/CAS pension adjustment as described in the "Business Segment Results of Operations" section below, stock-based compensation and other corporate costs. These items are not allocated to the business segments and, therefore, are excluded from the cost of sales for products and services. Other unallocated, net was \$144 million and \$331 million of income during the quarter and six months ended June 26, 2016 compared to \$46 million and \$100 million of income during the quarter and six months ended June 28, 2015.

The increase was primarily attributable to the increase in the FAS/CAS pension adjustment, partially offset by fluctuations in other costs associated with various corporate items, none of which were individually significant. The increase in the FAS/CAS pension adjustment was primarily attributable to higher CAS pension costs during the six months ended June 26, 2016 resulting from the phase in of CAS harmonization rules, as disclosed in our 2015 Form 10-K.

Other Income, Net

Other income, net primarily includes our share of earnings or losses from equity method investees. During the quarter and six months ended June 26, 2016, other income, net was \$142 million and \$204 million, compared to \$74 million and \$167 million for the quarter and six month ended June 28, 2015. The increase was primarily attributable to increased earnings generated by equity method investees, as discussed in the "Business Segment Results of Operations" section below.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Interest Expense

Interest expense was \$166 million and \$330 million during the quarter and six months ended June 26, 2016, compared to \$104 million and \$197 million during the quarter and six months ended June 28, 2015. The increase was primarily due to interest from the issuance of \$7.0 billion of long-term debt in the fourth quarter of 2015, used to fund the acquisition of Sikorsky, and \$2.25 billion of long-term debt in February of 2015 (See "Financial Condition – Capital Resources") below.

Other Non-Operating Income, Net

There was no other non-operating income during the quarter ended June 26, 2016. Other non-operating income, net was \$1 million during six months ended June 26, 2016. Other non-operating income, net was \$2 million and \$5 million during the quarter and six months ended June 28, 2015.

Income Tax Expense

Our effective income tax rates were 27.1% and 24.3% for the quarter and six months ended June 26, 2016 and 30.8% and 30.7% for the quarter and six months ended June 28, 2015. The rates for both periods benefited from tax deductions for U.S. manufacturing activities and for dividends paid to our defined contribution plans with an employee stock ownership plan feature. The rates in the quarter and six months ended June 26, 2016 also benefited from the research and development tax credit, which was permanently extended and reinstated in the fourth quarter of 2015, and from additional tax benefits related to employee share-based payment awards which are now recorded as income tax benefit or expense in earnings effective with the adoption of an accounting standard update during the quarter ended June 26, 2016. See Note 10 (under the caption "Recent Accounting Pronouncements"). We early adopted the accounting standard update during the second quarter of 2016 and are therefore required to report the impacts as though the accounting standard update had been adopted on January 1, 2016. Accordingly, we recognized additional income tax benefits of \$11 million and \$115 million during the quarter and six months ended June 26, 2016. The adjustments for the second quarter included only the quarterly impacts, whereas the adjustments for the first six months of 2016 include the second quarter impacts and the reclassification of income tax benefits of \$104 million originally recognized in additional paid-in capital and cash flows from financing activities in the first quarter of 2016.

Future changes in tax law could significantly impact our provision for income taxes, the amount of taxes payable, and our deferred tax asset and liability balances. Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of new tax legislation, with a corresponding material, one-time, non-cash increase in income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Our net deferred tax assets were \$5.8 billion at June 26, 2016 and \$5.9 billion at December 31, 2015, based on a 35% Federal statutory income tax rate, and primarily relate to our postretirement benefit plans. If legislation reducing the Federal statutory income tax rate to 25% had been enacted at June 26, 2016, our net deferred tax assets would have been reduced by \$1.7 billion and we would have recorded a corresponding one-time, non-cash increase in income tax expense of \$1.7 billion. This additional expense would be less if the legislation phased in the tax rate reduction or if the final rate was higher than 25%. The amount of net deferred tax assets will change periodically based on several factors, including the measurement of our postretirement benefit plan obligations and actual cash contributions to our postretirement benefit plans.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

Net Earnings

Net earnings for the quarter and six months ended June 26, 2016 were \$1.0 billion (\$3.32 per share) and \$1.9 billion (\$6.23 per share) compared to \$929 million (\$2.94 per share) and \$1.8 billion (\$5.68 per share) for the quarter and six months ended June 28, 2015. Both net earnings and earnings per share were affected by the factors mentioned above.

BUSINESS SEGMENT RESULTS OF OPERATIONS

We operate in five business segments: Aeronautics, IS&GS, MFC, MST and Space Systems. We organize our business segments based on the nature of the products and services offered. During the fourth quarter of 2015, we realigned certain programs among our business segments. The amounts, discussion and presentation of our business segments for all periods presented in these consolidated financial statements reflect the program realignment. Additionally, the results of our MST business segment include the operations of Sikorsky since its November 6, 2015 acquisition date. Accordingly, the results of Sikorsky operations are included in our business segment results of operations for the quarter and six months ended June 26, 2016 but not for the quarter and six months ended June 28, 2015.

Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation. Operating profit of our business segments includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments. United Launch Alliance (ULA), which is part of our Space Systems business segment, is our primary equity method investee. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to significant severance actions and certain asset impairments; gains or losses from divestitures; the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See Note 10 (under the caption "Changes in Estimates") for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

Our business segments' results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension cost through the pricing of our products and services on U.S. Government contracts and, therefore, the CAS pension cost is recognized in each of our business segments' net sales and cost of sales. Since our consolidated financial statements must present pension expense calculated in accordance with the financial accounting standards (FAS) requirements under U.S. generally accepted accounting principles (GAAP), which we refer to as FAS pension expense, the FAS/CAS pension adjustment increases or decreases the CAS pension cost recorded in our business segments' results of operations to equal the FAS pension expense.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Summary operating results for each of our business segments were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales				
Aeronautics	\$ 4,375	\$ 4,131	\$ 8,174	\$ 7,265
Information Systems & Global Solutions	1,337	1,408	2,671	2,798
Missiles and Fire Control	1,680	1,649	3,114	3,032
Mission Systems and Training	3,303	2,165	6,307	4,144
Space Systems	2,219	2,290	4,350	4,515
Total net sales	\$ 12,914	\$ 11,643	\$ 24,616	\$ 21,754
Operating profit				
Aeronautics	\$ 478	\$ 444	\$ 898	\$ 815
Information Systems & Global Solutions	151	107	260	252
Missiles and Fire Control	253	293	474	579
Mission Systems and Training	202	262	431	442
Space Systems	340	294	584	618
Total business segment operating profit	1,424	1,400	2,647	2,706
Unallocated items				
FAS/CAS pension adjustment				
FAS pension expense	(254)	(284)	(508)	(568)
Less: CAS pension cost	497	404	997	807
FAS/CAS pension adjustment	243	120	489	239
Stock-based compensation	(53)	(49)	(97)	(89)
Severance charges	—	—	(99)	—
Other, net	(48)	(26)	(77)	(55)
Total unallocated items	142	45	216	95
Total consolidated operating profit	\$ 1,566	\$ 1,445	\$ 2,863	\$ 2,801

Management evaluates performance on our contracts by focusing on net sales and operating profit and not by type or amount of operating expense. Consequently, our discussion of business segment performance focuses on net sales and operating profit, consistent with our approach for managing the business. This approach is consistent throughout the life cycle of our contracts, as management assesses the bidding of each contract by focusing on net sales and operating profit and monitors performance on our contracts in a similar manner through their completion.

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports is accumulated in a manner specified by the requirements of each contract. For example, cost data provided to a customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) and for services would align to the type of work being performed (such as help-desk support). Our contracts generally are cost-based, which allows for the recovery of costs in the pricing of our products and services. Most of our contracts are bid and negotiated with our customers under circumstances in which we are required to disclose our estimated total costs to provide the product or service. This approach for negotiating contracts with our U.S. Government customers generally allows for the recovery of our costs. We also may enter into long-term supply contracts for certain materials or components to coincide with the production schedule of certain products and to ensure their availability at known unit prices.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate.

Changes in net sales and operating profit generally are expressed in terms of volume. Changes in volume refer to increases or decreases in sales or operating profit resulting from varying production activity levels, deliveries or service levels on individual contracts. Volume changes in segment operating profit are typically based on the current profit booking rate for a particular contract.

Comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts accounted for using the percentage-of-completion method of accounting. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated total costs to complete and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit and margin may also be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters, cost recoveries on restructuring charges, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; restructuring charges, except for significant severance actions which are excluded from segment operating results; reserves for disputes; certain asset impairments; and losses on sales of assets.

We have a contract to provide an integrated air and missile defense system to an international customer. In the quarter ended March 29, 2015, we revised our estimated costs to complete the program as a consequence of performance issues and recorded a reserve of \$70 million. Since that time, we have continued to experience issues related to customer requirements and the implementation of this contract and have periodically accrued additional reserves. Consequently, we are re-evaluating the scope, estimated costs, and viability of the program and the possibility of additional customer funding. Depending on the outcome of this re-evaluation, it is possible that we may have to record additional loss reserves in future periods, which could be material to our operating results. However, as this re-evaluation is in process and will include ongoing discussions with our customer, we cannot make an estimate of the total expected costs at this time due to uncertainties inherent in the estimation process.

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters increased segment operating profit by approximately \$435 million and \$840 million during the quarter and six months ended June 26, 2016 and \$550 million and \$1.0 billion for the quarter and six months ended June 28, 2015.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Aeronautics

Summary operating results for our Aeronautics business segment were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 4,375	\$ 4,131	\$ 8,174	\$ 7,265
Operating profit	478	444	898	815
Operating margin	10.9%	10.7%	11.0%	11.2%

Aeronautics' net sales during the quarter ended June 26, 2016 increased \$244 million, or 6 percent, compared to the same period in 2015. The increase was primarily attributable to higher net sales of approximately \$390 million for the F-35 program due to increased volume on aircraft production and sustainment activities. This increase was partially offset by lower net sales of approximately \$180 million for the C-5 program due to decreased deliveries (two aircraft delivered in the second quarter of 2016 compared to four delivered in the same period in 2015) and sustainment activities.

Aeronautics' operating profit during the quarter ended June 26, 2016 increased \$34 million, or 8 percent, compared to the same period in 2015. Operating profit increased approximately \$60 million for the F-35 program due to increased volume and sustainment activities and higher risk retirements. This increase was partially offset by lower operating profit of approximately \$25 million on various programs, primarily due to lower risk retirements and decreased volume. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$25 million lower during the quarter ended June 26, 2016 compared to the quarter ended June 28, 2015.

Aeronautics' net sales during the six months ended June 26, 2016 increased \$909 million, or 13 percent, compared to the same period in 2015. The increase was primarily attributable to higher net sales of approximately \$790 million for the F-35 program due to increased volume on aircraft production and sustainment activities; and approximately \$200 million for the C-130 program due to increased deliveries (12 aircraft delivered in the second quarter of 2016 compared to 10 delivered in the same period in 2015), contract mix and sustainment activities. These increases were partially offset by lower net sales of approximately \$100 million for the C-5 program due primarily to decreased deliveries (four aircraft delivered in the second quarter of 2016 compared to five delivered in the same period in 2015) and sustainment activities.

Aeronautics' operating profit during the six months ended June 26, 2016 increased \$83 million, or 10 percent, compared to the same period in 2015. Operating profit increased approximately \$90 million for the F-35 program due to increased volume and sustainment activities and higher risk retirements. This increase was partially offset by lower operating profit on various programs, primarily due to lower risk retirements. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$30 million lower during the six months ended June 26, 2016 compared to the six months ended June 28, 2015.

We expect Aeronautics' 2016 net sales to increase in the high-single digit percentage range as compared to 2015 due to increased volume on the F-35 and C-130 programs, partially offset by decreased volume on other aircraft programs. Operating profit is expected to increase in the mid-single digit percentage range, driven by increased volume and risk retirements on the F-35 program, partially offset by contract mix and lower risk retirements on C-130 and other aircraft programs, resulting in a slight decrease in operating margin between years.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Information Systems & Global Solutions

Summary operating results for our IS&GS business segment were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 1,337	\$ 1,408	\$ 2,671	\$ 2,798
Operating profit	151	107	260	252
Operating margin	11.3%	7.6%	9.7%	9.0%

IS&GS' net sales during the quarter ended June 26, 2016 decreased \$71 million, or 5 percent, compared to the same period in 2015. The decrease was attributable to lower net sales of approximately \$50 million as a result of the completion of certain programs to provide IT solutions to U.S. defense and intelligence agencies (including the U.S. Army Corps of Engineers (ACE) IT program) and increased competition, coupled with the fragmentation of existing large contracts into multiple smaller contracts that are awarded primarily on the basis of price when re-competed; and approximately \$20 million due to lower volume, primarily as a result of schedule delays caused by development issues on a large international data center migration and consolidation program due to unanticipated challenges in application remediation and data center migration activities.

IS&GS' operating profit during the quarter ended June 26, 2016 increased \$44 million, or 41 percent, compared to the same period in 2015. The increase was primarily attributable to higher operating profit of approximately \$40 million due to contract close-out activities and completion of various programs and, to a lesser extent, improved program performance; and approximately \$20 million due to reserves recorded in the second quarter of 2015 that were not repeated in the second quarter of 2016. These increases were partially offset by lower operating profit of approximately \$15 million as a result of the development issues on the international data center migration and consolidation program described above. Adjustments not related to volume, including net profit booking rate adjustments were approximately \$55 million higher in the second quarter of 2016 compared to the same period in 2015.

IS&GS' net sales during the six months ended June 26, 2016 decreased \$127 million, or 5 percent, compared to the same period in 2015. The decrease was primarily attributable to lower net sales of approximately \$115 million as a result of the completion of certain programs to provide IT solutions to U.S. defense and intelligence agencies (including the ACE IT program) and increased competition, coupled with the fragmentation of existing large contracts into multiple smaller contracts that are awarded primarily on the basis of price when re-competed; and approximately \$10 million due to lower volume.

IS&GS' operating profit during the six months ended June 26, 2016 increased \$8 million, or 3 percent, compared to the same period in 2015. The increase was primarily attributable to higher operating profit of approximately \$30 million due to contract close-out activities and the completion of various programs and, to a lesser extent, improved program performance; and approximately \$20 million due to reserves recorded in the six months ended June 28, 2015 that were not repeated in the six months ended June 26, 2016. These increases were partially offset by lower operating profit of approximately \$40 million as a result of the development issues on the international data center migration and consolidation program described above. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$25 million higher in the six months ended June 26, 2016 compared to the six months ended June 28, 2015.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

We expect IS&GS' 2016 net sales to decline in the high-single digit percentage range as compared to 2015, primarily driven by a loss of key contracts in an increasingly competitive environment, along with volume contraction on the segment's major contracts. Operating profit is expected to decline at a higher percentage range in 2016, as compared to net sales percentage declines, driven by higher margin program losses and re-compete programs awarded at lower margins. The declines in operating profit are expected to be partially offset by increased operating profit from contract closeout activities and completion of various programs, resulting in 2016 margins that are slightly lower than 2015 results.

Missiles and Fire Control

Summary operating results for our MFC business segment were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 1,680	\$ 1,649	\$ 3,114	\$ 3,032
Operating profit	253	293	474	579
Operating margin	15.1%	17.8%	15.2%	19.1%

MFC's net sales during the quarter ended June 26, 2016 increased \$31 million, or 2 percent, compared to the same period in 2015. The increase was attributable to higher net sales of approximately \$60 million for fire control programs due to increased deliveries (including SNIPER® and Special Operations Forces Contractor Logistics Support Services (SOF CLSS)); and approximately \$35 million for air and missile defense programs (primarily Patriot Advanced Capability-3 (PAC-3) due to increased deliveries). This increase was partially offset by lower net sales of approximately \$45 million for tactical missiles programs due to fewer deliveries (primarily Guided Multiple Launch Rocket Systems (GMLRS)); and approximately \$20 million for various other programs due to lower volume.

MFC's operating profit during the quarter ended June 26, 2016 decreased \$40 million, or 14 percent, compared to the same period in 2015. The decrease was attributable to lower operating profit of approximately \$15 million for air and missile defense programs primarily due to a reserve for contractual matters, lower risk retirements and contract mix; approximately \$15 million for tactical missile programs, primarily due to lower risk retirements on various programs and fewer deliveries (primarily GMLRS); and approximately \$10 million for fire control programs, primarily due to lower risk retirements (Apache) and program mix. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$35 million lower in the second quarter of 2016 compared to the same period in 2015.

MFC's net sales during the six months ended June 26, 2016 increased \$82 million, or 3 percent, compared to the same period in 2015. The increase was primarily attributable to higher net sales of approximately \$140 million for fire control programs due to increased deliveries (including SNIPER, SOF CLSS and LANTIRN®). This increase was partially offset by lower net sales of approximately \$55 million for air and missile defense programs (primarily Terminal High Altitude Area Defense due to lower volume, partially offset by increased deliveries for PAC-3).

MFC's operating profit during the six months ended June 26, 2016 decreased \$105 million, or 18 percent, compared to the same period in 2015. Operating profit decreased approximately \$60 million for air and missile defense programs, primarily as a result of lower risk retirements (PAC-3), a reserve for contractual matters, and contract mix; approximately \$25 million for fire control programs, primarily due to lower risk retirements (Apache) and program mix; and approximately \$15 million for tactical missile programs, primarily due to lower risk retirements. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$115 million lower in the six months ended June 26, 2016, compared to the six months ended June 28, 2015.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

We expect MFC's net sales to be flat or experience a slight decline in 2016 as compared to 2015. Operating profit is expected to decrease by approximately 20 percent, driven by contract mix and fewer risk retirements in 2016 compared to 2015. Accordingly, operating profit margin is expected to decline from 2015 levels.

Mission Systems and Training

Summary operating results for our MST business segment were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 3,303	\$ 2,165	\$ 6,307	\$ 4,144
Operating profit	202	262	431	442
Operating margin	6.1%	12.1%	6.8%	10.7%

MST's net sales during the quarter ended June 26, 2016 increased \$1.1 billion, or 53 percent, compared to the same period in 2015. The increase was primarily attributable to net sales of approximately \$1.2 billion from Sikorsky, net of adjustments required to account for the acquisition of this business which occurred in the fourth quarter of 2015. This increase was partially offset by lower net sales of approximately \$60 million for various programs, primarily due to decreased volume.

MST's operating profit during the quarter ended June 26, 2016 decreased \$60 million, or 23 percent, compared to the same period in 2015. The decrease was primarily attributable to lower operating profit of approximately \$30 million from undersea systems programs, which includes a reserve for performance matters on an international program and lower risk retirements; and due to an operating loss of approximately \$30 million from Sikorsky due primarily to intangible amortization and adjustments required to account for the acquisition of this business. Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately \$35 million lower in the second quarter of 2016 compared to the same period in 2015.

MST's net sales during the six months ended June 26, 2016 increased \$2.2 billion, or 52 percent, compared to the same period in 2015. The increase was primarily attributable to net sales of approximately \$2.2 billion from Sikorsky, net of adjustments required to account for the acquisition of this business.

MST's operating profit during the six months ended June 26, 2016 decreased \$11 million, or 2 percent, compared to the same period in 2015. The decrease was primarily attributable to an operating loss of approximately \$90 million from Sikorsky due primarily to intangible amortization and adjustments required to account for the acquisition of this business. This decrease was partially offset by higher operating profit of approximately \$55 million for training and logistics programs due primarily to higher risk retirements, including the favorable resolution of contract matters; and approximately \$30 million for undersea systems programs due primarily to higher reserves for performance matters on an international program in the first six months of 2015 compared to the first six months of 2016. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$55 million higher in the six months ended June 26, 2016, compared to the six months ended June 28, 2015.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

We expect MST's 2016 net sales to increase in the mid-double digit percentage range compared to 2015, due to the inclusion of Sikorsky programs for a full year, partially offset by a decline in volume due to the completion of certain programs. Operating profit is expected to increase in the low single-digit percentage range on higher volume, and operating margin is expected to decline due to costs associated with the Sikorsky acquisition, including the impact of purchase accounting adjustments, integration costs and inherited restructuring costs associated with actions committed to by Sikorsky prior to acquisition.

Space Systems

Summary operating results for our Space Systems business segment were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net sales	\$ 2,219	\$ 2,290	\$ 4,350	\$ 4,515
Operating profit	340	294	584	618
Operating margin	15.3%	12.8%	13.4%	13.7%

Space Systems' net sales during the quarter ended June 26, 2016 decreased \$71 million, or 3 percent, compared to the same period in 2015. The decrease was primarily attributable to lower net sales of approximately \$115 million for government satellite programs due to decreased volume (primarily Space Based Infrared System (SBIRS), Advanced Extremely High Frequency (AEHF) and Mobile User Objective System (MUOS)). This decrease was partially offset by higher net sales of approximately \$40 million for strategic and defensive missile systems due to increased volume.

Space Systems' operating profit in the second quarter of 2016 increased \$46 million, or 16 percent, compared to the same period in 2015. The increase was primarily attributable to approximately \$80 million of increased equity earnings in joint ventures (primarily ULA). This increase was partially offset by lower operating profit of approximately \$20 million for government satellite programs due primarily to lower risk retirements (SBIRS and MUOS); and approximately \$20 million for commercial satellite programs due primarily to performance matters on certain programs. Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately \$75 million lower in the second quarter of 2016 compared to the same period in 2015.

Space Systems' net sales during the six months ended June 26, 2016 decreased \$165 million, or 4 percent, compared to the same period in 2015. The decrease was attributable to lower net sales of approximately \$245 million for government satellite programs due to decreased volume (primarily SBIRS, AEHF and MUOS). This decrease was partially offset by higher net sales of approximately \$40 million for the Orion program due to increased volume; and approximately \$30 million for strategic and defensive missile systems due to increased volume.

Space Systems' operating profit during the six months ended June 26, 2016 decreased \$34 million, or 6 percent, compared to the same period in 2015. The decrease was primarily attributable to lower operating profit of approximately \$55 million for government satellite programs due to lower risk retirements (SBIRS and MUOS) and decreased volume; and approximately \$25 million for commercial satellite programs due to performance matters on certain programs. These decreases were partially offset by approximately \$55 million of increased equity earnings in joint ventures (primarily ULA). Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$135 million lower in the six months ended June 26, 2016, compared to the six months ended June 28, 2015.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

Total equity earnings recognized by Space Systems (primarily ULA) represented approximately \$120 million, or 35 percent, and approximately \$170 million, or 29 percent, of this business segment's operating profit for the quarter and six months ended June 26, 2016, compared to approximately \$40 million, or 14 percent, and \$115 million, or 19 percent, for the quarter and six months ended June 28, 2015.

We expect Space Systems' net sales to decline in the mid-single digit percentage range in 2016 as compared to 2015, primarily driven by program lifecycles and volume on government satellite programs. Operating profit is expected to decline in the mid-single digit percentage range on lower sales volume, partially offset by increased equity earnings in joint ventures. As a result, operating margin is expected to decline slightly between the years.

FINANCIAL CONDITION

Liquidity and Cash Flows

We have a balanced cash deployment strategy to enhance stockholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have continued to invest in our business, including capital expenditures, independent research and development and have made selective business acquisitions, while returning cash to stockholders through dividends and share repurchases, and managing our debt levels, maturities and interest rates.

We have generated strong operating cash flows, which have been the primary source of funding for our operations, capital expenditures, debt service and repayments, dividends, share repurchases and postretirement benefit plan contributions. Based on a cash deployment initiative we announced in October 2014, we plan to reduce our total outstanding share count to below 300 million shares by the end of 2017, market conditions and our fiduciary obligations permitting. The total remaining authorization for future common share repurchases under our share repurchase program was \$2.6 billion as of June 26, 2016. Additionally, if the transaction to separate and combine the IS&GS business segment with Leidos is structured as a split-off, as currently contemplated, our outstanding share count will be reduced by the number of shares our stockholders elect to exchange for shares of Leidos.

We have accessed the capital markets opportunistically as we did in February 2015 when we issued \$2.25 billion of long-term debt and as needed as we did in November 2015 when we issued \$7.0 billion of long-term debt in connection with our acquisition of Sikorsky. We expect our cash from operations will continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. However, we expect to continue to issue commercial paper backed by our revolving credit facility to manage the timing of our cash flows. We expect to receive a tax-free special cash payment of approximately \$1.8 billion as a result of the anticipated divestiture of our IS&GS business segment in the third quarter of 2016 that we intend to use to repay debt, pay dividends or repurchase stock, although the timing and closing of the transaction are uncertain and subject to approval by Leidos' stockholders of the issuance of the Leidos shares in the merger and the satisfaction of customary closing conditions, including regulatory approvals, the absence of a material adverse change with respect to each of IS&GS and Leidos, the receipt of solvency opinions and opinions of tax counsel. As mentioned in the "Capital Resources" section below, we have financial resources available to fund potential cash outflows that are less predictable or more discretionary, should they occur. We also have access to credit markets, if needed, for liquidity or general corporate purposes, including, but not limited to, our revolving credit facility or the ability to issue commercial paper, and letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

The following table provides a summary of our cash flow information followed by a discussion of the key elements (in millions):

	Six Months Ended	
	June 26, 2016	June 28, 2015
Cash and cash equivalents at beginning of year	\$ 1,090	\$ 1,446
Operating activities		
Net earnings	1,919	1,807
Non-cash adjustments	789	579
Changes in working capital	(402)	(1,095)
Other, net	834	929
Net cash provided by operating activities	3,140	2,220
Net cash used for investing activities	(327)	(218)
Net cash used for financing activities	(2,634)	(246)
Net change in cash and cash equivalents	179	1,756
Cash and cash equivalents at end of period	\$ 1,269	\$ 3,202

Operating Activities

Net cash provided by operating activities increased \$920 million during the six months ended June 26, 2016, compared to the same period in 2015, primarily due to a decrease in cash used for changes in working capital of \$693 million from the comparable period in 2015 and recording \$115 million of additional tax benefits related to the vesting or settlement of share based awards as operating cash flows upon adoption of the accounting standards update for stock compensation. The change in working capital is defined as receivables and inventories less accounts payable and customer advances and amounts in excess of costs incurred. The change in working capital was largely driven by timing of payments for accounts payable and timing of cash receipts for customer advances and amounts in excess of cost incurred. We made net income tax payments of \$485 million during the six months ended June 26, 2016, compared to \$500 million during the six months ended June 28, 2015. We made interest payments of \$281 million during the six months ended June 26, 2016, compared to \$162 million during the six months ended June 28, 2015.

We may determine to fund customer programs ourselves pending government appropriations. If we incur costs in excess of funds obligated on a contract, we may be at risk for reimbursement of the excess costs. In 2014 and 2015, we received customer authorization and initial funding to begin producing F-35 aircraft to be acquired under low-rate initial production (LRIP) 9 and 10 contracts, respectively. We continue to negotiate these contracts with our customer. Throughout the negotiation process, we have incurred costs in excess of funds obligated and have provided multiple notifications to our customer that current funding is insufficient to cover the production process. Despite not yet receiving additional funding, we continued work in an effort to meet our customer's desired aircraft delivery dates. As a result, as of June 26, 2016, we have about \$900 million of potential cash exposure and \$3.0 billion in termination liability exposure related to the F-35 LRIP 9 and 10 contracts. We are currently negotiating final contract terms with our customer and expect to receive additional funding by the end of 2016.

Investing Activities

Net cash used for investing activities increased \$109 million during the six months ended June 26, 2016, compared to the same period in 2015 primarily due to an increase of \$77 million in capital expenditures. Capital expenditures amounted to \$386 million and \$309 million during the six months ended June 26, 2016 and June 28, 2015.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

The majority of our capital expenditures were for equipment and facilities infrastructure that generally are incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use software.

Financing Activities

Net cash used for financing activities was \$2.6 billion during the six months ended June 26, 2016, as compared to \$246 million the same period in 2015. Net cash used for financing activities during the six months ended June 26, 2016 was primarily driven by dividend payments, share repurchases and repayments of long-term debt according to their scheduled maturities. Net cash used for financing activities during the six months ended June 28, 2015 was primarily driven by share repurchases and dividend payments partially offset by, proceeds from the February 2015 debt issuance. We paid \$1.0 billion and \$1.5 billion to repurchase 4.5 million and 7.9 million shares of our common stock during the six months ended June 26, 2016 and June 28, 2015, respectively. During the six months ended June 26, 2016, we paid dividends totaling \$1.0 billion (\$3.30 per share), which included our 2016 second quarter dividend (\$1.65 per share). During the six months ended June 28, 2015, we paid dividends totaling \$965 million.

In May 2016, we repaid \$452 million of long-term notes with a fixed interest rate of 7.65% according to their scheduled maturities. We also had related variable interest rate swaps with a notional amount of \$450 million mature, which did not have a significant impact on net earnings or comprehensive income.

On February 20, 2015, we received proceeds of \$2.21 billion for the issuance of \$2.25 billion of fixed interest rate long-term notes.

Cash received from the issuance of our common stock in connection with employee stock option exercises during the six month ended June 26, 2016 and June 28, 2015 totaled \$53 million and \$84 million, respectively. Those exercises resulted in the issuance of 0.6 million and 1.1 million shares of our common stock.

Capital Resources

At June 26, 2016, we held cash and cash equivalents of \$1.3 billion. As of June 26, 2016, approximately \$435 million of our cash and cash equivalents was held outside of the U.S. by our international subsidiaries. Although those balances are generally available to fund ordinary business operations without legal or other restrictions, a significant portion is not immediately available to fund U.S. operations unless repatriated. Our intention is to permanently reinvest earnings from our international subsidiaries, with the exception of any subsidiaries being transferred with the IS&GS divestiture. While we do not intend to do so, if this cash had been repatriated at June 26, 2016, the amount of additional U.S. federal income tax that would be due after considering foreign tax credits would not be significant.

Our outstanding debt, net of unamortized discounts and deferred financing costs, was \$14.8 billion as of June 26, 2016 and mainly is in the form of publicly-issued notes that bear interest at fixed rates. In the quarter ended June 26, 2016, we repaid \$452 million of long-term notes with a fixed interest rate of 7.65% according to their scheduled maturities. We have scheduled debt maturities of approximately \$500 million in the third quarter of 2016 that we plan to repay with available cash. As of June 26, 2016, we were in compliance with all covenants contained in our debt and credit agreements. There were no material changes during the quarter or six months ended June 26, 2016 to our contractual commitments as presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2015 Form 10-K that were outside the ordinary course of our business.

**Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

At June 26, 2016, we had a \$2.5 billion revolving credit facility (the 5-year Facility) with various banks which expires on October 9, 2020 and is available for general corporate purposes. The undrawn portion of the 5-year Facility is also available to serve as a backup facility for the issuance of commercial paper. We may request and the banks may grant, at their discretion, an increase in the borrowing capacity under the 5-year Facility of up to an additional \$500 million. There were no borrowings outstanding under the 5-year Facility as of June 26, 2016.

We have agreements in place with financial institutions to provide for the issuance of commercial paper. In the quarter ended June 26, 2016 we borrowed and fully repaid amounts under our commercial paper programs. At June 26, 2016 no borrowings were outstanding.

Our stockholders' equity was \$3.0 billion at June 26, 2016, a decrease of \$100 million from December 31, 2015. The decrease was primarily attributable to dividends declared of \$1.5 billion and the repurchase of 4.5 million shares for \$1.0 billion, partially offset by net earnings of \$1.9 billion, amortization of \$346 million in postretirement benefit plan expense and \$162 million in stock-based awards and employee stock ownership plan (ESOP) activity. As we repurchase our common shares, we reduce common stock for the \$1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings.

OTHER MATTERS

Status of the F-35 Program

The F-35 program consists of development contracts, multiple production contracts and sustainment activities. The development contracts are being performed concurrent with the production contracts. Concurrent performance of development and production contracts is used for complex programs to test aircraft, shorten the time to field systems, and achieve overall cost savings. We expect the System Development and Demonstration portion of the development contracts will be substantially complete in 2017, with less significant efforts continuing into 2019. Production of the aircraft is expected to continue for many years given the U.S. Government's current inventory objective of 2,443 aircraft for the Air Force, Marine Corps, and Navy; commitments from our eight international partners and three international customers; as well as expressions of interest from other countries.

The U.S. Government continues to complete various operational tests, including ship trials, mission system evaluations, and weapons testing, with the F-35 aircraft fleet recently surpassing 63,000 flight hours. Progress continues to be made on the production of aircraft. In current production, multiple aircraft for our partner countries and international customers continue to advance. Progress continues in our pursuit of helping the U.S. Air Force declare initial operating capability of the F-35A in 2016. We have seen international progress as the first F-35 international non-partner customer roll out ceremony was held for the Israeli "Adir" in the second quarter of 2016. In addition, the F-35 was selected by the Denmark Parliament as their next generation fighter aircraft. During the second quarter of 2016 two F-35 aircraft also arrived at an airshow in the Netherlands. As of June 26, 2016, we have delivered 174 production aircraft to our U.S. and international partners, and have 107 production aircraft in backlog, including orders from our international partners.

Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to aircraft performance, program schedule, cost, and requirements as part of the DoD, Congressional, and international partners' oversight and budgeting processes. Current program challenges include, but are not limited to, supplier and partner performance, software development, level of cost associated with life cycle operations and sustainment and warranties, receiving funding for production contracts on a timely basis, executing future flight tests, and findings resulting from testing and operating the aircraft.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Contingencies

See Note 8 for information regarding our contingent obligations, including off-balance sheet arrangements.

Critical Accounting Policies

There have been no significant changes to the critical accounting policies we disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2015 Form 10-K.

Recent Accounting Pronouncements

See Note 10 (under the caption "Recent Accounting Pronouncements") for information related to new accounting standards.

Lockheed Martin Corporation

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

For quantitative and qualitative disclosures about market risk, refer to the following sections of our Annual Report on Form 10-K for the year ended December 31, 2015: “Quantitative and Qualitative Disclosures About Market Risk,” and Note 9. As disclosed in ITEM 7A. “Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K, we transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. Due to recently awarded programs we increased our exposure to the Australian dollar. Our other exposures to market risk have not changed materially since December 31, 2015.

ITEM 4. Controls and Procedures.

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 26, 2016. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were operating and effective as of June 26, 2016.

There were no changes in our internal control over financial reporting during the quarter ended June 26, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Statements

This Form 10-Q contains statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on our current expectations and assumptions. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “scheduled,” “forecast” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially due to factors such as:

- our reliance on contracts with the U.S. Government, all of which are conditioned upon the availability of funding;
- declining budgets; affordability initiatives; the implementation of automatic sequestration under the Budget Control Act of 2011 or Congressional actions intended to replace sequestration;
- risks related to the development, production, performance, schedule, cost and requirements of complex and technologically advanced programs including our largest, the F-35 program;
- economic, industry, business and political conditions (domestic and international) including their effects on governmental policy;
- our success in growing international sales and expanding into adjacent markets and risks associated with doing business in new markets and internationally;
- the competitive environment for our products and services, including increased market pressures in our services businesses, competition from outside the aerospace and defense industry, and increased bid protests;
- planned production rates for significant programs and compliance with stringent performance and reliability standards;
- the performance of key suppliers, teammates, ventures, venture partners, subcontractors and customers;
- the timing and customer acceptance of product deliveries;
- our ability to attract and retain key personnel and transfer knowledge to new personnel; the impact of work stoppages or other labor disruptions;
- the impact of cyber or other security threats or other disruptions to our businesses;
- our ability to implement capitalization changes such as share repurchase activity and pension funding or debt levels;

Lockheed Martin Corporation

- our ability to recover certain costs under U.S. Government contracts and changes in contract mix;
- the accuracy of our estimates and projections;
- risk of a future impairment of goodwill or other long-term assets;
- movements in interest rates and other changes that may affect pension plan assumptions and actual returns on pension plan assets;
- realizing the anticipated benefits of acquisitions or divestitures, ventures, teaming arrangements or internal reorganizations, and our efforts to increase the efficiency of our operations and improve the affordability of our products and services;
- the ability to successfully integrate the Sikorsky business and realize synergies and other expected benefits of this acquisition, and the impact of oil and gas trends on financial performance;
- adjustments required as a result of the ongoing purchase accounting analysis related to the Sikorsky acquisition;
- risks related to the completion of our previously announced transaction with Leidos related to our IS&GS business segment, including anticipated timing; obtaining stockholder and regulatory approvals and anticipated tax treatment; the dependency of any split-off transaction on market conditions; and the value to be received in any split-off transaction and the amount of any potential decrease in outstanding shares or book gain;
- the adequacy of our insurance and indemnities;
- materials availability;
- the effect of changes in (or the interpretation of): legislation, regulation or policy, including those applicable to procurement (including competition from fewer and larger prime contractors), cost allowability or recovery, accounting, taxation, or export; and
- the outcome of legal proceedings, bid protests, environmental remediation efforts, government investigations or government allegations that we have failed to comply with law, other contingencies and U.S. Government identification of deficiencies in our business systems.

These are only some of the factors that may affect the forward-looking statements contained in this Form 10-Q. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see our filings with the U.S. Securities and Exchange Commission (SEC) including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and this Form 10-Q. Our filings may be accessed through the Investor Relations page of our website, www.lockheedmartin.com/investor, or through the website maintained by the SEC at www.sec.gov.

Our actual financial results likely will be different from those projected due to the inherent nature of projections. Given these uncertainties, forward-looking statements should not be relied on in making investment decisions. The forward-looking statements contained in this Form 10-Q speak only as of the date of its filing. Except where required by applicable law, we expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-Q to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-Q are intended to be subject to the safe harbor protection provided by the federal securities laws.

Lockheed Martin Corporation

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

We are a party to or have property subject to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment, and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular interim reporting period. We cannot predict the outcome of legal or other proceedings with certainty. These matters include the proceedings summarized in Note 8 in this Form 10-Q and Note 14 in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) filed with the U.S. Securities and Exchange Commission.

We are subject to federal, state, local and foreign requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have our property subject to various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see Note 8 in this Form 10-Q. See also "Critical Accounting Policies – Environmental Matters" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14, each in our 2015 Form 10-K for a description of previously reported matters.

As a U.S. Government contractor, we are subject to various audits and investigations by the U.S. Government to determine whether our operations are being conducted in accordance with applicable regulatory requirements. U.S. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, suspension, proposed debarment, debarment from eligibility for future U.S. Government contracting or suspension of export privileges. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. Government. U.S. Government investigations often take years to complete and many result in no adverse action against us. We also provide products and services to customers outside of the U.S., which are subject to U.S. and foreign laws and regulations and foreign procurement policies and practices. Our compliance with local regulations or applicable U.S. Government regulations also may be audited or investigated.

ITEM 1A. Risk Factors.

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) describes some of the risks and uncertainties associated with our business, including U.S. Government defense spending priorities, as further described in the "Industry Considerations" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q. These risks and uncertainties have the potential to materially affect our business, results of operations, financial condition, cash flows, projected results and future prospects. We do not believe that there have been any material changes to the risk factors disclosed in our 2015 Form 10-K.

Lockheed Martin Corporation

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no sales of unregistered equity securities in the second quarter 2016.

The following table provides information about our repurchases of our common stock that is registered pursuant to Section 12 of the Securities Exchange Act of 1934 in the second quarter of 2016.

Period (a)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Amount Available for Future Share Repurchases Under the Plans or Programs (b) (in millions)
March 28, 2016 – April 24, 2016	860,792	\$ 224.75	860,649	\$ 2,907
April 25, 2016 – May 29, 2016	809,088	\$ 238.05	808,999	\$ 2,714
May 30, 2016 – June 26, 2016	<u>483,836</u>	\$ 238.57	<u>483,781</u>	\$ 2,599
Total	2,153,716(c)	\$ 232.85	2,153,429	

- (a) We close our books and records on the last Sunday of each month to align our financial closing with our business processes, except for the month of December, as our fiscal year ends on December 31. As a result, our fiscal months often differ from the calendar months. For example, June 26, 2016 was the last day of our June 2016 fiscal month.
- (b) In October 2010, our Board of Directors approved a share repurchase program pursuant to which we are authorized to repurchase our common stock in privately negotiated transactions or in the open market at prices per share not exceeding the then-current market prices. On September 24, 2015, our Board of Directors authorized a \$3.0 billion increase to the program. Under the program, management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. This includes purchases pursuant to Rule 10b5-1 plans. The program does not have an expiration date.
- (c) In the second quarter of 2016, the total number of shares purchased included 287 shares that were transferred to us by employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units and performance stock units. These purchases were made pursuant to a separate authorization by our Board of Directors and are not included within the program.

ITEM 6. Exhibits.

Exhibit No.	Description
2.1	Amendment dated as of June 27, 2016 to Agreement and Plan of Merger, dated as of January 26, 2016, among Lockheed Martin Corporation, Leidos Holdings, Inc., Abacus Innovations Corporation and Lion Merger Co.
2.2	Amendment dated as of June 27, 2016 to Separation Agreement, dated as of January 26, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation. The schedules to the amendment have been omitted pursuant to Item 601(b) (2) of Regulation S-K, and such schedules and attachments will be furnished to the SEC upon request.
10.1	Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, as amended and restated effective May 16, 2016.
10.2	Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended June 23, 2016 effective as of January 1, 2017
12	Computation of Ratio of Earnings to Fixed Charges

Lockheed Martin Corporation

15	Acknowledgment of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certification of Marillyn A. Hewson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Bruce L. Tanner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Marillyn A. Hewson and Bruce L. Tanner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Lockheed Martin Corporation

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lockheed Martin Corporation
(Registrant)

Date: July 20, 2016

By: /s/ Brian P. Colan
Brian P. Colan
Vice President and Controller
(Duly Authorized Officer and Chief Accounting Officer)

AMENDMENT

Dated as of June 27, 2016

to

AGREEMENT AND PLAN OF MERGER

Dated as of January 26, 2016

By and Among

**LOCKHEED MARTIN CORPORATION,
ABACUS INNOVATIONS CORPORATION,
LEIDOS HOLDINGS, INC.**

and

LION MERGER CO.

**AMENDMENT TO
AGREEMENT AND PLAN OF MERGER**

This Amendment (this "Amendment") to Agreement and Plan of Merger (the "Merger Agreement"), by and among Lockheed Martin Corporation, a Maryland corporation ("LMC"), Abacus Innovations Corporation, a Delaware corporation and wholly owned subsidiary of LMC ("Spinco"), Leidos Holdings, Inc., a Delaware corporation ("RMT Parent"), and Lion Merger Co., a Delaware corporation and wholly owned subsidiary of RMT Parent ("Merger Sub"), is made as of the 27th day of June 2016. Each of LMC, Spinco, RMT Parent and Merger Sub is sometimes referred to individually as a "Party" and collectively they are sometimes referred to as the "Parties."

W I T N E S S E T H:

WHEREAS, the Parties entered into the Merger Agreement as of January 26, 2016, and contemporaneously therewith LMC and Spinco entered into a Separation Agreement (the "Separation Agreement");

WHEREAS, at the Merger Effective Time, Merger Sub will be merged with and into Spinco, with Spinco continuing as the surviving corporation, all upon the terms and conditions of the Merger Agreement; and

WHEREAS, in accordance with the terms and conditions of the Merger Agreement, the Parties desire to amend the Merger Agreement in the manner set forth in this Amendment, and contemporaneously with this Amendment LMC and Spinco are amending the Separation Agreement with the consent of RMT Parent;

NOW, THEREFORE, in consideration of the foregoing, the amendment of the Separation Agreement and the representations, warranties, covenants and agreements contained in the Merger Agreement and this Amendment, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

Section 1. Definitions. Capitalized terms used in this Amendment but not defined herein shall have the meanings given to them in the Merger Agreement.

Section 2. Amendment to Section 2.09. Section 2.09 of the Merger Agreement is hereby amended and restated in its entirety to read as follows:

"Prior to the Merger (regardless of whether the actual payment date for any RMT Parent Special Dividend is before, on or after the Merger Effective Time), RMT Parent, subject to Applicable Law, shall declare a special dividend to the holders of its then-outstanding common shares as of a record date prior to the Closing Date (provided that, in the event the Distribution is in the form of an Exchange Offer, (i) RMT Parent will advise LMC at least seven days prior to the anticipated commencement of the Exchange Offer of the anticipated record date and ex-dividend date on the NYSE for the RMT Parent Common Stock in respect of the special dividend and (ii) the ex-dividend date in the regular way market on the NYSE for the RMT

Parent Common Stock in respect of the special dividend shall not be during the averaging period used to determine the final exchange ratio in the Exchange Offer), in an amount per share equal to \$13.64.”

Section 3. Corporate Authorization; No Conflict. Each Party represents and warrants that it has the necessary corporate power and authority to enter into this Amendment and to carry out its obligations hereunder. The execution and delivery by each Party of this Amendment, and the consummation of the transactions contemplated by this Amendment, have been duly authorized by all requisite corporate action on the part of each Party, except in the case of Spinco and Merger Sub for the approval of LMC and RMT Parent, respectively, in their capacities as sole stockholder of such Parties. The execution, delivery and performance by each Party of this Amendment do not (i) contravene or conflict with its articles or certificate of incorporation or its bylaws or (ii) contravene, conflict with, result in any breach of, constitute a default (or an event which, with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, acceleration or cancellation of any material contract to which any such Party is a signatory or otherwise is bound, except in any such case as would not reasonably be expected (A) in the case of LMC or Spinco, to (I) materially and adversely affect the ability of LMC or Spinco to carry out its obligations under and to consummate the Contemplated Transactions or (II) otherwise have a Spinco Material Adverse Effect, or (B) in the case of RMT Parent or Merger Sub, to (I) materially and adversely affect the ability of RMT Parent or Merger Sub to carry out its obligations under and to consummate the Contemplated Transactions or (II) otherwise have an RMT Parent Material Adverse Effect.

Section 4. Related Amendments. If and to the extent any other amendments to the Merger Agreement or the Separation Agreement are necessary to give effect to the changes contemplated by this Amendment, the Parties agree to make such further amendments.

Section 5. Limited Amendment. Except as specifically provided in this Amendment, the Merger Agreement shall remain in full force and effect without any other amendments or modifications.

Section 6. Tax Matters. For the avoidance of doubt, (i) the execution of this Amendment and the consummation of the transactions contemplated hereby shall not be considered (A) an action or failure to take an action by any LMC Entity for purposes of clauses (x) and (y) of Section 2.04(c) of the Merger Agreement or (B) a LMC Disqualifying Action (as defined in the Tax Matters Agreement), and (ii) for purposes of Section 10(a) or Section 10(b) of the Tax Matters Agreement, any adjustment to the number of shares of RMT Parent Capital Stock (as defined in the Tax Matters Agreement) related, directly or indirectly, to the payment of the RMT Parent Special Dividend shall not be considered “described in the Transaction Documents” or “provided for under the Merger Agreement.”

Section 7. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts (including by facsimile or PDF), with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective when each Party shall have received a counterpart hereof signed by the other Parties hereto and RMT Parent shall have received a copy of the Separation Agreement signed by LMC and Spinco.

Section 8. Governing Law. This Amendment shall be construed in accordance with and governed by federal law and the laws of the State of Delaware (without regard to the choice of law provisions thereof).

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties caused this Amendment to be duly executed by their respective authorized representatives on the day and year first above written.

LOCKHEED MARTIN CORPORATION

By: /s/ Stephen M. Piper (SEAL)
Name: Stephen M. Piper
Title: Vice President and Associate General
Counsel

ABACUS INNOVATIONS CORPORATION

By: /s/ F. Barry Hennegan (SEAL)
Name: F. Barry Hennegan
Title: Vice President and Secretary

LEIDOS HOLDINGS, INC.

By: /s/ Roger A. Krone (SEAL)
Name: Roger A. Krone
Title: Chief Executive Officer

LION MERGER CO.

By: /s/ Roger A. Krone (SEAL)
Name: Roger A. Krone
Title: President

[SIGNATURE PAGE TO AMENDMENT TO AGREEMENT AND PLAN OF MERGER]

AMENDMENT

Dated as of June 27, 2016

to

SEPARATION AGREEMENT

Dated as of January 26, 2016

By and Among

LOCKHEED MARTIN CORPORATION

and

ABACUS INNOVATIONS CORPORATION

**AMENDMENT TO
SEPARATION AGREEMENT**

This Amendment (this "Amendment") to Separation Agreement (the "Separation Agreement"), by and among Lockheed Martin Corporation, a Maryland corporation ("Parent"), and Abacus Innovations Corporation, a Delaware corporation and wholly owned subsidiary of Parent ("Spinco"), is made as of the 27th day of June 2016. Each of LMC and Spinco is sometimes referred to individually as a "Party" and collectively they are sometimes referred to as the "Parties."

W I T N E S S E T H:

WHEREAS, the Parties entered into the Separation Agreement as of January 26, 2016, and contemporaneously therewith the Parties, Leidos Holdings, Inc., a Delaware corporation ("Merger Partner"), and Lion Merger Co., a Delaware corporation and wholly owned subsidiary of Merger Partner ("Merger Partner Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement");

WHEREAS, in accordance with the terms and conditions of the Merger Agreement, immediately following the Distribution, Merger Partner Sub will merge with and into Spinco such that Spinco will become a wholly owned subsidiary of Merger Partner;

WHEREAS, in accordance with the terms and conditions of the Separation Agreement, the Parties desire to amend the Separation Agreement in the manner set forth in this Amendment, and contemporaneously with this Amendment the Parties, Merger Partner and Merger Partner Sub are amending the Merger Agreement; and

WHEREAS, in accordance with Section 16.02(a) of the Separation Agreement and Section 7.15(a) of the Merger Agreement, Merger Partner has executed this Amendment to evidence its consent to this Amendment;

NOW, THEREFORE, in consideration of the foregoing, the amendment of the Merger Agreement and the representations, warranties, covenants and agreements contained in the Separation Agreement and this Amendment, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

Section 1. Definitions. Capitalized terms used in this Amendment but not defined herein shall have the meanings given to them in the Separation Agreement.

Section 2. Amendment to Section 2.08(c). Clauses (i) through (iii) of Section 2.08(c) of the Separation Agreement are deleted and replaced with the following clauses (i) through (iv) of Section 2.08(c):

(i) If the Final Net Working Capital Amount is greater than \$29,000,000, then (x) the amount of such excess, plus (y) the Final Closing Cash, shall be paid to Parent by Spinco;

(ii) If the Final Net Working Capital Amount is greater than \$22,000,000 but not more than \$29,000,000, then (x) the difference between (A) \$7,000,000 minus (B) the amount of such excess minus (y) the Final Closing Cash, shall be paid to Spinco by Parent (it being understood that if the Final Closing Cash is greater than the amount in clause (x), then in lieu of a payment to Spinco by Parent, the difference between the Final Closing Cash minus the amount in clause (x) shall be paid to Parent by Spinco);

(iii) If the Final Net Working Capital Amount is at least \$12,000,000 but not more than \$22,000,000, then (x) \$7,000,000 minus (y) the Final Closing Cash shall be paid to Spinco by Parent (it being understood that if the Final Closing Cash is greater than the amount in clause (x), then in lieu of a payment to Spinco by Parent, the difference between the Final Closing Cash minus the amount in clause (x) shall be paid to Parent by Spinco); and

(iv) If the Final Net Working Capital Amount is less than \$12,000,000, then (x) the difference between \$19,000,000 and the Final Net Working Capital minus (y) the Final Closing Cash, shall be paid to Spinco by Parent (it being understood that if the Final Closing Cash is greater than the amount in clause (x), then the difference between the Final Closing Cash minus the amount in clause (x) shall be paid to Parent by Spinco).

For the avoidance of doubt, the final paragraph of Section 2.08(c) shall remain in full force and effect without any amendment or modification.

Section 3. Amendment to Schedule A-2. Schedule A-2 to the Separation Agreement is amended by deleting the contracts listed on Schedule 1 to this Amendment, which contracts shall not be Transferred Assets.

Section 4. Amendment to Schedule A-17. Schedule A-17 to the Separation Agreement is amended and restated in its entirety to read as set forth on Schedule 2 to this Amendment.

Section 5. Related Amendments. If and to the extent any other amendments to the Separation Agreement or the Merger Agreement are necessary to give effect to the changes contemplated by this Amendment, the Parties agree to make such further amendments.

Section 6. Limited Amendment. Except as specifically provided in this Amendment, the Separation Agreement shall remain in full force and effect without any other amendments or modifications.

Section 7. Tax Matters. For the avoidance of doubt, (i) the execution of this Amendment and the consummation of the transactions contemplated hereby shall not be considered (A) an action or failure to take an action by any LMC Entity (as defined in the

Merger Agreement) for purposes of clauses (x) and (y) of Section 2.04(c) of the Merger Agreement or (B) a LMC Disqualifying Action (as defined in the Tax Matters Agreement), and (ii) for purposes of Section 10(a) or Section 10(b) of the Tax Matters Agreement, any adjustment to the number of shares of RMT Parent Capital Stock (as defined in the Tax Matters Agreement) related, directly or indirectly, to the payment of the RMT Parent Special Dividend (as defined in the Merger Agreement) shall not be considered “described in the Transaction Documents” or “provided for under the Merger Agreement.”

Section 8. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts (including by facsimile or PDF), with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective when each Party shall have received a counterpart hereof signed by the other Parties hereto and Parent shall have received a copy of the Merger Agreement signed by the Parties, Merger Partner and Merger Partner Sub.

Section 9. Governing Law. This Amendment shall be construed in accordance with and governed by federal law and the laws of the State of Delaware (without regard to the choice of law provisions thereof).

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties caused this Amendment to be duly executed by their respective authorized representatives on the day and year first above written.

LOCKHEED MARTIN CORPORATION

By: /s/ Stephen M. Piper (SEAL)
Name: Stephen M. Piper
Title: Vice President and Associate General
Counsel

ABACUS INNOVATIONS CORPORATION

By: /s/ F. Barry Hennegan (SEAL)
Name: F. Barry Hennegan
Title: Vice President and Secretary

Merger Partner hereby executes this Amendment below to confirm its consent to this Amendment in accordance with the terms and conditions of the Separation Agreement and the Merger Agreement.

LEIDOS HOLDINGS, INC.

By: /s/ Roger A. Krone (SEAL)
Name: Roger A. Krone
Title: Chief Executive Officer

[SIGNATURE PAGE TO AMENDMENT TO SEPARATION AGREEMENT]

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

LOCKHEED MARTIN CORPORATION
DEFERRED MANAGEMENT INCENTIVE
COMPENSATION PLAN

(As Amended and Restated Generally Effective May 16, 2016)

ARTICLE I

PURPOSES OF THE DEFERRAL PLAN

The purposes of the Lockheed Martin Corporation Deferred Management Incentive Compensation Plan (“Deferral Plan”) are to provide certain key management employees of Lockheed Martin Corporation and its subsidiaries (“Company”) the opportunity to defer receipt of (i) Incentive Compensation awards; (ii) Long Term Incentive Award payments and (iii) certain benefits payable under the Death Benefit Plan, as defined herein. Providing this opportunity to defer income under the Deferral Plan will encourage key employees to maintain a financial interest in the Company’s performance. Except as expressly provided hereinafter, the provisions of this Deferral Plan and the plan documents and award agreements that govern Incentive Compensation, Long Term Incentive Awards, and the Death Benefit Plan shall be construed and applied independently of each other. Capitalized terms in this Article I shall have the meanings indicated in the following Article II.

The Deferral Plan applies solely to MICP awards, Long Term Incentive Award payments, and certain payments under the Death Benefit Plan, and expressly does not apply to any special awards which may be made under any of the Company’s other incentive plans, except and to the extent specifically provided under the terms of such other incentive plans and the relevant awards.

The Deferral Plan was amended and restated, effective January 1, 2005, in order to comply with the requirements of Code section 409A. The 2005 amendment and restatement of the Deferral Plan applied only to the portion of a Participant’s Account Balance that is earned or becomes vested on or after January 1, 2005 (and any earnings or losses attributable to that portion). The portion of a Participant’s Account Balance that was earned and vested prior to January 1, 2005 (and any earnings or losses attributable to that portion) shall be governed by the terms of the Deferral Plan in effect on December 31, 2004, which is attached hereto as Appendix A. The Deferral Plan was subsequently amended and restated, effective January 1, 2007, to permit eligible executives of the Company to defer payments that are available to them pursuant to the partial termination of the Death Benefit Plan.

The Deferral Plan was amended and restated, effective January 1, 2008 to modify the annual installment payment option to conform to other nonqualified plans maintained by the Company. The Deferral Plan and Appendix A were further amended and restated, effective

January 1, 2008, to provide for new investment options in which Participants may invest their Account Balances, whether earned and vested before or after January 1, 2005. The addition of the new investment option in Appendix A is not intended to constitute a material modification within the meaning of Code section 409A.

The Deferral Plan was amended and restated, effective June 26, 2008, to clarify certain provisions in accordance with the final Treasury regulations issued under Code section 409A, and to make other administrative changes. The Deferral Plan was amended and restated, effective December 31, 2008, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A and to make other administrative clarifications. The Deferral Plan was amended and restated, effective February 26, 2009, to prospectively eliminate an investment option and change the number of available installment payments.

The Deferral Plan was amended and restated, effective December 31, 2010, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A and to make other administrative clarifications. The Deferral Plan was amended and restated, effective October 25, 2011, to reflect changes to the administrative requirements for Company Deferrals for certain Long Term Incentive Awards issued in 2011 and later years and to permit participants in the Sandia National Laboratories, Inc. Long Term Incentive Performance Award Plan to defer cash awards to the Deferral Plan. The Deferral Plan was amended and restated, effective January 26, 2012, to permit participants in the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan to defer cash awards to the Deferral Plan. The Plan was amended and restated, effective December 14, 2012, to permit participants in the Lockheed Martin Corporation Attorney Incentive Plan to defer cash awards to the Deferral Plan.

The Deferral Plan was amended and restated, effective January 1, 2015, to (i) clarify that Long Term Incentive Awards granted under the Lockheed Martin Corporation Amended and Restated 2011 Incentive Performance Award Plan may be deferred under the Deferral Plan, (ii) Incentive Compensation under the Sandia Corporation 2015 Management Incentive Compensation Plan may be deferred under the Deferral Plan, (iii) limit Deferral Plan eligibility to employees of the Company who are employed on or before May 1 of each Award Year, and (iv) provide the Committee with the discretionary authority to cash out Account Balances that do not exceed the limit under Code section 402(g) for the year in which the cash out occurs in circumstances permitted under Code section 409A.

The Deferral Plan is hereby amended and restated, effective May 13, 2016, to provide that awards of Incentive Compensation under Sikorsky Aircraft Corporation's ("Sikorsky") Annual Executive Incentive Compensation Plan may be deferred under the Deferral Plan, beginning with 2016 awards paid in 2017, to clarify certain administrative provisions, and to remove certain out of date administrative provisions.

ARTICLE II

DEFINITIONS

Unless the context indicates otherwise, the following words and phrases shall have the meanings hereinafter indicated:

1. ACCOUNT -- The bookkeeping account maintained by the Company for each Participant which is credited with the Participant's Deferred Compensation and earnings (or losses) attributable to the investment options selected by the Participant, and which is debited to reflect distributions and forfeitures; the portions of a Participant's Account allocated to different investment options and the portions attributable to the deferral of Incentive Compensation awards, Long Term Incentive Award payments, and Death Benefit payments will be accounted for separately.
2. ACCOUNT BALANCE -- The total amount credited to a Participant's Account at any point in time, including the portions of the Account allocated to each investment option.
3. AWARD YEAR -- As to Incentive Compensation, the calendar year with respect to which an Eligible Employee is awarded Incentive Compensation; as to a Long Term Incentive Award payment, the first calendar year in the Performance Period for which the Long Term Incentive Award is effective with respect to an Eligible Employee.
4. BENEFICIARY --The person or persons (including a trust or trusts) validly designated by a Participant, on the form provided by the Company, to receive distributions of the Participant's Account Balance, if any, upon the Participant's death. In the absence of a valid designation, or if the designated Beneficiary has predeceased the Participant, the Participant's Beneficiary shall be the personal representative of the Participant's estate in the event of a Participant's death. A Participant may amend his or her Beneficiary designation at any time before the Participant's death.
5. BOARD -- The Board of Directors of Lockheed Martin Corporation.
6. CODE -- the Internal Revenue Code of 1986, as amended from time to time, including the regulations and guidance of general applicability thereunder.
7. COMMITTEE -- The committee described in Section 1 of Article VIII.
8. COMMON STOCK -- The \$1.00 par value common stock of the Company.
9. COMPANY -- Lockheed Martin Corporation and its Subsidiaries.
10. [Reserved]

11. COMPANY STOCK INVESTMENT OPTION -- The investment option under which the amount credited to a Participant's Account will be based on the market value and investment return of the Company's Common Stock.
12. DEATH BENEFIT -- The amount payable to an Eligible Employee pursuant to Article X, Section 1 of the Death Benefit Plan.
13. DEATH BENEFIT PLAN -- The Lockheed Martin Corporation Post-Retirement Death Benefit Plan for Elected Officers.
14. DEFERRAL AGREEMENT -- The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Incentive Compensation for an Award Year, a Long Term Incentive Award for an Award Year, or a Death Benefit payable pursuant to the Death Benefit Plan. A Deferral Agreement made by June 30, 2012 by an employee whose participation in the Lockheed Martin Corporation Management Incentive Compensation Plan was transferred to the Lockheed Martin Corporation Attorney Incentive Plan shall continue to apply to any amount awarded the employee for 2012 under the Lockheed Martin Corporation Attorney Incentive Plan.
15. DEFERRAL PLAN -- The Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, adopted by the Board on July 27, 1995, and as amended from time to time.
16. DEFERRED COMPENSATION -- The amount of Incentive Compensation credited to a Participant's Account under the Deferral Plan, the amount of any Long Term Incentive Award payment credited to a Participant's Account under the Deferral Plan, and the amount of the Death Benefit payment credited to a Participant's Account under the Deferral Plan.
17. ELIGIBLE EMPLOYEE -- An employee of the Company on or before May 1 of the Award Year who is a participant in the MICP, who receives a Long Term Incentive Award, or who is eligible to receive a Death Benefit under the Death Benefit Plan, and who has satisfied such additional requirements for participation in this Deferral Plan as the Committee may from time to time establish. In the exercise of its authority under this provision, the Committee shall limit participation in the Plan to employees whom the Committee believes to be a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.
18. EXCHANGE ACT -- The Securities Exchange Act of 1934.
19. INCENTIVE COMPENSATION -- The MICP amount granted to an employee for an Award Year.
20. IPA PLAN -- The Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan or the Lockheed Martin Corporation Amended and Restated 2011 Incentive Performance Award Plan, or any successor plan or plans.

21. INTEREST OPTION -- The investment option under which earnings will be credited to a Participant's Account based on the interest rate applicable under Cost Accounting Standard 415, Deferred Compensation.
22. INVESTMENT FUND OPTION -- The investment option under which earnings will be credited to a Participant's Account based on the market value and investment return of the investment options (including target date funds and core funds (and successor funds), and excluding the Company Stock Fund, ESOP Fund, and Self-Managed Account) that are available to participants pursuant to the terms of the Qualified Savings Plan, provided that the Committee retains the discretion to add certain funds to, or to exclude certain funds from, the Investment Fund Option.
23. LONG TERM INCENTIVE AWARD - A long term incentive performance award granted to an employee under the Omnibus Plan, the IPA Plan, or the Sandia Corporation Long Term Incentive Performance Award Plan.
24. MICP -- The Lockheed Martin Corporation Management Incentive Compensation Plan, the 2006 Lockheed Martin Corporation Management Incentive Compensation Plan (for incentive compensation awarded after February 1, 2006), the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan (beginning with the 2012 Award Year), the Lockheed Martin Corporation Attorney Incentive Plan (beginning with the 2013 Award Year), the Sandia Corporation 2015 Management Incentive Compensation Plan (beginning with the 2015 Award Year), or Sikorsky's Annual Executive Incentive Compensation Plan (beginning with the 2016 Award Year).
25. OMNIBUS PLAN - The Lockheed Martin Corporation 1995 Omnibus Performance Award Plan.
26. PARTICIPANT -- An Eligible Employee for whom Incentive Compensation, a Long Term Incentive Award payment, or a Death Benefit payment has been deferred for one or more years under this Deferral Plan; the term shall include a former employee whose Deferred Compensation has not been fully distributed.
27. PAYMENT DATE -- As to any Participant, the January 15 or July 15 on or about on which payment to the Participant is to be made or to begin in accordance with Article V.
28. PERFORMANCE PERIOD - The period set forth in a Long Term Incentive Award over which the Company's performance is measured by reference to stated performance metrics to determine whether any payment will be made under such Long Term Incentive Award.
29. QUALIFIED SAVINGS PLAN -- The Lockheed Martin Corporation Salaried Savings Plan or any successor plan.
30. SECTION 16 PERSON -- A Participant who is subject to the reporting and short-swing liability provisions of Section 16 of the Securities Exchange Act of 1934 on the date a Deferral Agreement or other election form is delivered to the Company in accordance with the terms of this Deferral Plan.

31. SPECIFIED EMPLOYEE – A Participant who is reasonably determined to be a “specified employee” within the meaning of Code section 409A(2)(B)(i) as of December 31 of a calendar year and who shall be treated as such for the 12-month period beginning the next April 1 and for twelve calendar months thereafter.

32. SUBSIDIARY -- As to any person, any corporation, association, partnership, joint venture or other business entity of which 50% or more of the voting stock or other equity interests (in the case of entities other than corporation), is owned or controlled (directly or indirectly) by that entity, or by one or more of the Subsidiaries of that entity, or by a combination thereof.

32A. TERMINATION OF EMPLOYMENT – A separation from service as such term is defined in Code section 409A and the regulations thereunder.

33. TRADING DAY -- A day upon which transactions with respect to Company Common Stock are reported in the consolidated transaction reporting system.

ARTICLE III

ELECTION OF DEFERRED AMOUNT

1. Timing of Deferral Elections.

(a) Incentive Compensation. An Eligible Employee may elect to defer Incentive Compensation for an Award Year by executing and delivering to the Company a Deferral Agreement no later than June 30 of the Award Year.

(b) Long Term Incentive Awards An Eligible Employee may elect to defer the payment of a Long Term Incentive Award for an Award Year by executing and delivering to the Company a Deferral Agreement as of a date specified by the Senior Vice President, Human Resources, which shall be no later than six months prior to the end of the Performance Period.

(c) Irrevocability of Elections. No Eligible Employee shall have the right to modify or revoke a Deferral Agreement after the applicable deadline described in Section 1(a), Section 1(b), or Section 1(d), of this Article III for delivering a Deferral Agreement to the Company, or as described in Article V.4(f), provided no Section 16 Person shall have the right to modify or revoke a Deferral Agreement after such applicable deadline or, if earlier, after the date the agreement has been delivered to the Company. The Senior Vice President, Human Resources may establish policies and procedures to determine when a Deferral Agreement or other election called for under this Plan has been delivered to the Company. Each Deferral Agreement that relates to an Award Year shall apply only to amounts deferred in that Award Year, and a separate Deferral

Agreement must be completed for each Award Year for which an Eligible Employee defers Incentive Compensation or a Long Term Incentive Award. A Deferral Agreement relating to a Death Benefit payment shall relate only to such Death Benefit payment.

(d) Death Benefit. An Eligible Employee may elect to defer a Death Benefit payable under the Death Benefit Plan by executing and delivering to the Company a Deferral Agreement no later than the date specified by the Senior Vice President, Human Resources in accordance with Code section 409A.

2. Amount of Deferral Elections. An Eligible Employee's deferral election may be stated as:

(a) a dollar amount which is at least \$5,000 and is an even multiple of \$1,000;

(b) the greater of \$5,000 or a designated percentage of the Eligible Employee's Incentive Compensation, Long Term Incentive Award payment, or Death Benefit payment;

(c) the excess of the Eligible Employee's Incentive Compensation, Long Term Incentive Award payment, or Death Benefit payment over a dollar amount specified by the Eligible Employee; or

(d) all of the Eligible Employee's Incentive Compensation, Long Term Incentive Award payment, or Death Benefit payment.

In the case of a deferral election under paragraph (c) of this Section 2, an Eligible Employee's deferral election shall be effective only if the resulting excess amount is at least \$5,000.

3. Effect of Taxes on Deferred Compensation. The amount that would otherwise be deferred and credited to an Eligible Employee's Account will be reduced by the amount of any tax that the Company is required to withhold with respect to the Deferred Compensation. The reduction for taxes shall be made proportionately out of amounts otherwise allocable to the Interest Option, the Company Stock Investment Option, or the Investment Fund Option.

4. Multiple Awards. In the case of an Eligible Employee who receives more than one Long Term Incentive Award with respect to the same Performance Period, the elections made by the Eligible Employee under this Article III as well as under Articles V and VI for the first Long Term Incentive Award granted to the Eligible Employee with respect to a Performance Period shall be deemed to be the elections made by that Eligible Employee for any other Long Term Incentive Awards granted to that Eligible Employee with respect to that same Performance Period.

5. Company Deferrals. Pursuant to the terms of certain Long Term Incentive Awards issued under the Omnibus Plan or the IPA Plan through the 2011-2013 Performance Period, 50% of the amount payable at the end of each Performance Period was automatically

deferred to an account in this Deferral Plan until the second anniversary (or first anniversary, if applicable) of the last day of the Performance Period with respect to a particular award (“Company Deferrals”). If the Participant elected to defer the Company Deferrals beyond the second anniversary of the end of the Performance Period, the deferrals were treated as made under this Deferral Plan for the period following the second anniversary of the end of the Performance Period. No Company Deferrals have been made under this Deferral Plan since the 2011-13 Performance Period.

ARTICLE IV

CREDITING OF ACCOUNTS

1. Crediting of Deferred Compensation. Incentive Compensation or a Long Term Incentive Award payment, that a Participant has elected to defer under this Deferral Plan shall be credited to the Participant’s Account as of the Trading Day set by action of the Committee or, if the Committee does not act to set such a day, on the second Trading Day which follows the date of approval of the related Incentive Compensation or Long Term Incentive Award payment. A Death Benefit payment that a Participant has elected to defer under this Deferral Plan shall be credited to the Participant’s Account as of the date on which the amount of the Death Benefit payment was determined and paid to eligible employees absent any election to defer. Any Deferred Compensation credits under this Section 1 which are allocable to the Interest Option shall be credited at the dollar amount of such credits. Any Deferred Compensation a credits under this Section 1 which are allocable to the Company Stock Investment Option shall be credited as if the dollar amount of credits had been invested in the Company’s Common Stock at the published closing price of the Company’s Common Stock on the applicable Trading Day described in this Section 1. Any Deferred Compensation credits under this Section 1 which are allocable to the Investment Fund Option shall be credited as if the dollar amount of credits had been invested in the applicable fund at the published closing price of the applicable fund on the applicable Trading Day described in this Section 1.

2. Crediting of Earnings.

(a) General Rules.

(i) Earnings (or losses) shall be credited to a Participant’s Account based on the investment option or options to which the Account has been allocated beginning with the applicable Trading Day described in this Article IV.

(ii) Any amount distributed from a Participant’s Account in cash pursuant to Article V shall be credited with earnings (or losses) through the Trading Day that is four (4) business days prior to the date on which a distribution is to be made. Any amount distributed from a Participant’s Account in stock pursuant to Article V shall be credited with earnings (or losses) through the last Trading Day preceding the date on which a distribution is to be made.

(b) Interest Option. The portion of a Participant’s Account allocated or reallocated to the Interest Option shall be credited with interest, valued daily,

while so allocated or reallocated at a rate equivalent to the then published rate for computing the present value of future benefits at the time cost is assignable under Cost Accounting Standard 415, Deferred Compensation, as determined by the Secretary of the Treasury on a semi-annual basis pursuant to Pub. L. 92-41, 85 Stat. 97. Effective with respect to amounts deferred on or after February 26, 2009, no Incentive Compensation may be invested in the Interest Option. Amounts deferred prior to February 26, 2009 may remain invested in the Interest Option until such amounts are transferred to the Company Stock Investment Option or the Investment Fund Option on or after July 1, 2009. No amounts may be credited or reallocated to the Interest Option on or after July 1, 2009.

(c) Company Stock Investment Option.

(i) The portion of a Participant's Account allocated to the Company Stock Investment Option shall be credited when so allocated on the applicable Trading Day described in this Article IV as if such amount had been invested in the Company's Common Stock at the published closing price of the Company's Common Stock on such Trading Day.

(ii) The portion of the Participant's Account Balance allocated to the Company Stock Investment Option shall reflect any post-allocation appreciation or depreciation in the market value of the Company's Common Stock based on the published closing price of the stock on each Trading Day and shall reflect dividends paid and any other distributions made with respect to the Company's Common Stock.

(iii) Cash dividends shall be treated as if such dividends had been reinvested in the Company's Common Stock at the published closing price of the Company's Common Stock on the Trading Day on which the cash dividend is paid or, if the dividend is paid on a day which is not a Trading Day, on the Trading Day which immediately precedes the day the dividend is paid.

(d) Investment Fund Option. Earnings (or losses) shall be credited to a Participant's Account based on the investment option or options within the Investment Fund Option to which his or her Account has been allocated. The manner in which earnings (or losses) are credited under each of the investment options shall be determined in the same manner as under the Qualified Savings Plan. The procedures for directing the allocation and reallocation among the investment options in the Investment Fund Option shall be the same as the procedures for making allocations under the Qualified Savings Plan.

3. Election of Investment Options. A Participant's initial investment elections for a particular type of award for an Award Year or a Death Benefit shall be made in his or her Deferral Agreement for such Award Year or Death Benefit, and no Participant shall have the right to modify or revoke any such election after the time the Participant no longer has the right to make or revoke a Deferral Agreement under Section 1 of Article II. A Participant's allocations between investment options shall be subject to such minimum allocations as the

Committee may establish. In the event a Participant fails to specify an investment election in his or her Deferral Agreement, the amount subject to that Deferral Agreement shall be deemed allocated to the Interest Option for amounts credited before December 31, 2008 and to the default option designated under the Qualified Savings Plan for amounts credited on or after December 31, 2008.

4. Reallocation Among Investment Options. Effective June 16, 2008, a Participant may reallocate the portion of his Account Balance that is invested in the Interest Option and the Investment Fund Option to the Interest Option (through June 30, 2009), the Company Stock Investment Option, and the various investment funds in the Investment Fund Option, subject to the trading restrictions that apply to the transfer and reallocation of investments under the terms of the Qualified Savings Plan, applied as if such Qualified Savings Plan restrictions also pertain to the Interest Option; provided that a Participant may not at any time reallocate the portion of his Account Balance that has been invested at any time in the Company Stock Investment Option. Notwithstanding the foregoing, any election by a Section 16 Person to reallocate any portion of his Account Balance to the Company Stock Investment Option shall only become effective if the election is made at least six months following the most recent election with respect to any plan of the Corporation that involved the disposition of the Corporation's equity securities pursuant to a "Discretionary Transaction" (as defined in Exchange Act Rule 16b-3). No amounts may be credited or reallocated to the Interest Option on or after July 1, 2009.

ARTICLE V

PAYMENT OF BENEFITS

1. General.

(a) Account Balance and Elections. The Company's liability to pay benefits to a Participant or Beneficiary under this Deferral Plan shall be measured by and shall in no event exceed the Participant's Account Balance. Except as otherwise provided in this Deferral Plan, a Participant's Account Balance shall be paid to him in accordance with the Participant's elections under this Article V.

(b) Cash and Stock Payments. All benefit payments shall be made in cash to the extent a Participant's Account is allocated to the Interest Option or Investment Fund Option and shall be made in whole shares of the Company's Common Stock to the extent that a Participant's Account is allocated to the Company Stock Investment Option and, except as otherwise provided, shall reduce allocations to the Interest Option, Investment Fund Option, and the Company Stock Investment Option in the same proportions that the Participant's Account Balance is allocated between those investment options at the end of the month preceding the date of distribution. Notwithstanding the foregoing, no amount of Deferred Compensation attributable to the Company Stock Investment Option shall be distributed to a Section 16 Person under this Deferral Plan unless

such amount was allocated to the Company Stock Investment Option in accordance with Section 1 of Article IV at least six months prior to the date of distribution. At the Company's discretion a distribution of Common Stock may be made directly to a Participant or to a brokerage account opened in the name of the Participant. When an Account is distributed in a lump sum or, if an Account is distributed in installments, cash shall be distributed (or withheld for payment of applicable taxes) at that time in lieu of any fractional share of Common Stock. The cash distribution in lieu of fractional shares shall be based on the published closing price of the Company's Common Stock on the last Trading Day preceding the date the distribution is scheduled to be made.

2. Election for Commencement of Payment. At the time a Participant completes a Deferral Agreement, he or she shall elect from among the following options governing the date on which the payment of benefits shall commence:

(a) Payment to begin on the Payment Date next following the date of the Participant's Termination of Employment with the Company for any reason.

(b) Payment to begin on the first Payment Date of the year next following the year in which the Participant has a Termination of Employment with the Company for any reason.

(c) Payment to begin on the first Payment Date of the year next following the date on which the Participant has both had a Termination of Employment with the Company for any reason and attained the age designated by the Participant in the Deferral Agreement.

Notwithstanding a Participant's election or any other provision of the Deferral Plan, the following specific rules apply to Participants who are Section 16 Persons or Specified Employees. Subject to the rules regarding distributions to a Specified Employee, any payment of benefits in the form of shares of Common Stock that would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. Any distributions to a Specified Employee (including a Section 16 Person) on account of a termination of employment shall commence or be made on the Payment Date determined pursuant to the Specified Employee's election (or as otherwise provided under this Deferral Plan), except that if such Payment Date would be within six (6) months of the date of the Specified Employee's Termination of Employment from the Company, distributions shall commence or be made on the next date that is at least six (6) months following such termination of employment, regardless of whether such date is a Payment Date.

3. Election for Form of Payment. At the time a Participant completes a Deferral Agreement, he or she shall elect the form of payment of his or her Deferred Compensation for the specified Award Year or Death Benefit, as applicable, from among the following options:

(a) A lump sum.

- (b) Annual installment payments for a period of years designated by the Participant not to exceed:
 - (i) Fifteen (15) annual installments for distributions commencing prior to January 1, 2008;
 - (ii) Twenty (20) annual installments for distributions commencing on or after January 1, 2008 and prior to January 1, 2010;
 - (iii) Twenty-Five (25) annual installments for distributions commencing on or after January 1, 2010;

Such election shall be irrevocable except as provided in Section 4 of this Article V. The amount of each annual payment shall be determined by dividing the Participant's Account Balance at the end of the month prior to such payment by the number of installment payments then remaining in the designated installment period.

Notwithstanding the foregoing, if the Account Balance of a Participant who is entitled to begin payment equals \$10,000 or less, the Participant's Account Balance shall be paid in a single lump sum payment in full discharge of all liabilities with respect to such benefits.

Further notwithstanding the foregoing, if at any time the Account Balance of a Participant who is not an active employee of the Corporation and who is entitled to begin payment or who has begun payment pursuant to an annual installment payment election under Section 3(b) is not greater than the applicable dollar limit under Code section 402(g)(1)(B) for the calendar year, then the Claims Administrator (or its delegate) may determine, in writing, that the Company shall pay the Participant's Account Balance in a single lump sum payment, provided that the payment (I) results in termination and liquidation of the entirety of the Participant's interest under the Deferral Plan and any other agreement, program or arrangement that is treated as a single nonqualified deferred compensation plan under Treas. Reg. § 1.409A-1(c)(2) with respect to the Participant and (II) is not greater than the applicable dollar amount under Code section 402(g)(1)(B) for the year in which the lump sum payment is made.

4. Prospective Change of Payment Elections.

(a) If a Participant has different payment options in effect with respect to his or her Account Balance, the Company shall maintain sub-accounts for the Participant to determine the amounts subject to each payment election.

(b) In the event a Participant does not make a valid election with respect to the commencement of payment and form of benefit for an Award

Year or for a Death Benefit, the Participant will be deemed to have elected that payment of benefits with respect to that Award Year or Death Benefit be made in a lump sum on or about the Payment Date next following the date of the Participant's termination of employment.

(c) A Participant's election with respect to an Award Year or Death Benefit (including a "deemed election" in accordance with the preceding paragraph) shall remain in effect unless and until such election is modified by a subsequent election in accordance with (d) below.

(d) Notwithstanding anything to the contrary in this Article V, a Participant may make a new election with respect to the commencement of payment and form of payment with respect to any sub-account maintained for Award Years or a Death Benefit or with respect to his or her entire Account Balance. A new election under this section shall be made by executing and delivering to the Company an election in such form as prescribed by the Company. To constitute a valid election by a Participant making a prospective change to a previous election, (i) the prospective election must be executed and delivered to the Company at least twelve (12) months before the date the first payment would be due under the Participant's previous election, and (ii) the first payment must be delayed by at least sixty (60) months from the date the first payment would be due under the Participant's previous election, and (iii) such change in election shall not be given effect until twelve (12) months from the date that the change in election is delivered to the Company. In the event an election fails to satisfy the provisions set forth in this paragraph, such election shall be void and, if such an election is void, payment shall be made in accordance with the most recent election which was valid.

(e) Notwithstanding the above, for periods prior to January 1, 2009, (or such later date as may be provided by the Internal Revenue Service in guidance of general applicability), the Senior Vice President, Human Resources may provide alternative rules for elections with respect to the commencement of payment and form of payment that conform to the rules provided in Notice 2005-1, and subsequent Internal Revenue Service guidance providing transition relief under Code section 409A.

(f) A Participant may not make, modify, or revoke an election with respect to commencement of payment or form of payment after the date a Participant terminates employment.

5. Distribution upon Early Termination. Notwithstanding a Participant's payment elections under this Article V, subject to the requirements of Code section 409A, if the Participant terminates employment with the Company, other than by reason of death or disability (as defined in Section 8(b) of this Article V), and before the Participant has attained age 55, the Participant's Account Balance shall be distributed to him or her in a lump sum on or about the Payment Date next following the date of the Participant's Termination of Employment with the Company; provided, however, that if a distribution in accordance with the provisions of

this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. Distributions under this Section 5 are subject to any delay in distribution required for Specified Employees as provided in Section 2 of this Article V.

6. Acceleration Upon Conflict of Interest. Notwithstanding a Participant's payment elections under this Article V, if following a Participant's termination of employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, then, to the extent reasonably necessary, the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical (but no later than 90 days) following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined or indicated that the conflict of interest may exist; provided, however, that if a distribution in accordance with the provisions of this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. This Section 6 of Article V shall apply, however, only to the extent that the accelerated payment upon a conflict of interest determination conforms to Code section 409A.

7. Benefits Payable Upon Death. Upon the death of a Participant before a complete distribution of his or her Account Balance, the Account Balance will be paid to the Participant's Beneficiary in accordance with the payment elections applicable to the Participant. If a Participant dies while actively employed or otherwise before the payment of benefits has commenced, payments to the Beneficiary shall commence on the date payments to the Participant would have commenced, taking account of the Participant's Termination of Employment (by death or before) and, if applicable, by postponing commencement until after the date the Participant would have attained the commencement age specified by the Participant. Whether the Participant dies before or after the commencement of distributions, payments to the Beneficiary shall be made for the period or remaining period elected by the Participant.

8. Early Distributions in Special Circumstances. Notwithstanding a Participant's payment elections under this Article V, a Participant or Beneficiary may request an earlier distribution in the following limited circumstances:

- (a) Hardship Distributions. A Participant may apply for a hardship distribution pursuant to this Section 8(a) on such form and in such manner as the

Committee shall prescribe and, subject to the last sentence of this Section 8(a) with respect to Section 16 Persons, the Committee shall have the power and discretion at any time to approve a payment to a Participant if the Committee determines that the Participant is suffering from an unforeseeable severe financial emergency (within the meaning of Code section 409A(A)(2)(A)(vi) and 409A(A)(2)(B)(ii)) caused by circumstances beyond the Participant's control which would cause a hardship to the Participant unless such payment were made. Any such hardship payment will be in a lump sum and will not exceed the lesser of (i) the amount necessary to satisfy the financial emergency (taking account of the income tax liability associated with the distribution), or (ii) the Participant's Account Balance; provided, however, that if a distribution in accordance with the provisions of this Section 8(a) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. The Committee's determination under this Section 8(a) shall conform to the requirements of Code section 409A(a)(2)(B)(iv).

(b) Disability. If the Committee determines that a Participant has become permanently disabled within the meaning of Section 409A(a)(2)(C) of the Code before the Participant's entire Account Balance has been distributed, the Participant's remaining Account Balance will be distributed within 90 days in a lump sum payment; provided, however, that if a distribution in accordance with the provisions of this Section 8(b) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to any Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

9. Acceleration upon Change in Control.

(a) Notwithstanding any other provision of the Deferral Plan, the Account Balance of each Participant shall be distributed in a single lump sum within fifteen (15) calendar days following a "Change in Control."

(b) For purposes of this Deferral Plan, a Change in Control shall include and be deemed to occur upon the following events:

(i) A tender offer or exchange offer is consummated for the ownership of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding voting securities entitled to vote in the election of directors of the Company.

(ii) The Company is merged, combined, consolidated, recapitalized or otherwise reorganized with one or more other entities that are not the Company's Subsidiaries and, as a result of the merger, combination, consolidation, recapitalization or other reorganization, less than 75% of the outstanding voting securities of the surviving or resulting corporation shall immediately after the event be owned in the aggregate by the stockholders of the Company (directly or indirectly), determined on the basis of record ownership as of the date of determination of holders entitled to vote on the action (or in the absence of a vote, the day immediately prior to the event).

(iii) Any person (as this term is used in Sections 3(a)(9) and 13(d)(3) of the Exchange Act, but excluding any person described in and satisfying the conditions of Rule 13d-1 (b)(1) thereunder), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote in the election of directors of the Company.

(iv) At any time within any period of two years after a tender offer, merger, combination, consolidation, recapitalization, or other reorganization or a contested election, or any combination of these events, the "Incumbent Directors" shall cease to constitute at least a majority of the authorized number of members of the Board. For purposes hereof, "Incumbent Directors" shall mean the persons who were members of the Board immediately before the first of these events and the persons who were elected or nominated as their successors or pursuant to increases in the size of the Board by a vote of at least three-fourths of the Board members who were then Board members (or successors or additional members so elected or nominated).

(v) The stockholders of the Company approve a plan of liquidation and dissolution or the sale or transfer of substantially all of the Company's business and/or assets as an entirety to an entity that is not a Company Subsidiary.

Notwithstanding the foregoing, no distribution shall be made solely on account of a Change in Control and prior to the benefit commencement date specified in Section 2 of Article V unless the Change in Control is an event qualifying for a distribution of deferred compensation under both the definition of Change in Control in this Plan and in Section 409A(a)(2)(A)(v) of the Code.

(c) Notwithstanding the provisions of Section 9(a), if a distribution in accordance with the provisions of Section 9(a) would result in a nonexempt short-

swing transaction under Section 16(b) of the Exchange Act with respect to any Section 16 Person, then the date of distribution to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

(d) This Section 9 shall apply only to a Change in Control of Lockheed Martin Corporation and shall not cause immediate payout of Deferred Compensation in any transaction involving the Company's sale, liquidation, merger, or other disposition of any subsidiary.

(e) The Committee may cancel or modify this Section 9 at any time prior to a Change in Control. In the event of a Change in Control, this Section 9 shall remain in force and effect, and shall not be subject to cancellation or modification for a period of five years, and any defined term used in Section 9 shall not, for purposes of Section 9, be subject to cancellation or modification during the five-year period.

10. Deductibility of Payments. Subject to the provisions of Code section 409A, in the event that the Company reasonably anticipates that the payment of benefits in accordance with the Participant's election under Section 3 of this Article VI would prevent the Company from claiming an income tax deduction with respect to any portion of the benefits paid under Code section 162(m), the Committee shall have the right to delay the timing of distributions from the Participant's Account as necessary to maximize the Company's tax deductions. In the exercise of its discretion to adopt a delayed distribution schedule, the Committee shall undertake to have distributions made at such times and in such amounts as the Company reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction will not be barred by Code section 162(m) or upon a Termination of Employment in accordance with Treasury Regulation section 1.409A-2(b)(7)(i), consistent with the objective of maximum deductibility for the Company. The Committee shall have no authority to reduce a Participant's Account Balance or to pay aggregate benefits less than the Participant's Account Balance in the event that all or a portion thereof would not be deductible by the Company. All scheduled payments under this Plan and any other plan required to be aggregated with this Plan must be delayed in order for such payment to be delayed pursuant to this Section 8.

11. Change of Law. Notwithstanding anything herein to the contrary, if the Committee determines in good faith, based on consultation with counsel and in accordance with the requirements of Code section 409A, that the Federal income tax treatment or legal status of the Plan has or may be adversely affected by a change in the Code, Title I of the Employee Retirement Income Security Act of 1974, or other applicable law or by an administrative or judicial construction thereof, the Committee may direct that the Accounts of affected Participants or of all Participants be distributed as soon as practicable after such determination is made, to the extent deemed necessary or advisable by the Committee to cure or mitigate the consequences, or possible consequences of, such change in law or interpretation thereof.

12. Tax Withholding. To the extent required by law, the Company shall withhold from benefit payments hereunder, or with respect to any Incentive Compensation, Long

Term Incentive Award, or Death Benefit payment deferred hereunder or credit contributed by the Company under Article IV, any Federal, state, or local income or payroll taxes required to be withheld and shall furnish the recipient and the applicable government agency or agencies with such reports, statements, or information as may be legally required.

ARTICLE VI

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This Deferral Plan constitutes a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this Deferral Plan. Notwithstanding the foregoing, to assist the Company in meeting its obligations under this Deferral Plan, the Company may set aside assets in a trust described in Revenue Procedure 92-64, 1992-2 C.B. 422, and the Company may direct that its obligations under this Deferral Plan be satisfied by payments out of such trust. The assets of any such trust will remain subject to the claims of the general creditors of the Company. It is the Company's intention that the Deferral Plan be unfunded for Federal income tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

2. Nonalienability of Benefits. A Participant's rights under this Plan shall not be assignable or transferable and any purported transfer, assignment, pledge or other encumbrance or attachment of any payments or benefits under this Plan, or any interest therein shall not be permitted or recognized, other than the designation of, or passage of payment rights to, a Beneficiary. Notwithstanding, any portion of a Participant's benefit under this Plan may be paid to a spouse, former spouse, or child pursuant to the terms of a domestic relations order (which shall be interpreted and administered in accordance with Code sections 414(p)(1)(B) and 409A), provided that the form of payment designated in such order is a lump sum payment described in Section 3(a) of Article V of this Deferral Plan.

ARTICLE VII

AMENDMENT OR TERMINATION

1. Amendment. The Board or its authorized delegate may amend, modify, suspend or discontinue this Deferral Plan at any time subject to any shareholder approval that may be required under applicable law, provided, however, that no such amendment shall have the effect of reducing a Participant's Account Balance or postponing the time when a Participant is entitled to receive a distribution of his Account Balance. Further, no amendment may alter the formula for crediting interest to Participants' Accounts with respect to amounts for which deferral elections have previously been made, unless the amended formula is not less favorable to Participants than that previously in effect, or unless each affected Participant consents to such change.

2. Termination. The Board reserves the right to terminate this Plan at any time and to pay all Participants their Account Balances in any form and at such times that the

Board reasonably determines in its discretion is appropriate and conforms to the requirements of Code section 409A; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

3. Transfer of Liability. The Board reserves the right to transfer to another entity all of the obligations of Company with respect to a Participant under this Plan if such entity agrees pursuant to a binding written agreement to assume all of the obligations of the Company under this Plan with respect to such Participant.

ARTICLE VIII

ADMINISTRATION

1. The Committee. This Deferral Plan shall be administered by the Management Development and Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this Deferral Plan to comply with the disinterested administration requirements of Rule 16b-3 of the Exchange Act. The members of the Committee shall be designated by the Board. A majority of the members of the Committee (but not fewer than two) shall constitute a quorum. The vote of a majority of a quorum or the unanimous written consent of the Committee shall constitute action by the Committee. The Committee and the Claims Administrator (identified in Section 6 below) shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or the Claims Administrator shall be final and binding on all parties. Notwithstanding anything contained in the Deferral Plan or in any document issued under the Deferral Plan, it is intended that the Deferral Plan will at all times conform to the requirements of Code section 409A and any regulations or other guidance issued thereunder, and that the provisions of the Deferral Plan will be interpreted to meet such requirements. If any provision of the Deferral Plan is determined not to conform to such requirements, the Deferral Plan shall be interpreted to omit such offending provision.

2. Delegation and Reliance. The Committee has delegated to the officers or employees of the Company the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this Deferral Plan in accordance with its terms and purpose, except that the Committee has not delegated (and may not delegate) any authority the delegation of which would cause this Deferral Plan to fail to satisfy the applicable requirements of Rule 16b-3. In making any determination or in taking or not taking any action under this Deferral Plan, the Committee or its delegate may obtain and rely upon the advice of experts, including professional advisors to the Company. No member of the Committee or officer of the Company who is a Participant hereunder may participate in any decision specifically relating to his or her individual rights or benefits under the Deferral Plan.

3. Exculpation and Indemnity. Neither the Company nor any member of the Board or of the Committee, nor any other person participating in any determination of any question under this Deferral Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this Deferral Plan or for the failure of the Deferral Plan or any Participant's rights under the Deferral Plan to achieve intended tax consequences, to qualify for exemption or relief under Section 16 of the Exchange Act and the rules thereunder, or to comply with any other law, compliance with which is not required on the part of the Company.

4. Facility of Payment. If a minor, person declared incompetent, or person incapable of handling the disposition of his or her property is entitled to receive a benefit, make an application, or make an election hereunder, the Committee or the Claims Administrator may direct that such benefits be paid to, or such application or election be made by, the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. Any payment made, application allowed, or election implemented in accordance with this Section shall completely discharge the Company and the Committee (or the Claims Administrator) from all liability with respect thereto.

5. Proof of Claims. The Committee or the Claims Administrator may require proof of the death, disability, incompetency, minority, or incapacity of any Participant or Beneficiary and of the right of a person to receive any benefit or make any application or election.

6. Claim Procedures. The procedures when a claim under this Deferral Plan is wholly or partially denied by the Claims Administrator are as follows:

(a) The Claims Administrator shall, within 90 days after receipt of a claim, furnish to claimant a written notice setting forth, in a manner calculated to be understood by claimant: (1) the specific reason or reasons for the denial; (2) specific reference to pertinent Deferral Plan provisions on which the denial is based; (3) a description of any additional materials or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; (4) an explanation of the steps to be taken if the claimant wishes to have the denial reviewed; and (5) a statement of the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination on review. The 90-day period may be extended for not more than an additional 90 days if special circumstances make such an extension necessary. The Claims Administrator shall give the claimant, before the end of the initial 90-day period, a written notice of such extension, stating such special circumstances and the date by which the Claims Administrator expects to render a decision.

(b) By a written application filed with the Claims Administrator within 60 days after receipt by claimant of the written notice described in paragraph (a), the claimant or his duly authorized representative may request review of the denial of his claim.

(c) In connection with such review, the claimant or his duly authorized representative may submit issues, comments, documents, records and other information relating to the claim for benefits to the Claims Administrator. In addition, the claimant will be provided, upon request and free of charge, reasonable access to and copies of all documents, records, or other information “relevant” to claimant’s claim for benefits. A document, record, or other information is “relevant” if it: (1) was relied upon in making the benefit determination; (2) was submitted, considered or generated in the course of making the benefit determination, without regard to whether such document, record or information was relied upon in making the benefit determination; or (3) demonstrates compliance with administrative processes and safeguards required under Federal law.

(d) The Deferral Plan will provide an impartial review that takes into account all comments, records and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Claims Administrator shall make a decision and furnish such decision in writing to the claimant within 60 days after receipt by the Claims Administrator of the request for review. This period may be extended to not more than 120 days after such receipt if special circumstances make such an extension necessary. The claimant will be notified in writing prior to the expiration of the original 60-day period if such an extension is required, and such notice will include the reason for the extension and the date by which it is expected that a decision will be reached. The decision on review shall be in writing, set forth in a manner calculated to be understood by the claimant and shall include: (1) the specific reasons for the decision; (2) specific reference to the pertinent Deferral Plan provisions on which the decision is based; (3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information “relevant” to the claimant’s claim for benefits; (4) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; (5) a statement describing any voluntary appeal procedures and the claimant’s right to obtain information about such procedures, if any; and (6) a statement of the claimant’s right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review. If in the event that the reviewing committee must make a determination of disability in order to decide a claim, the reviewing committee shall follow the special claims procedures for disability benefits described in Department of Labor Regulation section 2560.503-1(d). The reviewing committee shall render a decision within a reasonable time (not to exceed 90 days) after the claimant’s request for review, rather than within 120 days as set forth in the above paragraph.

(e) The Claims Administrator shall be the Lockheed Martin Corporation Savings Plan Administrative Committee. Notwithstanding the foregoing, with respect to claims and appeals brought by elected officers of the Company, the Claims Administrator shall be the Committee.

ARTICLE IX

GENERAL AND MISCELLANEOUS PROVISIONS

1. No Guarantee of Employment or Award. Neither this Deferral Plan nor a Participant's Deferral Agreement, either singly or collectively, shall in any way obligate the Company to continue the employment of a Participant with the Company, nor does either this Deferral Plan or a Deferral Agreement limit the right of the Company at any time and for any reason to terminate the Participant's employment. In no event shall this Deferral Plan or a Deferral Agreement, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Company and a Participant. In no event shall this Deferral Plan or a Deferral Agreement, either singly or collectively, by their terms or implications in any way obligate the Company to award Incentive Compensation, grant any award under the Omnibus Plan or IPA Plan, pay any Death Benefit, or make any Long Term Incentive Award payment to any Eligible Employee for any Award Year, whether or not the Eligible Employee is a Participant in the Deferral Plan for that Award Year, nor in any other way limit the right of the Company to change an Eligible Employee's compensation or other benefits.

2. Notice. Any written notice to the Company referred to herein shall be made by mailing or delivering such notice to the Company at 6801 Rockledge Drive, Bethesda, Maryland 20817, to the attention of the Senior Vice President, Human Resources. Any written notice to a Participant shall be made by delivery to the Participant in person, through electronic transmission, or by mailing such notice to the Participant at his or her last-known place of residence or business address.

3. Performance of Acts. In the event it should become impossible for the Company or the Committee to perform any act required by this Deferral Plan, the Company or the Committee may perform such other act as it in good faith determines will most nearly carry out the intent and the purpose of this Deferral Plan.

4. Employee Consent. By electing to become a Participant hereunder, each Eligible Employee shall be deemed conclusively to have accepted and consented to all of the terms of this Deferral Plan.

5. Terms Binding. The provisions of this Deferral Plan and the Deferral Agreements hereunder shall be binding upon and inure to the benefit of the Company, its successors, and its assigns, and to the Participants and their heirs, executors, administrators, and legal representatives.

6. Copy of Plan. A copy of this Deferral Plan shall be available for inspection by Participants or other persons entitled to benefits under the Deferral Plan at reasonable times at the offices of the Company.

7. State Law. The validity of this Deferral Plan or any of its provisions shall be construed, administered, and governed in all respects under and by the laws of the State of Maryland, except as to matters of Federal law. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

8. Regulatory Requirements. This Deferral Plan and its operation, including but not limited to, the mechanics of deferral elections, the reallocation of all or a portion of a Participant's Account Balance, the issuance of securities, if any, or the payment of cash hereunder is subject to compliance with all applicable Federal and state laws, rules and regulations (including but not limited to state and Federal insider trading, registration, reporting and other securities laws) and such other approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith.

9. Section 16 of Exchange Act. It is the intent of the Company that this Deferral Plan satisfy and be interpreted in a manner, that, in the case of Participants who are or may be Section 16 Persons, satisfies any applicable requirements of Rule 16b-3 of the Exchange Act or other exemptive rules under Section 16 of the Exchange Act and will not subject Section 16 Persons to short-swing profit liability thereunder. If any provision of this Deferral Plan would otherwise frustrate or conflict with the intent expressed in this Section 9, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed disregarded. Similarly, any action or election by a Section 16 Person with respect to the Deferral Plan to the extent possible shall be interpreted and deemed amended so as to avoid liability under Section 16 or, if this is not possible, to the extent necessary to avoid liability under Section 16, shall be deemed ineffective. Notwithstanding anything to the contrary in this Deferral Plan, the provisions of this Deferral Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this Deferral Plan are applicable solely to Section 16 Persons. Notwithstanding any other provision of this Deferral Plan to the contrary, if a distribution which would otherwise occur is prohibited or proposed to be delayed because of the provisions of Section 16 of the Exchange Act or the provisions of the Deferral Plan designed to ensure compliance with Section 16, the Section 16 Person involved may affirmatively elect in writing to have the distribution occur in any event; provided that the Section 16 Person shall concurrently enter into arrangements satisfactory to the Committee in its sole discretion for the satisfaction of any and all liabilities, costs and expenses arising from this election.

10. Securities Laws. This Deferral Plan, allocations to and from the Company Stock Investment Option and the issuance and delivery of shares of Common Stock and/or other securities or property or the payment of cash under this Deferral Plan, are subject to compliance with all applicable Federal and state laws, rules and regulations (including but not limited to state and Federal insider trading, registration, reporting and other securities laws and Federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company be necessary or advisable to comply with all legal requirements. Any securities delivered under this Deferral Plan shall be subject to such restrictions (and the person acquiring such securities shall, if requested by the Company provide such evidence, assurance and representations to the Company as to compliance with any thereof) as counsel to the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

11. Electronic Notice and Signatures. Whenever a signature notice or delivery of a document is required or appropriate under this Deferral Plan, signature, notice or delivery may be accomplished by paper or written format or, to the extent authorized by the Committee, by electronic means. In the event the Committee authorizes electronic means for the signature, notice or delivery of a document under this Deferral Plan, the electronic record or confirmation of that signature, notice or delivery maintained by or on behalf of the Committee shall for purposes of this Deferral Plan be treated as if it was a written signature or notice and was delivered in the manner provided herein for a written document.

ARTICLE X

EFFECTIVE DATE

This Deferral Plan was originally adopted by the Board on July 27, 1995 and became effective upon adoption to awards of Incentive Compensation for the Company's fiscal year ending December 31, 1995 and subsequent fiscal years. Subsequent amendments to the Deferral Plan are effective as of the date stated in the amendment or the adopting resolution.

This Deferral Plan has been amended and restated effective as of the date stated on the first page herein.

LOCKHEED MARTIN CORPORATION

/s/ Patricia L. Lewis _____

By: Patricia L. Lewis
Senior Vice President, Human Resources

5/16/16 _____
Date

APPENDIX A

This Appendix A shall govern the portion of a Participant's Account Balance that was earned and vested prior to January 1, 2005 (and any earnings attributable to that portion). This Appendix A shall not apply to the portion of a Participant's Account Balance that is earned or becomes vested on or after January 1, 2005 (and any earnings attributable to that portion).

ARTICLE I

PURPOSES OF THE PLAN

The purposes of the Lockheed Martin Corporation Deferred Management Incentive Compensation Plan (the "Deferral Plan") are to provide certain key management employees of Lockheed Martin Corporation and its subsidiaries (the "Company") the opportunity to defer receipt of (i) Incentive Compensation awards under the Lockheed Martin Corporation Management Incentive Compensation Plan (the "MICP") and (ii) Long Term Incentive Award payments under the Lockheed Martin Corporation 1995 Omnibus Performance Award Plan (the "Omnibus Plan") and the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (the "IPA Plan"). Providing this opportunity to defer income under the Deferral Plan will encourage key employees to maintain a financial interest in the Company's performance. Except as expressly provided hereinafter, the provisions of this Deferral Plan and the MICP, the Omnibus Plan and the IPA Plan shall be construed and applied independently of each other.

The Deferral Plan applies solely to MICP awards and Long Term Incentive Award payments under the Omnibus Plan and the IPA Plan and expressly does not apply to any special awards which may be made under any of the Company's other incentive plans, except and to the extent specifically provided under the terms of such other incentive plans and the relevant awards.

ARTICLE II

DEFINITIONS

Unless the context indicates otherwise, the following words and phrases shall have the meanings hereinafter indicated:

1. **ACCOUNT** -- The bookkeeping account maintained by the Company for each Participant which is credited with the Participant's Deferred Compensation and earnings (or losses) attributable to the investment options selected by the Participant, and which is debited to reflect distributions and forfeitures; the portions of a Participant's Account allocated to different investment options and the portions attributable to the deferral of Incentive Compensation awards and Long Term Incentive Award payments will be accounted for separately.

2. ACCOUNT BALANCE -- The total amount credited to a Participant's Account at any point in time, including the portions of the Account allocated to each investment option.
3. AWARD YEAR - As to Incentive Compensation, the calendar year with respect to which an Eligible Employee is awarded Incentive Compensation; as to a Long Term Incentive Award payment and the related Company Deferral, the first calendar year in the Performance Period for which the Long Term Incentive Award is effective with respect to an Eligible Employee.
4. BENEFICIARY --The person or persons (including a trust or trusts) validly designated by a Participant, on the form provided by the Company, to receive distributions of the Participant's Account Balance, if any, upon the Participant's death. In the absence of a valid designation, or if the designated Beneficiary has predeceased the Participant, the Participant's Beneficiary shall be the personal representative of the Participant's estate in the event of a Participant's death. A Participant may amend his or her Beneficiary designation at any time before the Participant's death.
5. BOARD -- The Board of Directors of Lockheed Martin Corporation.
6. COMMITTEE -- The committee described in Section 1 of Article VIII.
7. COMMON STOCK -- The \$1.00 par value common stock of the Company.
8. COMPANY -- Lockheed Martin Corporation and its subsidiaries.
9. COMPANY DEFERRALS -- The amount deferred by the Company, and not at the election of the Participant, for the two-year period following the end of a Performance Period for a Long Term Incentive Award.
10. COMPANY STOCK INVESTMENT OPTION -- The investment option under which the amount credited to a Participant's Account will be based on the market value and investment return of the Company's Common Stock.
11. DEFERRAL AGREEMENT -- The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Incentive Compensation for an Award Year, or a Long Term Incentive Award and any related Company Deferral for an Award Year.
12. DEFERRAL PLAN -- The Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, adopted by the Board on July 27, 1995, and as amended from time to time.
13. DEFERRED COMPENSATION -- The amount of Incentive Compensation credited to a Participant's Account under the Deferral Plan and the amount of any Long Term Incentive Award payment credited to a Participant's Account under the Deferral Plan (other than Company Deferrals).

14. ELIGIBLE EMPLOYEE -- An employee of the Company who is a participant in the MICP or who receives a Long Term Incentive Award under the Omnibus Plan or the IPA Plan and who has satisfied such additional requirements for participation in this Deferral Plan as the Committee may from time to time establish. In the exercise of its authority under this provision, the Committee shall limit participation in the Plan to employees whom the Committee believes to be a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.
15. EXCHANGE ACT -- The Securities Exchange Act of 1934.
16. INCENTIVE COMPENSATION -- The MICP amount granted to an employee for an Award Year.
17. IPA PLAN -- The Lockheed Martin Corporation 2003 Incentive Performance Award Plan.
18. INTEREST OPTION -- The investment option under which earnings will be credited to a Participant's Account based on the interest rate applicable under Cost Accounting Standard 415, Deferred Compensation.
19. INVESTMENT FUND OPTION -- The investment option under which earnings (or losses) will be credited to a Participant's Account based on the market value and investment return of the investment options (including target date funds and core funds (and successor funds), and excluding the Company Stock Fund, ESOP Fund, and Self-Managed Account) that are available to participants pursuant to the terms of the Qualified Savings Plan, provided that the Committee retains the discretion to add certain funds to, or to exclude certain funds from, the Investment Fund Option.
20. LONG TERM INCENTIVE AWARD - A long term incentive award granted to an employee under the Omnibus Plan or the IPA Plan.
21. MICP -- The Lockheed Martin Corporation Management Incentive Compensation Plan.
22. OMNIBUS PLAN - The Lockheed Martin Corporation 1995 Omnibus Performance Award Plan.
23. PARTICIPANT -- An Eligible Employee for whom Incentive Compensation or a Long Term Incentive Award payment has been deferred for one or more years under this Deferral Plan; the term shall include a former employee whose Deferred Compensation has not been fully distributed.
24. PAYMENT DATE -- As to any Participant, the January 15 or July 15 on or about on which payment to the Participant is to be made or to begin in accordance with Article V.

25. **PERFORMANCE PERIOD** - The period set forth in a Long Term Incentive Award over which the Company's performance is measured by reference to total stockholder return to determine whether any payment will be made under such Long Term Incentive Award.. **QUALIFIED SAVINGS PLAN** – The Lockheed Martin Corporation Salaried Savings Plan or any successor plan.

26. **REALLOCATION EFFECTIVE DATE** -- The date a reallocation elected by a Participant or Beneficiary under Section 6(a) of Article IV is effected, which shall be the June 30, July 31, August 31 or September 30 immediately following the end of the Reallocation Election Period in which his or her election under Section 6(a) becomes irrevocable.

27. **REALLOCATION ELECTION PERIOD** -- A period in which a Participant or Beneficiary may under Section 6(a) of Article IV elect a reallocation of his or her Account Balance from one investment option to another investment option, and there shall be four such election periods: June 1 through June 15, 2004, June 16 through July 15, 2004, July 16 through August 15, 2004 and August 16 through September 15, 2004.

28. **SECTION 16 PERSON** -- A Participant who is subject to the reporting and short-swing liability provisions of Section 16 of the Securities Exchange Act of 1934 on the date a Deferral Agreement or other election form is delivered to the Company in accordance with the terms of this Deferral Plan.

29. **SUBSIDIARY** -- As to any person, any corporation, association, partnership, joint venture or other business entity of which 50% or more of the voting stock or other equity interests (in the case of entities other than corporation), is owned or controlled (directly or indirectly) by that entity, or by one or more of the Subsidiaries of that entity, or by a combination thereof.

30. **TRADING DAY** -- A day upon which transactions with respect to Company Common Stock are reported in the consolidated transaction reporting system.

ARTICLE III

ELECTION OF DEFERRED AMOUNT

1. Timing of Deferral Elections.

(a) Incentive Compensation. An Eligible Employee may elect to defer Incentive Compensation for an Award Year by executing and delivering to the Company a Deferral Agreement no later than October 31 of the Award Year, provided that any election by a Section 16 Person shall be subject to the provisions of Section 4 of Article IV.

(b) Long Term Incentive Awards and Company Deferrals. An Eligible Employee may elect to defer the payment of a Long Term Incentive Award and a Company Deferral for an Award Year by executing and delivering to the Company a Deferral Agreement no later than October 31 of the Award Year, provided that any election by a Section 16 Person shall be subject to the provisions of Section 4 of Article IV.

(c) Irrevocability of Elections. No Eligible Employee shall have the right to modify or revoke a Deferral Agreement for an Award Year after the applicable deadline described in Section 1(a) and Section 1(b) of this Article III for delivering a Deferral Agreement to the Company for such Award Year, provided no Section 16 Person shall have the right to modify or revoke a Deferral Agreement after such applicable deadline or, if earlier, after the date the agreement has been delivered to the Company. The Committee may establish policies and procedures to determine when a Deferral Agreement or other election called for under this Plan has been delivered to the Company. Each Deferral Agreement shall apply only to amounts deferred in that Award Year and a separate Deferral Agreement must be completed for each Award Year for which an Eligible Employee defers Incentive Compensation or a Long Term Incentive Award.

2. Amount of Deferral Elections. An Eligible Employee's deferral election may be stated as:

- (a) a dollar amount which is at least \$5,000 and is an even multiple of \$1,000,
- (b) the greater of \$5,000 or a designated percentage of the Eligible Employee's Incentive Compensation or Long Term Incentive Award payment (adjusted to the next highest multiple of \$1,000),
- (c) the excess of the Eligible Employee's Incentive Compensation or Long Term Incentive Award payment over a dollar amount specified by the Eligible Employee (which must be an even multiple of \$1,000), or
- (d) all of the Eligible Employee's Incentive Compensation or Long Term Incentive Award payment.

An Eligible Employee's deferral election shall be effective only if the Participant is awarded, in the case of Incentive Compensation, at least \$10,000 of Incentive Compensation for that Award Year, or in the case of Long Term Incentive Award, at least \$10,000 is payable to the Participant in cash at the conclusion of the Performance Period applicable to a Long Term Incentive Award payment. In addition, in the case of a deferral election under paragraph (c) of this Section 2, an Eligible Employee's deferral election shall be effective only if the resulting excess amount is at least \$5,000.

3. Effect of Taxes on Deferred Compensation. The amount that would otherwise be deferred and credited to an Eligible Employee's Account will be reduced by the amount of any tax that the Company is required to withhold with respect to the Deferred Compensation. The reduction for taxes shall be made proportionately out of amounts otherwise allocable to the Interest Option and the Company Stock Investment Option.

4. Multiple Awards. In the case of an Eligible Employee who receives more than one Long Term Incentive Award with respect to the same Performance Period, the

elections made by the Eligible Employee under this Article III as well as under Articles V and VI for the first Long Term Incentive Award granted to the Eligible Employee with respect to a Performance Period shall be deemed to be the elections made by that Eligible Employee for any other Long Term Incentive Awards granted to that Eligible Employee with respect to that same Performance Period.

5. Company Deferrals. Pursuant to the terms of the Long Term Incentive Awards, 50% of the amount payable at the end of the Performance Period will be automatically deferred until the second anniversary of the last day of the Performance Period with respect to a particular award. The Company may establish an account for Company Deferrals under the Company Stock Investment Option of this Deferral Plan. However, the terms governing the Company Deferrals will be governed for the two year period of deferral by the terms of the award agreement entered into under the Omnibus Plan or the IPA Plan with respect to the Long Term Incentive Award and not by this Deferral Plan except to the extent the award agreement expressly refers to the terms of this Deferral Plan. Notwithstanding the foregoing, if the Participant elects to defer the Company Deferrals beyond the second anniversary of the end of the Performance Period, the deferrals will be treated as made under this Deferral Plan for the period following the second anniversary of the end of the Performance Period.

ARTICLE IV

CREDITING OF ACCOUNTS

1. Crediting of Deferred Compensation. Incentive Compensation or a Long Term Incentive Award payment that a Participant has elected to defer under this Deferral Plan shall be credited to the Participant's Account as of the Trading Day set by action of the Committee or, if the Committee does not act to set such a day, on the second Trading Day which follows the date of approval of the related Incentive Compensation or Long Term Incentive Award. If the Company establishes an account for Company Deferrals pursuant to Section 5 of Article III, the Company Deferrals shall be credited to such account as of the last Trading Day in the Performance Period. Any Deferred Compensation credits under this Section 1 which are allocable to the Interest Option shall be credited at the dollar amount of such credits. Any Deferred Compensation and Company Deferral credits under this Section 1 which are allocable to the Company Stock Investment Option shall be credited as if the dollar amount of credits had been invested in the Company's Common Stock at the published closing price of the Company's Common Stock on the applicable Trading Day described in this Section 1. Any Deferred Compensation and Company Deferral credits under this Section 1 which are allocable to the Investment Fund Option shall be credited as if the dollar amount of credits had been invested in the applicable fund at the published closing price of the applicable fund on the applicable Trading Day described in this Section 1.

2. Crediting of Earnings (Losses) and Reallocations.

(a) General Rules.

(i) Earnings (or losses) shall be credited to a Participant's Account based on the investment option or options to which the Account has been allocated beginning with the applicable Trading Day described in this Article IV.

(ii) Earnings (or losses) on amounts reallocated in accordance with this Article IV shall be credited to the Participant's Account as of the applicable day or Trading Day described for such reallocation in this Article IV.

(iii) Any amount distributed from a Participant's Account in cash pursuant to Article V shall be credited with earnings (or losses) through the Trading Day that is four (4) business days prior to the Payment Date on which a distribution is to be made. Any amount distributed from a Participant's Account in stock pursuant to Article V shall be credited with earnings (or losses) through the last Trading Day preceding the date on which a distribution is to be made.

(iv) Company Deferrals shall be credited with earnings (or losses) through the last Trading Day in the period which ends on the second anniversary of the end of the applicable Performance Period unless deferred further pursuant to a Deferral Agreement.

(b) Interest Option. The portion of a Participant's Account allocated or reallocated to the Interest Option shall be credited with interest, valued daily, while so allocated or reallocated at a rate equivalent to the then published rate for computing the present value of future benefits at the time cost is assignable under Cost Accounting Standard 415, Deferred Compensation, as determined by the Secretary of the Treasury on a semi-annual basis pursuant to Pub. L. 92-41, 85 Stat. 97. No amounts may be reallocated to the Interest Option on or after July 1, 2009. Amounts deferred prior to January 1, 2005 may remain invested in the Interest Option until such amounts are transferred to the Company Stock Investment Option or the Investment Fund Option on or after July 1, 2009.

(c) Company Stock Investment Option.

(i) The portion of a Participant's Account allocated or reallocated to the Company Stock Investment Option shall be credited when so allocated or reallocated on the applicable Trading Day described in this Article IV as if such amount had been invested in the Company's Common Stock at the published closing price of the Company's Common Stock on such Trading Day.

(ii) The portion of the Participant's Account Balance allocated to the Company Stock Investment Option shall reflect any post-allocation appreciation or depreciation in the market value of the Company's Common Stock based on the published closing price of the stock on each Trading Day and shall reflect dividends paid and any other distributions made with respect to the Company's Common Stock.

(iii) Cash dividends shall be treated as if such dividends had been reinvested in the Company's Common Stock at the published closing price of the

Company's Common Stock on the Trading Day on which the cash dividend is paid or, if the dividend is paid on a day which is not a Trading Day, on the Trading Day which immediately precedes the day the dividend is paid.

(iv) If any portion of a Participant's Account was reallocated in accordance with paragraph 5 (or paragraph 4 prior to October 1, 2004) of this Article IV from the Company Stock Investment Option to the Interest Option or the , the reallocation shall be credited to the Interest Option as if the Company's Common Stock had been bought or sold at the published closing price of the Company's Common Stock on the Trading Day on which the reallocation is effective, or if the reallocation is effective as of the day that is not a Trading Day, the Trading Day which immediate precedes the effective date of the reallocation.

(d) Investment Fund Option. Earnings (or losses) shall be credited to a Participant's Account based on the investment option or options within the Investment Fund Option to which his or her Account has been allocated. The manner in which earnings (or losses) are credited under each of the investment options shall be determined in the same manner as under the Qualified Savings Plan. The procedures for directing the allocation and reallocation among the investment options in the Investment Fund Option shall be the same as the procedures for making allocations under the Qualified Savings Plan.

3. Election of Investment Options. A Participant's initial investment elections for a particular type of award for an Award Year shall be made in his or her Deferral Agreement for such Award Year, and no Participant shall (except as provided for in Section 6 and Section 7 of this Article IV) have the right to modify or revoke any such election after the time the Participant no longer has the right to modify or revoke a Deferral Agreement under Section 1 of Article III. A Participant's allocations between investment options shall be subject to such minimum allocations as the Committee may establish.

4. Special Rule for Section 16 Persons. An election by a Section 16 Person to have any Deferred Compensation allocated to the Company Stock Investment Option shall be effective on the Trading Day described in Section 1 of this Article IV unless he or she delivers the related Deferral Agreement to the Company less than six months before such Trading Day. If he or she delivers the related Deferral Agreement to the Company less than six months before such date, his or her Company Stock Investment Option election automatically shall be treated as an Interest Option election under Section 1 of this Article IV until the first Trading Day of the seventh month following the month in which the Deferral Agreement is delivered to the Company. The Deferred Compensation so allocated to the to the Interest Option together with any related interest credits shall by operation of this Deferral Plan automatically be reallocated and credited to the Company Stock Investment Option on such Trading Day in accordance with Section 2(b) of this Article IV.

Reallocations to Interest Option (deleted effective September 30, 2004). If benefit payments to a Participant or Beneficiary are to be paid or commenced to be paid over a period that extends more than six months after the date of the Participant's termination of employment with the Company, the Participant or Beneficiary, as applicable, may make a one-time

irrevocable election under this Section 5 at any time after the Participant's termination of employment and before the completion of benefit payments to have the portion of the Participant's Account that is allocated to the Company Stock Investment Option reallocated to the Interest Option. A reallocation under this Section 5 shall take effect as of the first Trading Day of the month following the month in which an executed reallocation election is delivered to the Company, provided an election by a Participant or Beneficiary who is a Section 16 Person on the date the election is delivered to the Company shall be effective only if such election satisfies on such date all the requirements of the exemption under Rule 16b-3 of the Exchange Act for a "discretionary transaction" or otherwise would not result in a short swing profit recovery pursuant to Rule 16b-3 under the Exchange Act. In the event such election does not satisfy the exemption pursuant to Rule 16b-3 under the Exchange Act for a "discretionary transaction" and if giving effect to the election would result in liability under Section 16(b) of the Exchange Act, the election shall not be given effect until the first Trading Day of the month following the month in which the election could be given effect without creating liability under Section 16(b) of the Exchange Act. Notwithstanding anything herein to the contrary, no election may be made under this Section 5 after September 15, 2004, and any such election made during September 2004 will be valued and take effect as of September 30, 2004.

5. One-Time Reallocation Right.

(a) General Rule. Subject to Section 5(b) of this Article IV, a Participant or Beneficiary may during a Reallocation Election Period execute and deliver to the Company an election made on such form and in such manner as prescribed by the Committee to the Company to reallocate all or a portion (in five (5) percent increments) of his or her Account Balance (other than Company Deferrals) which is then allocated to one investment option to the other investment option. Any such election shall be irrevocable when received by the Company, and the reallocation which the Participant or Beneficiary elects shall be effective as of the Reallocation Effective Date that immediately follows the end of the Reallocation Election Period in which his or her election becomes irrevocable. Only one reallocation election may be made by a Participant or Beneficiary with the result that a reallocation made in one Reallocation Election Period will preclude a reallocation election in a subsequent Reallocation Election Period.

(b) Exception. If a Participant or a Beneficiary is a Section 16 Person on any date in a Reallocation Election Period and delivers an election to the Company in such period, such election shall have no force or effect under Section 6(a) unless such election complies with the exemption under Rule 16b-3 of the Exchange Act for a "discretionary transaction".

(c) Additional Credit. The Company shall credit to the Account of each Participant or Beneficiary that has Deferred Compensation (other than Company Deferrals) credited to the Stock Investment Option as of September 30, 2004 an amount equal to the greater of (i) \$24.95 per Account Balance; or (ii) \$0.10 for each whole share of Common Stock reflected in the Participant's or Beneficiary's Account Balance (exclusive of Company Deferrals). Such amount shall be allocated and credited to the Interest Option as of September 30, 2004, after taking into account any reallocation under Section 6(a) of this Article IV.

6. Reallocation Among Investment Options. Effective June 16, 2008, a Participant may reallocate the portion of his Account Balance that is invested in the Interest Option and the Investment Fund Option to the Interest Option (through June 30, 2009), the Company Stock Investment Option, and the various investment funds in the Investment Fund Option, subject to the trading restrictions that apply to the transfer and reallocation of investments under the terms of the Qualified Savings Plan, applied as if such Qualified Savings Plan restrictions also pertain to the Interest Option; provided that a Participant may not at any time reallocate the portion of his Account Balance that is invested at any time in the Company Stock Investment Option. Notwithstanding the foregoing, any election by a Section 16 Person to reallocate any portion of his Account Balance to the Company Stock Investment Option shall only become effective if the election is made at least six months following the most recent election with respect to any plan of the Corporation that involved the disposition of the Corporation's equity securities pursuant to a "Discretionary Transaction" (as defined in Exchange Act Rule 16b-3). . No amounts may be reallocated to the Interest Option on or after July 1, 2009.

ARTICLE V

PAYMENT OF BENEFITS

1. General.

(a) Account Balance and Elections. The Company's liability to pay benefits to a Participant or Beneficiary under this Deferral Plan shall be measured by and shall in no event exceed the Participant's Account Balance. Except as otherwise provided in this Deferral Plan (including but not limited to Section 5 of Article III with respect to Company Deferrals), a Participant's Account Balance shall be paid to him in accordance with the Participant's elections under this Article V.

(b) Cash Only Payment. With respect to benefit payments made on a Payment Date which is on or before September 30, 2004, all such benefit payments shall be made in accordance with the terms of this Deferral Plan as in effect on such date in cash and, except as otherwise provided under such terms, shall reduce allocations to the Interest Option and the Company Stock Investment Option in the same proportions that the Participant's Account Balance is allocated between those investment options at the end of the month preceding the date of distribution. Notwithstanding the foregoing, no amount of Deferred Compensation shall be distributed to a Section 16 Person under this Deferral Plan which is attributable to the Stock Investment Option unless such amount was allocated to the Participant's Account in accordance with Section 1 of Article 4 at least six months prior to the date of distribution or no portion of such amount was allocated to the Company Stock Investment Option in the six months prior to distribution.

(c) Cash and Stock Payments. With respect to benefit payments made after September 30, 2004, all such benefit payments shall be made in cash to the extent a Participant's Account is allocated to the Interest Option or Investment Fund Option or is attributable to Company Deferrals and shall be made in whole shares of the Company's Common Stock to the

extent that a Participant's Account is allocated to the Company Stock Investment Option (other than with respect to Company Deferrals) and, except as otherwise provided, shall reduce allocations to the Interest Option, the Investment Fund Option, and the Company Stock Investment Option in the same proportions that the Participant's Account Balance is allocated between those investment options at the end of the month preceding the date of distribution (for distributions occurring prior to June 16, 2008) or the Trading Day that is four (4) business days prior to the date of the distribution (for distributions occurring on or after June 16, 2008). Notwithstanding the foregoing, no amount of Deferred Compensation shall be distributed to a Section 16 Person under this Deferral Plan unless such amount was allocated to the Participant's Account in accordance with Section 1 of Article 4 at least six months prior to the date of distribution. At the Company's discretion a distribution of Common Stock may be made directly to a Participant or to a brokerage account opened in the name of the Participant. When an Account is distributed in a lump sum or, if an Account is distributed in installments, when the final installment is made, cash shall be distributed (or withheld for applicable taxes) at that time in lieu of any fractional share of Common Stock. The cash distribution in lieu of fractional shares shall be based on the published closing price of the Company's Common Stock on the last Trading Day preceding the date the distribution is scheduled to be made.

2. Election for Commencement of Payment. At the time a Participant first completes a Deferral Agreement, he or she shall elect from among the following options governing the date on which the payment of benefits shall commence:

- (a) Payment to begin on the Payment Date next following the date of the Participant's termination of employment with the Company for any reason.
- (b) Payment to begin on the first Payment Date of the year next following the year in which the Participant terminates employment with the Company for any reason.
- (c) Payment to begin on the Payment Date next following the date on which the Participant has both terminated employment with the Company for any reason and attained the age designated by the Participant in the Deferral Agreement.

Notwithstanding a Participant's election, any payment of benefits in the form of shares of Common Stock that would otherwise commence within six months of the date on which a Participant ceased to be Section 16 Person shall not be paid on that date but instead shall be paid on the first Payment Date that is at least six months after the date on which that Participant ceased to be a Section 16 Person.

3. Election for Form of Payment. At the time a Participant first completes a Deferral Agreement, he or she shall elect the form of payment of his or her Account Balance from among the following options:

- (A) A lump sum.
- (B) Annual installment payments for a period of years designated by the Participant, which shall not exceed fifteen (15) annual installments. The amount of each annual payment shall be determined by dividing the Participant's Account Balance at the

end of the month prior to such payment by the number of installment payments then remaining in the designated installment period. The installment period may be shortened, in the sole discretion of the Committee, if the Committee at any time determines that the amount of the annual payments that would be made to the Participant during the designated installment period would be too small to justify the maintenance of the Participant's Account and the processing of payments.

4. Prospective Change of Payment Elections.

(a) Notwithstanding anything to the contrary in this Article V, a Participant may make an election with respect to the commencement of payment (from among the options set forth in Section 2(A), (B), or (C) above) and form of payment (from among the options set forth in Section 3(A) or (B) above) of his or her entire Account Balance, or with respect to specific Award Years, by executing and delivering to the Company an election form on or after October 1, 2002 in such form as prescribed by the Company. If a Participant has different payment options in effect with respect to his or her Account Balance, the Company shall maintain sub-accounts for the Participant to determine the amounts subject to each payment election; however, no election or modification of an election will be accepted if it would require the Company to maintain more than five sub-accounts within the Participant's Account in order to make payments in accordance with the Participant's elections.

(b) In the event a Participant does not make a valid election with respect to the commencement of payment and form of benefit for an Award Year commencing on or after October 1, 2002, the Participant will be deemed to have elected that payment of benefits with respect to that Award Year be made in a lump sum on or about the Payment Date next following the date of the Participant's termination of employment.

(c) A Participant's election with respect to an Award Year (including a "deemed election" in accordance with the preceding paragraph) shall remain in effect unless and until such election is modified by a subsequent election in accordance with the second preceding paragraph above.

(d) To constitute a valid election by a Participant making a prospective change to a previous election, the prospective election must be executed and delivered to the Company (i) at least six months before the date the first payment would be due under the Participant's previous election and (ii) in a different calendar year than the date the first payment would be due under the Participant's previous election. In the event an election fails to satisfy the provisions set forth in this paragraph, such election shall be void and, if such an election is void, payment shall be made in accordance with the most recent election which was valid. In addition, no prospective election will be considered valid to the extent the prospective election would (i) result in a payment being made within six months of the date of the prospective election or (ii) result in a payment under the prospective election in the same calendar year as the date of the prospective election. In the event a prospective election fails to satisfy the provisions set forth in the preceding sentence, the first payment under the prospective election will be delayed until the first Payment Date that is both (i) at least six months after the date of the prospective election and (ii) in a calendar year after the date of the prospective election.

(e) A Participant may not make or modify an election with respect to commencement of payment or form of payment after the date a Participant terminates employment.

5. Acceleration upon Early Termination. Notwithstanding a Participant's payment elections under this Article V, if the Participant terminates employment with the Company other than by reason of layoff, death or disability and before the Participant is eligible to commence receiving retirement benefits under a pension plan maintained by the Company (or before the Participant has attained age 55 if the Participant does not participate in such a pension plan), except as provided in Section 5 of Article III with respect to Company Deferrals, the Participant's Account Balance shall be distributed to him or her in a lump sum on or about the Payment Date next following the date of the Participant's termination of employment with the Company; provided, however, that if a distribution in accordance with the provisions of this Section 5 would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

6. Acceleration Upon Conflict of Interest. Notwithstanding a Participant's payment elections under this Article V, if following a Participant's termination of employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined or indicated that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, except as provided in Section 5 of Article III with respect to Company Deferrals, then the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined or indicated that the conflict of interest may exist. This Section 6 shall be applicable only to the extent that such distribution conforms to Code section 409A.

7. Death Benefits.

(a) General Rule. Upon the death of a Participant before a complete distribution of his or her Account Balance, the Account Balance will be paid to the Participant's Beneficiary in accordance with the payment elections applicable to the Participant. If a Participant dies while actively employed or otherwise before the payment of benefits has commenced, payments to the Beneficiary shall commence on the date payments to the Participant would have commenced, taking account of the Participant's termination of employment (by death or before) and, if applicable, by postponing commencement until after the date the Participant would have attained the commencement age specified by the Participant. Whether the Participant dies before or after the commencement of distributions, payments to the Beneficiary shall be made for the period or remaining period elected by the Participant.

(b) Special Rule. Notwithstanding Section 7(a) of this Article V, in the event that a Participant dies before the Participant's entire Account Balance has been distributed, the Committee, in its sole discretion, may modify the timing of distributions from the Participant's Account, including the commencement date and number of distributions, if it concludes that such modification is necessary to relieve the financial burdens of the Participant's Beneficiary; provided, however, that if a distribution in accordance with the provisions of this Section 7(b) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

8. Early Distributions in Special Circumstances. Notwithstanding a Participant's payment elections under this Article V, a Participant or Beneficiary may request an earlier distribution in the following limited circumstances (except as provided in Section 5 of Article III with respect to Company Deferrals):

(a) Hardship Distributions. A Participant may apply for a hardship distribution pursuant to this Section 8(a) on such form and in such manner as the Committee shall prescribe and, subject to the last sentence of this Section 8(a) with respect to Section 16 Persons, the Committee shall have the power and discretion at any time to approve a payment to a Participant if the Committee determines that the Participant is suffering from a serious financial emergency caused by circumstances beyond the Participant's control which would cause a hardship to the Participant unless such payment were made. Any such hardship payment will be in a lump sum and will not exceed the lesser of (i) the amount necessary to satisfy the financial emergency (taking account of the income tax liability associated with the distribution), or (ii) the Participant's Account Balance; provided, however, that if a distribution in accordance with the provisions of this Section 8(a) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

(b) Withdrawal with Forfeiture. A Participant may elect on such form and in such manner as the Committee shall prescribe at any time to withdraw ninety percent (90%) of the amount credited to the Participant's Account. If such a withdrawal is made, the remaining ten percent (10%) of the Participant's Account shall be permanently forfeited, and the Participant will be prohibited from deferring any amount under the Deferral Plan for the Award Year in which

the withdrawal is received (or the first Award Year in which any portion of the withdrawal is received); provided, however, that if a distribution in accordance with the provisions of this Section 8(b) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

(c) Disability. If the Committee determines that a Participant has become permanently disabled before the Participant's entire Account Balance has been distributed, the Committee, in its sole discretion, may modify the timing of distributions from the Participant's Account, including the commencement date and number of distributions, if it concludes that such modification is necessary to relieve the financial burdens of the Participant; provided, however, that if a distribution in accordance with the provisions of this Section 8(c) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16 (b) of the Exchange Act, the date of distribution with respect to such portion to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

9. Acceleration upon Change in Control.

(a) Notwithstanding any other provision of the Deferral Plan, except as provided in Section 5 of Article III with respect to Company Deferrals, the Account Balance of each Participant shall be distributed in a single lump sum within fifteen (15) calendar days following a "Change in Control."

(b) For purposes of this Deferral Plan, a Change in Control shall include and be deemed to occur upon the following events:

(1) A tender offer or exchange offer is consummated for the ownership of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding voting securities entitled to vote in the election of directors of the Company.

(2) The Company is merged, combined, consolidated, recapitalized or otherwise reorganized with one or more other entities that are not Subsidiaries and, as a result of the merger, combination, consolidation, recapitalization or other reorganization, less than 75% of the outstanding voting securities of the surviving or resulting corporation shall immediately after the event be owned in the aggregate by the stockholders of the Company (directly or indirectly), determined on the basis of record ownership as of the date of determination of holders entitled to vote on the action (or in the absence of a vote, the day immediately prior to the event)

(3) Any person (as this term is used in Sections 3(a)(9) and 13(d)(3) of the Exchange Act, but excluding any person described in and satisfying the conditions of Rule 13d-1 (b)(1) thereunder), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote in the election of directors of the Company.

(4) At any time within any period of two years after a tender offer, merger, combination, consolidation, recapitalization, or other reorganization or a contested election, or any combination of these events, the "Incumbent Directors" shall cease to constitute at least a majority of the authorized number of members of the Board. For purposes hereof, "Incumbent Directors" shall mean the persons who were members of the Board immediately before the first of these events and the persons who were elected or nominated as their successors or pursuant to increases in the size of the Board by a vote of at least three-fourths of the Board members who were then Board members (or successors or additional members so elected or nominated)

(5) The stockholders of the Company approve a plan of liquidation and dissolution or the sale or transfer of substantially all of the Company's business and/or assets as an entirety to an entity that is not a Subsidiary.

(c) Notwithstanding the provisions of Section 9(a), if a distribution in accordance with the provisions of Section 9(a) would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act with respect to any Section 16 Person, then the date of distribution to such Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

(d) This Section 9 shall apply only to a Change in Control of Lockheed Martin Corporation and shall not cause immediate payout of Deferred Compensation in any transaction involving the Company's sale, liquidation, merger, or other disposition of any subsidiary.

(e) The Committee may cancel or modify this Section 9 at any time prior to a Change in Control. In the event of a Change in Control, this Section 9 shall remain in force and effect, and shall not be subject to cancellation or modification for a period of five years, and any defined term used in Section 9 shall not, for purposes of Section 9, be subject to cancellation or modification during the five-year period.

10. Deductibility of Payments. In the event that the payment of benefits in accordance with the Participant's elections under this Article V would prevent the Company from claiming an income tax deduction with respect to any portion of the benefits paid, the Committee shall have the right to modify the timing of distributions from the Participant's Account as necessary to maximize the Company's tax deductions. In the exercise of its discretion to adopt a modified distribution schedule, the Committee shall undertake to have distributions made at such times and in such amounts as most closely approximate the Participant's elections, consistent with the objective of maximum deductibility for the Company. The Committee shall have no authority to reduce a Participant's Account Balance or to pay aggregate benefits less than the Participant's Account Balance in the event that all or a portion thereof would not be deductible by the Company.

11. Change of Law. Notwithstanding anything to the contrary herein, if the Committee determines in good faith, based on consultation with counsel, that the Federal income tax treatment or legal status of the Plan has or may be adversely affected by a change in the Code, Title I of the Employee Retirement Income Security Act of 1974, or other applicable law or by an administrative or judicial construction thereof, the Committee may direct that the Accounts of affected Participants or of all Participants be distributed as soon as practicable after such determination is made, to the extent deemed necessary or advisable by the Committee to cure or mitigate the consequences, or possible consequences of, such change in law or interpretation thereof.

12. Tax Withholding. To the extent required by law, the Company shall withhold from benefit payments hereunder, or with respect to any Incentive Compensation or Long Term Incentive Award payment deferred hereunder or credit contributed by the Company under Article IV, any Federal, state, or local income or payroll taxes required to be withheld and shall furnish the recipient and the applicable government agency or agencies with such reports, statements, or information as may be legally required.

ARTICLE VI

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This Deferral Plan constitutes a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this Deferral Plan. Notwithstanding the foregoing, to assist the Company in meeting its obligations under this Deferral Plan, the Company may set aside assets in a trust described in Revenue Procedure 92-64, 1992-2 C.B. 422, and the Company may direct that its obligations under this Deferral Plan be satisfied by payments out of such trust. The assets of any such trust will remain subject to the claims of the general creditors of the Company. It is the Company's intention that the Deferral Plan be unfunded for Federal income tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

2. Nonalienability of Benefits. A Participant's rights under this Deferral Plan shall not be assignable or transferable and any purported transfer, assignment, pledge or

other encumbrance or attachment of any payments or benefits under this Deferral Plan, or any interest therein shall not be permitted or recognized, other than the designation of, or passage of payment rights to, a Beneficiary. Notwithstanding, any portion of a Participant's benefit under this Plan may be paid to a spouse or former spouse pursuant to the terms of a domestic relations order (as defined in Code section 414(p)(1)(B)), provided that the form of payment designated in such order is one that is provided for under Section 3 of Article V of this Deferral Plan.

ARTICLE VII

AMENDMENT OR TERMINATION

1. Amendment. The Board or its authorized delegate may amend, modify, suspend or discontinue this Deferral Plan at any time subject to any shareholder approval that may be required under applicable law, provided, however, that no such amendment shall have the effect of reducing a Participant's Account Balance or postponing the time when a Participant is entitled to receive a distribution of his Account Balance. Further, no amendment may alter the formula for crediting interest to Participants' Accounts with respect to amounts for which deferral elections have previously been made, unless the amended formula is not less favorable to Participants than that previously in effect, or unless each affected Participant consents to such change.

2. Termination. The Board reserves the right to terminate this Plan at any time and to pay all Participants their Account Balances in a lump sum immediately following such termination or at such time thereafter as the Board may determine; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

3. Transfer of Liability. The Board reserves the right to transfer to another entity all of the obligations of Company with respect to a Participant under this Plan if such entity agrees pursuant to a binding written agreement to assume all of the obligations of the Company under this Plan with respect to such Participant.

ARTICLE VIII

ADMINISTRATION

1. The Committee. This Deferral Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this Deferral Plan to comply with the disinterested administration requirements of Rule 16b-3 of the Exchange Act. The members of the Committee shall be designated by the Board. A majority of the members of the Committee (but not fewer than two) shall constitute a quorum. The vote of a majority of a quorum or the unanimous written consent of the Committee shall constitute action by the Committee. The Committee or its delegate shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or its delegate shall be final and binding on all parties.

2. Delegation and Reliance. The Committee may delegate to the officers or employees of the Company the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this Deferral Plan in accordance with its terms and purpose, except that the Committee may not delegate any authority the delegation of which would cause this Deferral Plan to fail to satisfy the applicable requirements of Rule 16b-3. In making any determination or in taking or not taking any action under this Deferral Plan, the Committee may obtain and rely upon the advice of experts, including professional advisors to the Company. No member of the Committee or officer of the Company who is a Participant hereunder may participate in any decision specifically relating to his or her individual rights or benefits under the Deferral Plan.

3. Exculpation and Indemnity. Neither the Company nor any member of the Board or of the Committee, nor any other person participating in any determination of any question under this Deferral Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this Deferral Plan or for the failure of the Deferral Plan or any Participant's rights under the Deferral Plan to achieve intended tax consequences, to qualify for exemption or relief under Section 16 of the Exchange Act and the rules thereunder, or to comply with any other law, compliance with which is not required on the part of the Company.

4. Facility of Payment. If a minor, person declared incompetent, or person incapable of handling the disposition of his or her property is entitled to receive a benefit, make an application, or make an election hereunder, the Committee or its delegate may direct that such benefits be paid to, or such application or election be made by, the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. Any payment made, application allowed, or election implemented in accordance with this Section shall completely discharge the Company and the Committee (or its delegate) from all liability with respect thereto.

5. Proof of Claims. The Committee or its delegate may require proof of the death, disability, incompetency, minority, or incapacity of any Participant or Beneficiary and of the right of a person to receive any benefit or make any application or election.

6. Claim Procedures. If a claim under this Deferral Plan is denied by the Committee, the Committee or its delegate shall communicate such denial and shall provide an opportunity to appeal such denial in a manner which the Committee deems appropriate under the circumstances, which may include following the then applicable claims procedures under the Employee Retirement Income Security Act of 1974, as amended.

ARTICLE IX

GENERAL AND MISCELLANEOUS PROVISIONS

1. No Guarantee of Employment or Award. Neither this Deferral Plan, a Company Deferral nor a Participant's Deferral Agreement, either singly or collectively, shall in any way obligate the Company to continue the employment of a Participant with the Company, nor does either this Deferral Plan, a Company Deferral or a Deferral Agreement limit the right of the Company at any time and for any reason to terminate the Participant's employment. In no event shall this Deferral Plan, a Company Deferral or a Deferral Agreement, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Company and a Participant. In no event shall this Deferral Plan, a Company Deferral or a Deferral Agreement, either singly or collectively, by their terms or implications in any way obligate the Company to award Incentive Compensation, grant any award under the Omnibus Plan or IPA Plan or make any Long Term Incentive Award payment to any Eligible Employee for any Award Year, whether or not the Eligible Employee is a Participant in the Deferral Plan for that Award Year, nor in any other way limit the right of the Company to change an Eligible Employee's compensation or other benefits.

2. Affect on Retirement Plans. Neither Incentive Compensation nor Long Term Incentive Award payments deferred under this Deferral Plan shall be treated as compensation for purposes of calculating the amount of a Participant's benefits or contributions under any pension, retirement, or other plan maintained by the Company, except as provided in such other plan.

3. Notice. Any written notice to the Company referred to herein shall be made by mailing or delivering such notice to the Company at 6801 Rockledge Drive, Bethesda, Maryland 20817, to the attention of the Vice President, Human Resources. Any written notice to a Participant shall be made by delivery to the Participant in person, through electronic transmission, or by mailing such notice to the Participant at his or her last-known place of residence or business address.

4. Performance of Acts. In the event it should become impossible for the Company or the Committee to perform any act required by this Deferral Plan, the Company or the Committee may perform such other act as it in good faith determines will most nearly carry out the intent and the purpose of this Deferral Plan.

5. Employee Consent. By electing to become a Participant hereunder, each Eligible Employee shall be deemed conclusively to have accepted and consented to all of the terms of this Deferral Plan and all actions or decisions made by the Company, the Board, or Committee with regard to the Deferral Plan.

6. Terms Binding. The provisions of this Deferral Plan and the Deferral Agreements hereunder shall be binding upon and inure to the benefit of the Company, its successors, and its assigns, and to the Participants and their heirs, executors, administrators, and legal representatives.

7. Copy of Plan. A copy of this Deferral Plan shall be available for inspection by Participants or other persons entitled to benefits under the Deferral Plan at reasonable times at the offices of the Company.

8. State Law. The validity of this Deferral Plan or any of its provisions shall be construed, administered, and governed in all respects under and by the laws of the State of Maryland, except as to matters of Federal law. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

9. Regulatory Requirements. This Deferral Plan and its operation, including but not limited to, the mechanics of deferral elections, the reallocation of all or a portion of a Participant's Account Balance, the issuance of securities, if any, or the payment of cash hereunder is subject to compliance with all applicable Federal and state laws, rules and regulations (including but not limited to state and Federal insider trading, registration, reporting and other securities laws) and such other approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith.

10. Section 16 of Exchange Act. It is the intent of the Company that this Deferral Plan satisfy and be interpreted in a manner, that, in the case of Participants who are or may be Section 16 Persons, satisfies any applicable requirements of Rule 16b-3 of the Exchange Act or other exemptive rules under Section 16 of the Exchange Act and will not subject Section 16 Persons to short-swing profit liability thereunder. If any provision of this Deferral Plan would otherwise frustrate or conflict with the intent expressed in this Section 10, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed disregarded. Similarly, any action or election by a Section 16 Person with respect to the Deferral Plan to the extent possible shall be interpreted and deemed amended so as to avoid liability under Section 16 or, if this is not possible, to the extent necessary to avoid liability under Section 16, shall be deemed ineffective. Notwithstanding anything to the contrary in this Deferral Plan, the provisions of this Deferral Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this Deferral Plan are applicable solely to Section 16 Persons. Notwithstanding any other provision of this Deferral Plan to the contrary, if a distribution which would otherwise occur is prohibited or proposed to be delayed because of the provisions of Section 16 of the Exchange Act or the provisions of the Deferral Plan designed to ensure compliance with Section 16, the Section 16 Person involved may affirmatively elect in writing to have the distribution occur in any event; provided that the Section 16 Person shall concurrently enter into arrangements satisfactory to the Committee in its sole discretion for the satisfaction of any and all liabilities, costs and expenses arising from this election.

11. Securities Laws. This Deferral Plan, allocations to and from the Company Stock Investment Option and the issuance and delivery of shares of Common Stock and/or other securities or property or the payment of cash under this Deferral Plan, are subject to compliance with all applicable Federal and state laws, rules and regulations (including but not limited to state and Federal insider trading, registration, reporting and other securities laws and

Federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company be necessary or advisable to comply with all legal requirements. Any securities delivered under this Deferral Plan shall be subject to such restrictions (and the person acquiring such securities shall, if requested by the Company provide such evidence, assurance and representations to the Company as to compliance with any thereof) as counsel to the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

12. 1995 Awards. Notwithstanding any other provision of this Deferral Plan, each Eligible Employee who is a Section 16 Person and has entered into a Deferral Agreement prior to the initial distribution of a prospectus relating to this Deferral Plan shall be entitled, during a ten-business-day period following the initial distribution of that prospectus, to make an irrevocable election to (i) receive a distribution of all or any portion of his or her Account Balance attributable to Deferred Compensation for the 1995 Award Year during the seventh month following the month of the election, or (ii) reallocate all or any part of his or her Account Balance attributable to Deferred Compensation for the 1995 Award Year to a different investment option as of the end of the sixth month following the month of the election.

13. Limits on Accounts. At no time shall the aggregate Account Balances of all Participants to the extent allocated to the Company Stock Investment Option exceed an amount equal to the then fair market value of 5,000,000 shares of the Company's Common Stock, nor shall the cumulative amount of Incentive Compensation and Long Term Incentive Award payments deferred under this Deferral Plan by all Eligible Employees for all Award Years exceed \$250,000,000.

14. Electronic Notice and Signatures. Whenever a signature notice or delivery of a document is required or appropriate under this Deferral Plan, signature, notice or delivery may be accomplished by paper or written format or, to the extent authorized by the Committee, by electronic means. In the event the Committee authorizes electronic means for the signature, notice or delivery of a document under this Deferral Plan, the electronic record or confirmation of that signature, notice or delivery maintained by or on behalf of the Committee shall for purposes of this Deferral Plan be treated as if it was a written signature or notice and was delivered in the manner provided herein for a written document.

ARTICLE X

EFFECTIVE DATE AND SHAREHOLDER APPROVAL

This Deferral Plan was adopted by the Board on July 27, 1995 and became effective upon adoption to awards of Incentive Compensation for the Company's fiscal year ending December 31, 1995 and subsequent fiscal years; provided, however, that with respect to Section 16 Persons, the availability of the Company Stock Investment Option is conditioned upon the approval of this Deferral Plan by the stockholders of Lockheed Martin Corporation. In the event that this Deferral Plan is not approved by the stockholders, then Section 16 Persons shall not be entitled to have Deferred Compensation allocated to the Company Stock Investment Option; any prior elections by Section 16 Persons to have allocations made to the Company Stock Investment Option shall retroactively be deemed ineffective, and the Account Balances of

those Section 16 Persons shall be restated as if all of their Deferred Compensation had been allocated to the Interest Option at all times. Subsequent amendments to the Deferral Plan are effective as of the date stated in the amendment or the adopting resolution.

This Deferral Plan has been amended and restated effective as of the date stated on the first page herein.

LOCKHEED MARTIN CORPORATION
2011 INCENTIVE PERFORMANCE AWARD PLAN
 (Approved at Annual Meeting of Stockholders on April 28, 2011)
 As Amended January 24, 2013

As Amended and Restated January 23, 2014 and Amended April 24, 2014
 As Amended and Restated September 24, 2015
 As Amended June 23, 2016 Effective as of January 1, 2017

SECTION 1. Purpose.

The purpose of this Plan is to benefit the Corporation's stockholders by encouraging high levels of performance by individuals who contribute to the success of the Corporation and its Subsidiaries and to enable the Corporation and its Subsidiaries to attract, motivate, retain and reward talented and experienced individuals. This purpose is to be accomplished by providing eligible employees with an opportunity to obtain or increase their proprietary interest in the Corporation and thereby align their interests with those of the Corporation's stockholders, and by providing eligible employees with additional incentives to join or remain with the Corporation and its Subsidiaries.

SECTION 2. Definitions; Rules of Construction.

(a) Defined Terms. The terms defined in this Section shall have the following meanings for purposes of this Plan:

"*Award*" means an award granted pursuant to Section 4.

"*Award Agreement*" means an agreement described in Section 6 entered into between the Corporation and a Participant, setting forth the terms and conditions of an Award granted to a Participant.

"*Backlog*" means either funded backlog (unfilled firm orders for which funding has been both authorized and appropriated by the customer) or unfunded backlog (unfilled firm orders for which funding has not been authorized and appropriated by the customer), as determined by the Committee at the time an Award is granted.

"*Beneficiary*" means a person or persons (including a trust or trusts) validly designated by a Participant, in the event of the Participant's death, as the Participant's beneficiary under this Plan, or, in the absence of a valid designation, the Participant's estate.

"*Board of Directors*" or "*Board*" means the Board of Directors of the Corporation.

"*Cash-Based Awards*" means Awards that, if paid, must be paid in cash and that are neither denominated in nor have a value derived from the value of, nor an exercise right or conversion privilege at a price related to, shares of Stock, as described in Section 4(a)(6).

"*Cash Flow*" means cash and cash equivalents derived from either (i) net cash flow from operations or (ii) net cash flow from operations, financings and investing activities, as determined by the Committee at the time an Award is granted.

"*Change in Control*" means a change in control as defined in Section 7(c).

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time.

"*Committee*" means the Committee described in Section 8.

"*Corporation*" means Lockheed Martin Corporation.

“*Date of Grant*” means the date specified by the Committee as the date on which an Award is to be granted (which date shall be no earlier than the date the resolution approving the Award is adopted by the Committee), or if no such date is specified by the Committee, the date on which the Committee adopts a resolution making the Award.

“*Deferred Dividend Equivalent*” or “*DDE*” means a Dividend Equivalent that is accrued during the restricted period set forth in an Award Agreement and that becomes payable to a Participant upon the expiration or termination of such restricted period.

“*Dividend Equivalent*” means an amount equal to the cash dividends that would have been paid had a Participant owned a share of Stock during the restricted period set forth in an Award Agreement.

“*Employee*” means any officer (whether or not also a director) or any key salaried employee of the Corporation or any of its Subsidiaries, but excludes, in the case of an Incentive Stock Option, an Employee of any Subsidiary that is not a “subsidiary corporation” of the Corporation as defined in Code Section 424(f).

“*EPS*” means earnings per common share on a fully diluted basis determined in accordance with GAAP.

“*EPS Growth*” means the increase (on a dollar or percentage basis) in EPS for a specified period as compared to a comparable prior period, as specified by the Committee at the time an Award is granted.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time.

“*Executive Officer*” means executive officer as defined in Rule 3b-7 under the Exchange Act, provided that, if the Board has designated the executive officers of the Corporation for purposes of reporting under the Exchange Act, the designation by the Board shall be conclusive for purposes of this Plan.

“*Fair Market Value*” means the closing sale price of the relevant security as reported by the New York Stock Exchange on its web site as the closing price (or, if the security is not so listed or if the principal market on which it is traded is not the New York Stock Exchange, such other reporting system as shall be selected by the Committee) on the relevant date, or, if no sale of the security is reported for that date, the next preceding day for which there is a reported sale. The Committee shall determine the Fair Market Value of any security that is not publicly traded, using criteria as it shall determine, in its sole direction, to be appropriate for the valuation.

“*Free Cash Flow*” means net cash flow from operations as determined in accordance with GAAP, less the amount identified as capital expenditures as presented in the Corporation’s Statement of Cash Flows.

“*Free Cash Flow per Share*” means Free Cash Flow for a specified period divided by the average fully diluted common shares during the specified period.

“*GAAP*” means generally accepted accounting principles in the United States.

“*Insider*” means any person who is subject to the reporting obligations of Section 16(a) of the Exchange Act.

“*Nonperformance-Based Award or Nonperformance-Based*” means an Award that is not intended to satisfy the requirements of Section 4(b).

“*Option*” means a Nonqualified Stock Option or an Incentive Stock Option as described in Section 4(a)(1) or (2).

“Orders” means increases in contract values as specified in binding legal documents such as signed contracts, letters of award, notifications of award or purchase orders during a specified period.

“Participant” means an Employee who is granted an Award pursuant to this Plan so long as the Award remains outstanding.

“Percentage of Free Cash Flow to Stockholders” means the percentage of Free Cash Flow distributed to common stockholders during a specified period through dividends and stock repurchases.

“Performance-Based Awards” means an Award contemplated by Section 4(b).

“Performance Goal” means Backlog, Cash Flow, EPS, EPS Growth, Free Cash Flow per Share, Orders, Percentage of Free Cash Flow to Stockholders, ROIC, Sales, Segment Operating Profit, Segment ROIC or Total Stockholder Return, and “Performance Goals” means any combination thereof. Except as the context otherwise requires, performance under any of the Performance Goals (A) may be used to measure the performance of (i) the Corporation and its Subsidiaries on a consolidated basis, (ii) the Corporation or any Subsidiary or Subsidiaries, or any combination thereof, or (iii) any one or more segments or business units of the Corporation and its Subsidiaries, in either case as the Committee determines in its sole discretion, and (B) may be compared to the performance of one or more of the companies or one or more published or specially constructed indices designated or approved by the Committee for comparison, as the Committee determines in its sole discretion.

“Plan” means this Lockheed Martin Corporation 2011 Incentive Performance Award Plan.

“Predecessor Plan” means the Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan.

“ROIC” means return on invested capital calculated as (A) average (i) net income plus (ii) interest expense times one minus the highest marginal federal corporate tax rate, divided by (B) (i) average debt (including current maturities of long-term debt) plus (ii) average stockholders’ equity, plus the postretirement amounts determined at year-end as included in the Corporation’s Statement of Stockholders’ Equity.

“Rule 16b-3” means Rule 16b-3 under Section 16 of the Exchange Act, as amended from time to time.

“Sales” means net sales determined in accordance with GAAP.

“SAR” means a Stock Appreciation Right as described in Section 4(a)(3).

“Segment Operating Profit” means operating profit calculated at the segment level.

“Segment ROIC” means return on invested capital at the segment level calculated as (A) average (i) Segment Operating Profit times one minus the highest marginal federal corporate tax rate, divided by (B) average segment net assets.

“Share-Based Awards” means Awards that are payable or denominated in or have a value derived from the value of, or an exercise right or conversion privilege at a price related to, shares of Stock, as described in Sections 4(a)(1) through (5).

“Share Units” means the number of units under a Share-Based Award that is payable solely in cash or is actually paid in cash, determined by reference to the number of shares of Stock by which the Share-Based Award is measured.

“*Stock*” means shares of common stock of the Corporation, par value \$1.00 per share, subject to adjustments made under Section 7 or by operation of law.

“*Subsidiary*” means, as to any person, any corporation, association, partnership, joint venture or other business entity of which 50 percent or more of the voting stock or other equity interests (in the case of entities other than corporations), is owned or controlled (directly or indirectly) by that entity, or by one or more of the Subsidiaries of that entity, or by a combination thereof.

“*Tax*” or “*Taxes*” means any U.S. Federal, state, local, or non-U.S. income, employment, or payroll tax, excise tax, or any other tax or assessment owed with respect to any Award or other payment due to a Participant under the Plan.

“*Total Stockholder Return*” means with respect to the Corporation or other entities (if measured on a relative basis), the (i) change in the market price of its common stock (as quoted in the principal market on which it is traded as of the beginning and ending of the designated period) plus dividends and other distributions paid, divided by (ii) the beginning quoted market price, all of which is adjusted for any changes in equity structure, including but not limited to stock splits and stock dividends.

(b) Financial and Accounting Terms. Except as otherwise expressly provided or the context otherwise requires, financial and accounting terms, including terms defined herein as Performance Goals, are used as defined for purposes of, and shall be determined in accordance with, GAAP and as derived from the consolidated financial statements of the Corporation, prepared in the ordinary course of business and filed with the Securities and Exchange Commission from time to time.

(c) Rules of Construction. For purposes of this Plan and the Award Agreements, unless otherwise expressly provided or the context otherwise requires, the terms defined in this Plan include the plural and the singular, and pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms. For purposes of any Award Agreements, payments that will be made “as soon as practicable” after a specified event must be made within 90 days of the applicable event.

SECTION 3. Eligibility.

Any one or more Awards may be granted to any individual who is an Employee on the Date of Grant and who is designated by the Committee to receive an Award, provided that no individual who beneficially owns Stock possessing five percent or more of the combined voting power of all classes of stock of the Corporation shall be eligible to participate in this Plan.

SECTION 4. Awards.

(a) Type of Awards. The Committee may grant any of the following types of Awards, either singly or in combination with other Awards:

(1) *Nonqualified Stock Options*. A Nonqualified Stock Option is an Award in the form of an option to purchase Stock that is not intended to comply with the requirements of Code Section 422 or any successor provision of the Code. The exercise price of each Nonqualified Stock Option granted under this Plan shall be not less than the Fair Market Value of the Stock on the Date of Grant of the Option. All Nonqualified Stock Options shall be treated as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(2) *Incentive Stock Options*. An Incentive Stock Option is an Award in the form of an option to purchase Stock that is intended to comply with the requirements of Code Section 422 or any successor provision of the Code. The exercise price of each Incentive Stock Option granted under this Plan shall be not less than the Fair Market Value of the Stock on the Date of Grant of the Option. To the extent that the aggregate “fair market value” of Stock with respect to which one or more incentive stock options first become exercisable by a Participant in any calendar year exceeds \$100,000, taking into account both Stock

subject to Incentive Stock Options under this Plan and stock subject to incentive stock options under all other plans of the Corporation or of other entities referenced in Code Section 422(d)(1), the options shall be treated as Nonqualified Stock Options. For this purpose, the “fair market value” of the Stock subject to options shall be determined as of the Date of Grant of the Options. All Incentive Stock Options shall be treated as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(3) *Stock Appreciation Rights*. A Stock Appreciation Right or SAR is an Award in the form of a right to receive, upon surrender of the right, but without other payment, an amount based on appreciation in the value of Stock over a base price established in the Award, payable in cash, Stock or such other form or combination of forms of payout, at times and upon conditions as may be approved by the Committee. The minimum base price of a SAR granted under this Plan shall be the Fair Market Value of the underlying Stock on the Date of Grant of the SAR, or, in the case of a SAR related to an Option (whether already outstanding or concurrently granted), the exercise price of the related Option. All SARs shall be treated as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(4) *Restricted Stock*. Restricted Stock is an Award of shares of Stock of the Corporation that are issued, but subject to restrictions on transfer and/or such other restrictions on incidents of ownership as the Committee may determine. Awards of Restricted Stock to Executive Officers that are either granted or vest upon attainment of one or more of the Performance Goals shall only be granted as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(5) *Stock Units*. A Stock Unit is an Award payable in cash or Stock and represented by a bookkeeping entry where the amount represented by the bookkeeping entry for each Stock Unit equals the Fair Market Value of a share of Stock on the Date of Grant and which amount shall be subsequently increased or decreased to reflect the Fair Market Value of a share of Stock on any date from the Date of Grant up to the date the Stock Unit is paid to the Participant in cash or Stock. Stock Units are not outstanding shares of Stock and do not entitle a Participant to voting or other rights with respect to Stock; provided, however, that an Award of Stock Units may provide for the crediting of Dividend Equivalents or the crediting of additional Stock Units based on the value of dividends paid on Stock while the Award is outstanding, subject in each case to the vesting, forfeiture and Performance Goals applicable to the underlying Stock Units. Awards of Stock Units to Executive Officers that are either granted or vest upon attainment of one or more of the Performance Goals shall only be granted as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(6) *Cash-Based Awards*. Cash-Based Awards are Awards that provide Participants with the opportunity to earn a cash payment based upon the level of performance of the Corporation relative to one or more Performance Goals established by the Committee for an award cycle of more than one but not more than five years. For each award cycle, the Committee shall determine the size of the Awards, the Performance Goals, the performance targets as to each of the Performance Goals, the level or levels of achievement necessary for award payments and the weighting of the Performance Goals, if more than one Performance Goal is applicable. Cash-Based Awards to Executive Officers that are either granted or become vested, exercisable or payable based on attainment of one or more Performance Goals shall only be granted as Performance-Based Awards subject to the applicable restrictions under Section 4(b).

(b) Special Performance-Based Awards. Without limiting the generality of the foregoing, any of the types of Awards listed in Section 4(a) may be granted as awards that satisfy the requirements for “performance-based compensation” within the meaning of Code Section 162(m) (“Performance-Based Awards”), the grant, vesting, exercisability or payment of which depends on the degree of achievement of the Performance Goals relative to pre-established target levels. Notwithstanding anything contained in this Section 4(b) to the contrary, any Option or SAR shall be subject only to the requirements of Section 4(b)(1) and Sections 4(c)(1) and (2) below in order for such Awards to satisfy the requirements for Performance-Based Awards under this Section 4(b) (with such Awards referred to as a “Qualifying Option” or a “Qualifying Stock Appreciation Right,” respectively). With the exception of any Qualifying Option or Qualifying Stock Appreciation Right, an Award that is intended to satisfy the requirements of this Section 4(b) shall be designated as a Performance-Based Award at the time of grant. Nothing in this Plan shall limit the ability of the Committee to grant Options or SARs with an exercise price or a base price greater than Fair Market Value on the Date of Grant or to make the vesting of the Options or SARs subject to Performance Goals or other business objectives or conditions.

(1) *Eligible Class.* The eligible class of persons for Awards under this Section 4(b) shall be all Employees.

(2) *Performance Goals.* The performance goals for any Awards under this Section 4(b) (other than Qualifying Options and Qualifying Stock Appreciation Rights) shall be, on an absolute, average or relative basis, one or more of the Performance Goals. The specific performance target(s) with respect to Performance Goal(s) will be established by the Committee in advance of the deadlines applicable under Code Section 162(m) and while the performance relating to the Performance Goal(s) remains substantially uncertain.

(3) *Committee Certification.* Before any Performance-Based Award under this Section 4(b) (other than Qualifying Options and Qualifying Stock Appreciation Rights) is paid, the Committee must certify in writing (by resolution or otherwise) that the applicable Performance Goal(s) and any other material terms of the Performance-Based Award were satisfied; provided, however, that a Performance-Based Award may be paid without regard to the satisfaction of the applicable Performance Goal in the event of a Change in Control as provided in Section 7(b).

(4) *Terms and Conditions of Awards; Committee Discretion to Reduce Performance Awards.* The Committee shall have discretion to determine the conditions, restrictions or other limitations, in accordance with and subject to the terms of this Plan and Code Section 162(m), on the payment of individual Performance-Based Awards under this Section 4(b). To the extent set forth in an Award Agreement, the Committee may reserve the right to reduce the amount payable in accordance with any standards or on any other basis (including the Committee's discretion), as the Committee may determine.

(5) *Adjustments for Material Changes.* The Committee shall have the right to specify any adjustment that it deems necessary or appropriate to any Performance Goals and/or performance targets to take into account or exclude any extraordinary gain or loss or other event that is considered an extraordinary item under GAAP, provided the Committee exercises this right to specify the adjustment at the time the Performance Goals and/or performance targets are established under this Section 4(b). In addition, the Committee shall have the right to specify any adjustment that it deems necessary or appropriate to take into account or exclude any other gain or loss or event recognized under any accounting policy or practice affecting the Corporation and/or any Performance Goals or performance targets, provided the Committee exercises this right to exclude or take such gain or loss or event into account at the time the related Performance Goals and/or performance targets are established under this Section 4(b).

(6) *Interpretation.* Except as specifically provided in this Section 4(b), the provisions of this Plan and any Award Agreement shall be interpreted and administered by the Committee in a manner consistent with the requirements for qualification of Performance-Based Awards granted to Executive Officers as "performance-based compensation" under Code Section 162(m) and the regulations thereunder.

(c) Individual Limits.

(1) *Share-Based Awards.* The maximum number of shares of Stock that are issuable under this Plan pursuant to Options, SARs payable in shares of Stock, Restricted Stock and Stock Units payable in shares of Stock (described under Section 4(a)(5)) that are granted as Performance-Based Awards during any calendar year to any Participant shall not exceed 1,000,000, subject to adjustment as provided in Section 7; provided, that the maximum number of shares of Stock that may be granted as Restricted Stock Awards during any calendar year to any Participant under this Plan (including as Performance-Based Awards) shall not exceed 750,000 shares, subject to adjustment as provided in Section 7. Awards that are canceled during the year shall be counted against these limits.

(2) *Share Unit and Cash Only SAR Awards.* The aggregate number of Share Units that are issuable as Stock Units payable in cash only or SARs payable in cash only during any calendar year to any Participant as Performance-Based Awards shall not exceed 300,000, subject to adjustment as provided in Section 7. Awards that are canceled due to expiration or forfeiture during the year shall be counted against this limit.

(3) *Cash-Based Awards.* The aggregate amount of compensation to be paid to any Participant in respect of those Cash-Based Awards that are granted during any calendar year as Performance-Based Awards shall not exceed \$10,000,000.

(d) Maximum Term of Awards. No Award that contemplates exercise or conversion may be exercised or converted to any extent, and no other Award that defers vesting, shall remain outstanding and unexercised, unconverted or unvested more than ten years after the Date of Grant of the Award.

(e) Code Section 409A. It is the intent of the Corporation that no Award under this Plan be subject to taxation under Section 409A(a)(1) of the Code. Accordingly, if the Committee determines that an Award granted under this Plan is subject to Section 409A of the Code, such Award shall be interpreted and administered to meet the requirements of Sections 409A(a)(2), (3) and (4) of the Code and thus to be exempt from taxation under Section 409A(a)(1) of the Code.

(f) Out-of-the-Money Options or Stock Appreciation Rights. In no event shall the Corporation pay cash or other consideration for Options where at the time of payment the exercise price of the Option is less than the Fair Market Value of the Stock underlying the Option or pay cash or other consideration for SARs where at the time of payment the base price established in the Award is less than the Fair Market Value of the Stock underlying the SAR.

SECTION 5. Shares of Stock and Share Units Available Under Plan.

(a) Aggregate Share Limit for Share-Based Awards. Subject to adjustment as provided in this Section 5 or Section 7, the maximum number of shares of Stock that may be subject to Options (including Incentive Stock Options), SARs payable in shares of Stock, Restricted Stock and Stock Units payable in shares of Stock granted or issued under this Plan is 12,000,000, plus the number of shares of Stock reserved for future awards under the Predecessor Plan as of February 24, 2011, plus the number of shares of Stock subject to awards outstanding under the Predecessor Plan as of February 24, 2011 that thereafter are unexercised, unconverted or undistributed as a result of termination, expiration or forfeiture of the award, whether or not the individual holding the award received or was credited with benefits of ownership (such as dividends, Dividend Equivalents or voting rights) during the period in which the individual's ownership was restricted or otherwise not vested, including shares of Stock subject to Restricted Stock Awards that are subsequently reacquired by the Corporation due to termination, expiration or forfeiture.

(b) Restriction on Recycling or Reissue of Shares and Share Units. Shares of Stock issued upon the exercise of an Award or the vesting of an Award may not be used for a subsequent Award under this Plan. Any unexercised, unconverted or undistributed portion of any Award made under this Plan or any stock-based award under the Predecessor Plan resulting from termination, expiration or forfeiture of that Award shall again be available for Award under Section 5(a), whether or not the Participant has received or been credited with benefits of ownership (such as dividends, Dividend Equivalents or voting rights) during the period in which the Participant's ownership was restricted or otherwise not vested. Shares of Stock that are issued pursuant to Restricted Stock Awards and subsequently reacquired by the Corporation due to termination, expiration or forfeiture of the Award also shall be available for reissuance under this Plan. Shares of Stock subject to an Award that are reacquired by the Corporation to satisfy a withholding obligation of the Participant shall not be available for reissue. With respect to SARs payable in shares of Stock, the number of shares of Stock subject to an Award shall be counted against the number of shares of Stock available for issuance under this Plan regardless of the number of shares of Stock actually issued to settle the SARs upon exercise.

(c) Interpretive Issues. Additional rules for determining the number of shares of Stock or Share Units authorized under this Plan or available for grant or issuance from time to time may be adopted by the Committee, as it deems necessary or appropriate.

(d) Source of Shares; No Fractional Shares. The Stock that may be issued pursuant to an Award under this Plan may be authorized but unissued Stock or Stock acquired by the Corporation or any of its Subsidiaries, subsequently or in anticipation of a transaction under this Plan, in the open market or in privately negotiated transactions. No fractional shares of Stock shall be issued under this Plan, but fractional interests may be accumulated pursuant to the terms of an Award.

(e) Consideration. The Stock issued under this Plan may be issued (subject to Section 10(d)) for any lawful form of consideration, the value of which equals the par value of the Stock or such greater or lesser value as the Committee, consistent with Sections 10(d), may require.

(f) Purchase or Exercise Price; Withholding. The exercise or purchase price (if any) of the Stock issuable pursuant to any Award and any withholding obligation under applicable tax laws shall be paid in cash or, subject to the Committee's express authorization and the terms, restrictions, conditions and procedures as the Committee may in its sole discretion impose (subject to Section 10(d)), any one or combination of (i) cash, (ii) the delivery of shares of Stock, (iii) a reduction in the number of Shares of Stock issuable or cash payable pursuant to such Award, (iv) the delivery of a promissory note or other obligation for the future payment in money, or (v) in the case of purchase price only, labor or service as an Employee to be performed or actually performed. In the case of a payment by the means described in clause (ii) or (iii) above, the Stock to be so delivered or offset shall be determined by reference to the Fair Market Value of the Stock on the date as of which the payment or offset is made. Notwithstanding the foregoing, no Insider shall be permitted to satisfy the purchase or exercise price or withholding obligation with respect to an Award by using a method of payment otherwise authorized under this Plan or an Award Agreement if such method of payment would constitute a personal loan under Section 13(k) of the Exchange Act. If an Award Agreement to a Participant who is not an Insider authorizes a method of payment that would constitute a personal loan under Section 13(k) of the Exchange Act and the Participant subsequently becomes an Insider, then the payment method will no longer be available to the Participant and the Committee shall take whatever steps are necessary to make such payment method void as to such Participant, including but not limited to requiring the immediate payment of any note or loan previously obtained in connection with an Award.

(g) Cashless Exercise. Subject to any restrictions on Insiders pursuant to Section 13(k) of the Exchange Act, the Committee may permit the exercise of an Award and payment of any applicable withholding tax in respect of an Award by delivery of notice, subject to the Corporation's receipt from a third party of payment (or commitment to make payment) in full in cash for the exercise price and the applicable withholding prior to issuance of Stock, in the manner and subject to the procedures as may be established by the Committee.

SECTION 6. Award Agreements.

Each Award under this Plan shall be evidenced by an Award Agreement in a form approved by the Committee setting forth, in the case of Share-Based Awards, the number of shares of Stock or Share Units, as applicable, subject to the Award, and the price (if any) and term of the Award and, in the case of Performance-Based Awards (other than a Qualifying Option or a Qualifying Stock Appreciation Right), the applicable Performance Goals. The Award Agreement also shall set forth (or incorporate by reference) other material terms and conditions applicable to the Award as determined by the Committee consistent with the limitations of this Plan.

(a) Mandatory Provisions for Options and SARs. Award Agreements for Options and SARs payable in stock shall be deemed to contain the following provisions:

(1) *Vesting*: A provision providing for a minimum vesting schedule pursuant to which no Award of Options may become fully exercisable prior to the third anniversary of the Date of Grant, and to the extent an Award provides for vesting in installments over a period of no less than three years, no portion of an Award of Options may become exercisable prior to the first anniversary of the Date of Grant. In the event that the Participant is not an Employee on the date on which an Option would otherwise vest and become exercisable, the Options subject to that vesting date will be forfeited. Notwithstanding the foregoing, (i) any Award Agreement governing Options may provide for any additional vesting requirements, including but not limited to longer periods of required employment or the achievement of Performance Goals; (ii) any Award Agreement may provide that all or a portion of the Options subject to an Award vest immediately or, alternatively, vest in accordance with the vesting schedule but without

regard to the requirement for continued employment with the Corporation (or a Subsidiary) in the event of a Change in Control, or in the case of termination of employment with the Corporation (or a Subsidiary) due to death, disability, layoff, retirement or divestiture, or in the case of a vesting period longer than three years, vest and become exercisable or fail to be forfeited and continue to vest in accordance with the schedule in the Award Agreement prior to the expiration of any period longer than three years for any reason designated by the Committee; and (iii) any Award Agreement may provide that employment by another entity be treated as employment by the Corporation (or a Subsidiary) in the event a Participant terminates employment with the Corporation (or a Subsidiary) on account of a divestiture. No Award Agreement may provide for accelerated vesting of Options on account of layoff beyond vesting of up to the portion of the vesting period from the Date of Grant to the date on which a Participant's employment terminates. The vesting requirements of this Section 6(a) shall also apply to Award Agreements governing SARs.

(2) *Option and SAR Holding Period:* Subject to the authority of the Committee under Section 7, a minimum six-month period shall elapse between the date of initial grant of any Option or SAR paid in Stock and the sale of the underlying shares of Stock, and the Corporation may impose legend and other restrictions on the Stock issued on exercise of the Options or SARs to enforce this requirement.

(3) *No Waivers:* A provision that neither the Committee nor the Board of Directors has retained the authority to waive the requirements set forth in Sections 6(a)(1).

(b) Mandatory Provisions for Restricted Stock and Stock Units Payable in Stock. Award Agreements for Restricted Stock and Stock Units payable in Stock shall be deemed to contain the following provisions:

(1) *Vesting:* Provisions (I) requiring (A) a minimum vesting schedule pursuant to which no Award of Restricted Stock may become fully vested prior to the third anniversary of the Date of Grant, and to the extent an Award provides for vesting in installments over a period of no less than three years, no portion of an Award of Restricted Stock may become vested prior to the six-month anniversary of the Date of Grant, and (B) forfeiture of shares of Restricted Stock that remain unvested pursuant to the terms of the Award Agreement at the time a Participant ceases to be an Employee, (II) prohibiting accelerated immediate full vesting of Restricted Stock on account of layoff and (III) prohibiting the sale or other transfer of any shares of Restricted Stock granted under an Award prior to the date on which such shares become vested pursuant to the terms of the Award Agreement.

Notwithstanding the foregoing, any Award Agreement governing Restricted Stock may provide (i) for any additional vesting or forfeiture requirements, including but not limited to longer periods of required employment or the achievement of Performance Goals; and (ii) that Restricted Stock vests, continues to vest or vests on a pro rata basis and any forfeiture provisions or restrictions on sale of the vested portions of Restricted Stock lapse prior to the third anniversary of the Date of Grant (A) in the event of a termination of employment following a Change in Control (except that vesting may occur upon or following a Change in Control without regard to termination of employment in the case of an employee who immediately prior to the Change in Control was not an officer of the Corporation who had been elected as such by the Board), (B) in the case of termination of employment with the Corporation (or a Subsidiary) due to death, disability, layoff, retirement or divestiture (except that immediate vesting on account of layoff is limited to a pro rata portion of the Award based on the portion of the vesting period from the Date of Grant to the date on which a Participant's employment terminates), (C) to satisfy any Tax withholding requirement with respect to the Restricted Stock, or (D) in the case of a vesting or forfeiture period longer than three years, prior to the expiration of any period longer than three years for any reason designated by the Committee. Dividends that become payable on Restricted Stock will not be payable to the Participant but shall be accrued and held by the Corporation until such time as the restrictions lapse on the underlying Restricted Stock and the shares become transferrable, at which time the accrued dividends shall be paid to the Participant; provided, however, that an Award Agreement may provide for accelerated vesting of Dividends, Dividend Equivalents, or DDEs associated with Restricted Stock to satisfy a Tax withholding requirement with respect to such Award. The vesting and forfeiture requirements of this Section 6(b) shall also apply to Award Agreements governing Stock Units payable in Stock unless the Stock Units are granted in conjunction with, or are part of, another Award.

(2) No Waivers: A provision that neither the Committee nor the Board of Directors has retained the authority to waive the requirements set forth in Section 6(b)(1).

(c) Mandatory Provisions Applicable to All Award Agreements. Award Agreements shall be subject to the terms of this Plan and shall be deemed to include the following terms, unless the Committee in the Award Agreement consistent with applicable legal considerations, provides otherwise:

(1) Non-assignability: The Award shall not be assignable nor transferable, except by will or by the laws of descent and distribution, and during the lifetime of a Participant, the Award shall be exercised only by the Participant or by his or her guardian or legal representative. The designation of a Beneficiary hereunder shall not constitute a transfer prohibited by the foregoing provisions.

(2) Rights as Stockholder: A Participant shall have no rights as a holder of Stock with respect to any unissued securities covered by an Award until the date the Participant becomes the holder of record of the securities. Except in the case of Restricted Stock and except as provided in Section 7, no adjustment or other provision shall be made for dividends or other stockholder rights, except to the extent that the Award Agreement provides for Dividend Equivalents or similar economic benefits.

(3) Tax Withholding: Each Participant shall be responsible for payment of all Taxes imposed on such Participant with respect to an Award. All withholding Tax obligations shall be satisfied on or prior to the payment of an Award. If the Corporation concludes that any withholding Tax is required with respect to any Award (including with respect to associated Dividends, Dividend Equivalents, or DDEs), and the Participant has not otherwise made arrangements acceptable to the Corporation to satisfy the withholding Tax obligation, the Corporation may (i) offset an amount for Tax withholding against any obligation of the Corporation to the Participant, (ii) reduce the amount of the Award (including associated Dividends, Dividend Equivalents, or DDEs) paid to the Participant to pay Tax withholding, or (iii) require the Participant or his or her Beneficiary to pay the Corporation an amount in cash to pay Tax withholding. The satisfaction of any withholding Taxes with respect to Share-Based Awards also may be satisfied by cashless exercise as provided in Section 5(g).

(d) Other Provisions. Award Agreements may include other terms and conditions as the Committee shall approve, including but not limited to the following:

(1) Other Terms and Conditions: Any other terms not inconsistent with the terms of this Plan as are necessary, appropriate, or desirable to effect an Award to a Participant, including provisions describing the treatment of an Award in the event of the death, disability, layoff, retirement, divestiture or other termination of a Participant's employment with or services to the Corporation or a Subsidiary, any provisions relating to the vesting, exercisability, forfeiture or cancellation of the Award, any requirements for continued employment, any other restrictions or conditions (including performance requirements and holding periods) of the Award and the method by which the restrictions or conditions lapse, procedures acceptable to the Committee (if any) with respect to the effect on the Award of a Change in Control, subject, in the case of Performance-Based Awards, to the requirements for "performance-based compensation" under Code Section 162(m) and in the case of Options, SARs payable in shares of Stock, Restricted Stock and Stock Units payable in shares of Stock, to the requirements of Sections 6(a), (b) and (7).

(2) Non-competition and non-solicitation clause: A provision or provisions requiring the forfeiture or recoupment of an Award (whether or not vested) on account of activities deemed by the Committee in its sole discretion to be harmful to the Corporation, including but not limited to employment with a competitor, misuse of the Corporation's proprietary or confidential information, or solicitation of the Corporation's employees.

(3) Claw-back: A provision entitling the Corporation to recoup any Award (whether or not vested) or value received for an Award under circumstances specified in the Award Agreement or regulations, rules or interpretations of the Securities and Exchange Commission or other applicable law.

(e) **Contract Rights, Forms and Signatures.** Any obligation of the Corporation to any Participant with respect to an Award shall be based solely upon contractual obligations created by this Plan and an Award Agreement. Subject to the provisions of Section 8(h), no Award shall be enforceable until the Award Agreement or an acknowledgement of receipt has been signed by the Participant and on behalf of the Corporation by an Executive Officer (other than the recipient) or his or her delegate. By executing the Award Agreement or otherwise providing an acknowledgement of receipt, a Participant shall be deemed to have accepted and consented to the terms of this Plan and any action taken in good faith under this Plan by and within the discretion of the Committee, the Board of Directors or their delegates. Unless the Award Agreement otherwise expressly provides, there shall be no third party beneficiaries of the obligations of the Corporation to the Participant under the Award Agreement.

SECTION 7. Adjustments; Change in Control; Acquisitions.

(a) **Adjustments.** If there shall occur any recapitalization, stock dividend, stock split (including a stock split in the form of a stock dividend), reverse stock split, merger, combination, consolidation, or other reorganization or any extraordinary dividend or other extraordinary distribution in respect of the Stock (whether in the form of cash, Stock or other property), or any split-up, spin-off, split-off, extraordinary redemption, or exchange of outstanding Stock, or there shall occur any other similar corporate transaction or event in respect of the Stock, or a sale of all or substantially all the assets of the Corporation as an entirety, then the Committee shall, in the manner and to the extent, if any, as it deems appropriate and equitable to the Participants and consistent with the terms of this Plan, and taking into consideration the effect of the event on the holders of the Stock, proportionately adjust any or all of the following:

- (1) the number and type of shares of Stock and Share Units that thereafter may be made the subject of Awards (including the specific maximum and numbers of shares of Stock or Share Units set forth elsewhere in this Plan),
- (2) the number and type of shares of Stock, Share Units, cash or other property subject to any or all outstanding Awards,
- (3) the grant, purchase or exercise price, or conversion ratio of any or all outstanding Awards, or of the Stock, other property or Share Units underlying the Awards,
- (4) the securities, cash or other property deliverable upon exercise or conversion of any or all outstanding Awards,
- (5) subject to Section 4(b), the Performance Goals or other standards appropriate to any outstanding Performance-Based Awards, or
- (6) any other terms as are affected by the event.

Notwithstanding the foregoing, in the case of an Incentive Stock Option, no adjustment shall be made that would cause this Plan to violate Section 424(a) of the Code or any successor provisions thereto, without the written consent of the Participant adversely affected thereby. The Committee may act prior to an event described in this Section 7(a) (including at the time of an Award by means of more specific provisions in the Award Agreement) if deemed necessary or appropriate to permit the Participant to realize the benefits intended to be conveyed by an Award in respect of the Stock in the case of an event described in Section 7(a).

(b) **Change in Control.** The Committee may, in the Award Agreement, provide for the effect of a Change in Control on an Award. Such provisions may include but are not limited to any one or more of the following with respect to any or all Awards: (i) the specific consequences of a Change in Control on the Awards; (ii) the acceleration or extension of time periods for purposes of exercising, vesting in, or realizing gain from, the Awards; (iii) a reservation of the Committee's right to determine in its discretion at any time that there shall be full acceleration or no acceleration of benefits under the Awards; (iv) that only certain or limited benefits under the Awards shall be accelerated; (v) that the Awards shall be accelerated for a limited time only; or (vi) that acceleration of the Awards shall be subject to additional conditions precedent (such as a termination of employment following a Change in Control).

In addition to any action required or authorized by the terms of an Award, the Committee may take any other action it deems appropriate to ensure the equitable treatment of Participants in the event of or in anticipation of a Change in Control, including but not limited to any one or more of the following with respect to any or all Awards: (i) the waiver of conditions on the Awards that were imposed for the benefit of the Corporation; (ii) provision for the cash settlement of the Awards for their equivalent cash value, as determined by the Committee, as of the date of a Change in Control; (iii) provisions for the assumption or continuation of the Award and the substitution for shares of stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares, exercise or conversion price and conditions of the Award; or (iv) such other modification or adjustment to the Awards as the Committee deems appropriate to maintain and protect the rights and interests of Participants upon or following a Change in Control. The Committee also may accord any Participant a right to refuse any acceleration of exercisability, vesting or benefits, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Committee may approve.

Notwithstanding the foregoing provisions of this Section 7(b) or any provision in an Award Agreement to the contrary, if any Award to any Insider is accelerated to a date that is less than six months after the Date of Grant, the Committee may prohibit a sale of the underlying Stock (other than a sale by operation of law), and the Corporation may impose legend and other restrictions on the Stock to enforce this prohibition.

(c) Change in Control Definition. For purposes of this Plan, a “Change in Control” shall include and be deemed to occur upon one or more of the following events:

(1) A tender offer or exchange offer is consummated for the ownership of securities of the Corporation representing 25 percent or more of the combined voting power of the Corporation’s then outstanding voting securities entitled to vote in the election of directors of the Corporation.

(2) The consummation of a merger, combination, consolidation, recapitalization, or other reorganization of the Corporation with one or more other entities that are not Subsidiaries if, as a result of the consummation of the merger, combination, consolidation, recapitalization or other reorganization, less than 75 percent of the outstanding voting securities of the surviving or resulting corporation shall immediately after the event be owned in the aggregate by the stockholders of the Corporation (directly or indirectly), determined on the basis of record ownership as of the date of determination of holders entitled to vote on the action (or in the absence of a vote, the day immediately prior to the event).

(3) Any person (as this term is used in Sections 3(a)(9) and 13(d)(3) of the Exchange Act, but excluding any person described in and satisfying the conditions of Rule 13d-1(b)(1) thereunder), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 25 percent or more of the combined voting power of the Corporation’s then outstanding securities entitled to vote in the election of directors of the Corporation.

(4) At any time within any period of two years after a tender offer, merger, combination, consolidation, recapitalization, or other reorganization or a contested director election, or any combination of these events, the “Incumbent Directors” shall cease to constitute at least a majority of the authorized number of members of the Board. For purposes hereof, “Incumbent Directors” shall mean the persons who were members of the Board immediately before the first of these events and the persons who were elected or nominated as their successors or pursuant to increases in the size of the Board by a vote of at least three-fourths of the Board members who were then Board members (or successors or additional members so elected or nominated).

(5) The stockholders of the Corporation approve a plan of liquidation and dissolution of the Corporation, or a sale or transfer of all or substantially all of the Corporation’s business and/or assets as an entirety to an entity that is not a Subsidiary is consummated.

Notwithstanding the foregoing, in the event the Committee determines that an Award could be subject to taxation under Section 409A(a)(1) of the Code, a Change in Control shall have no effect on the Award unless the Change in Control also would constitute a change in the ownership or effective control of the Corporation or in the ownership of a substantial portion of the assets of the Corporation within the meaning of Section 409A(a)(2)(A)(v) of the Code.

(d) Business Acquisitions. Awards may be granted under this Plan on terms and conditions as the Committee considers appropriate, which may differ from those otherwise required by this Plan, to the extent necessary to reflect a substitution for or assumption of stock incentive awards held by employees of other entities who become Employees of the Corporation or a Subsidiary as the result of a merger, consolidation or business combination of the employing entity with, or the acquisition of assets or stock of the employing entity by, the Corporation or a Subsidiary, directly or indirectly.

SECTION 8. Administration.

(a) Committee Authority and Structure. This Plan and all Awards granted under this Plan shall be administered by the Management Development and Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this Plan to comply with the disinterested administration requirements of Rule 16b-3 under the Exchange Act and the "outside director" requirement of Code Section 162(m). The Board shall designate the members of the Committee. Notwithstanding the foregoing, any action taken under this Plan by the Management Development and Compensation Committee of the Board or such other committee of the Board as may be designated by the Board to administer this Plan and Awards granted under this Plan shall be valid and effective whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 8(a) or otherwise provided in any charter of the Committee.

(b) Selection and Grant. The Committee shall have the authority to determine the Employees to whom Awards will be granted under this Plan, the type of Award or Awards to be made, and the nature, amount, pricing, timing, and other terms of Awards to be made to any one or more of these individuals, subject to the terms of this Plan.

(c) Construction and Interpretation. The Committee shall have the power to interpret and administer this Plan and Award Agreements, and to adopt, amend and rescind related rules and procedures. All questions of interpretation and determinations with respect to this Plan, the number of shares of Stock, SARs, or Share Units or other Awards granted, and the terms of any Award Agreements, the adjustments required or permitted by Section 7, and other determinations hereunder shall be made by the Committee and its determination shall be final and conclusive upon all parties in interest. In the event of any conflict between an Award Agreement and any non-discretionary provisions of this Plan, the terms of this Plan shall govern.

(d) Limited Authority of Committee to Change Terms of Awards. In addition to the Committee's authority under other provisions of this Plan (including Sections 7 and 9), the Committee shall have the authority to accelerate the exercisability or vesting of an Award, to extend the term or waive early termination provisions of an Award (subject to the maximum ten-year term under Section 4(d)), and to waive the Corporation's rights with respect to an Award or restrictive conditions of an Award (including forfeiture conditions), in any case in such circumstances as the Committee deems appropriate. Notwithstanding the foregoing, the Committee's authority under this Section 8(d) is subject to any express limitations of this Plan (including under Sections 6(a), 6(b), 7 and 9) and this Section 8(d) does not authorize the Committee to accelerate exercisability or vesting or waive early termination provisions if that acceleration or waiver would be inconsistent with the mandatory vesting requirements set forth in Sections 6(a)(1) and 6(b)(1).

(e) Rule 16b-3 Conditions; Bifurcation of Plan. It is the intent of the Corporation that this Plan and Share-Based Awards hereunder satisfy and be interpreted in a manner, that, in the case of Participants who are or may be Insiders, satisfies any applicable requirements of Rule 16b-3, so that these persons will be entitled to the benefits of Rule 16b-3 or other exemptive rules under Section 16 under the Exchange Act and will not be subjected to avoidable liability thereunder as to Awards intended to be entitled to the benefits of Rule 16b-3. If any provision of this Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 8(e), that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any

remaining irreconcilable conflict with this intent, the provision shall be deemed disregarded as to Awards intended as Rule 16b-3 exempt Awards. Notwithstanding anything to the contrary in this Plan, the provisions of this Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this Plan or any Award Agreement intended (or required in order) to satisfy the applicable requirements of Rule 16b-3 are only applicable to Insiders and to those Awards to Insiders intended to satisfy the requirements of Rule 16b-3.

(f) Delegation and Reliance. The Committee may delegate to the officers or employees of the Corporation the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this Plan in accordance with its terms and purpose, except that the Committee may not delegate any discretionary authority to grant or amend an Award or with respect to substantive decisions or functions regarding this Plan or Awards as these relate to the material terms of Performance-Based Awards to Executive Officers or to the timing, eligibility, pricing, amount or other material terms of Awards to Insiders. In making any determination or in taking or not taking any action under this Plan, the Board and the Committee may obtain and may rely upon the advice of experts, including professional advisors to the Corporation. No director, officer, employee or agent of the Corporation shall be liable for any such action or determination taken or made or omitted in good faith.

(g) Exculpation and Indemnity. Neither the Corporation nor any member of the Board of Directors or of the Committee, nor any other person participating in any determination of any question under this Plan, or in the interpretation, administration or application of this Plan, shall have any liability to any party for any action taken or not taken in good faith under this Plan or for the failure of an Award (or action in respect of an Award) to satisfy Code requirements as to incentive stock options or to realize other intended tax consequences, to qualify for exemption or relief under Rule 16b-3 or to comply with any other law, compliance with which is not required on the part of the Corporation.

(h) Notices, Signature, Delivery. Whenever a signature, notice or delivery of a document, or acknowledgement of receipt of a document, is required or appropriate under this Plan or pursuant to an Award Agreement, signature, notice, delivery or acknowledgement may be accomplished by paper or written format, or, subject to Section 10(d), by electronic means. In the event electronic means are used for the signature, notice or delivery of a document, or acknowledgement of receipt of a document, the electronic record or confirmation of that signature, notice, delivery or acknowledgement maintained by or on behalf of the Corporation shall for purposes of this Plan and any applicable Award Agreement be treated as if it was a written signature, notice or acknowledgement and was delivered in the manner provided herein for a written document.

SECTION 9. Amendment and Termination of this Plan.

The Board of Directors may at any time terminate, suspend or discontinue this Plan. The Board of Directors may amend this Plan at any time, provided that any material amendment to this Plan will not be effective unless approved by the Corporation's stockholders. For this purpose, a material amendment is any amendment that would (i) materially increase the number of shares of Stock available under this Plan or issuable to a Participant (other than a change in the number of shares made pursuant to Section 7); (ii) change the types of awards that may be granted under this Plan; (iii) expand the class of persons eligible to receive awards or otherwise participate in this Plan; (iv) reduce the price at which an Option is exercisable or the base price of a SAR, either by amendment of an Award Agreement or by substitution of a new Award at a reduced price (other than as permitted in Section 7); or (v) require stockholder approval pursuant to the New York Stock Exchange Listed Company Manual (so long as the Corporation is a listed company on the New York Stock Exchange) or applicable law. The Committee may at any time alter or amend any or all Award Agreements under this Plan in any manner that would be authorized for a new Award under this Plan, including but not limited to any manner set forth in Section 8(d) (subject to any applicable limitations thereunder), so long as such an amendment would not require approval of the Corporation's stockholders, if such amendment was made to this Plan. Notwithstanding the foregoing, no such action by the Board or the Committee shall, in any manner adverse to a Participant other than as expressly permitted by the terms of an Award Agreement, affect any Award then outstanding and evidenced by an Award Agreement without the consent in writing of the Participant or a Beneficiary who has become entitled to an Award thereunder.

SECTION 10. Miscellaneous.

(a) Unfunded Plan. This Plan shall be unfunded. Neither the Corporation, the Board of Directors nor the Committee shall be required to segregate any assets that may at any time be represented by Awards made pursuant to this Plan. Neither the Corporation, the Board of Directors, nor the Committee shall be deemed to be a trustee of any amounts to be paid or securities to be issued under this Plan.

(b) Rights of Employees.

(1) *No Right to an Award*. Status as an Employee shall not be construed as a commitment that any one or more Awards will be made under this Plan to an Employee or to Employees generally. Status as a Participant shall not entitle the Participant to any additional future Awards.

(2) *No Assurance of Employment*. Nothing contained in this Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Employee or Participant any right to continue in the employ or other service of the Corporation or any Subsidiary or constitute any contract (of employment or otherwise) or limit in any way the right of the Corporation or any Subsidiary to change a person's compensation or other benefits or to terminate the employment of a person with or without cause.

(c) Effective Date; Duration. This Plan has been adopted by the Board of Directors of the Corporation and shall become effective upon and shall be subject to the approval of the Corporation's stockholders. This Plan shall remain in effect until any and all Awards under this Plan have been exercised, converted or terminated under the terms of this Plan and applicable Award Agreements. Notwithstanding the foregoing, no Award may be granted under this Plan after April 27, 2021. Notwithstanding the foregoing, any Award granted under this Plan on or prior to April 27, 2021 may be amended after such date in any manner that would have been permitted prior to such date, except that no such amendment shall increase the number of shares of Stock or Stock Units subject to, comprising or referenced in such Award (other than in accordance with Section 7(a)).

(d) Compliance with Laws. This Plan, Award Agreements, and the grant, exercise, conversion, operation and vesting of Awards, and the issuance and delivery of shares of Stock and/or other securities or property or the payment of cash under this Plan, Awards or Award Agreements, are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal insider trading, registration, reporting and other securities laws and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable to comply with all legal requirements. Any securities delivered under this Plan shall be subject to such restrictions (and the person acquiring such securities shall, if requested by the Corporation, provide such evidence, assurance and representations to the Corporation as to compliance with any thereof) as counsel to the Corporation may deem necessary or desirable to assure compliance with all applicable legal requirements.

(e) Applicable Law. This Plan, Award Agreements and any related documents and matters shall be governed by and in accordance with the laws of the State of Maryland (without regard to its provisions regarding choice of law), except as to matters of federal law.

(f) Awards to Participants Outside the United States. Notwithstanding any provision of this Plan to the contrary, in order to comply with the laws of other countries in which the Corporation and its Subsidiaries operate or have employees, the Committee shall have the authority to modify the terms and conditions of Awards granted to Employees outside the United States to comply with applicable foreign laws and to take any action, before or after an Award is made, that it deems necessary or advisable to obtain approval or comply with local government, regulatory, tax, exemption, approval or other requirements.

(g) Non-Exclusivity of Plan. Nothing in this Plan shall limit or be deemed to limit the authority of the Corporation, the Board of Directors or the Committee to grant awards or authorize any other compensation, with or without reference to the Stock, under any other plan or authority.

Lockheed Martin Corporation
Computation of Ratio of Earnings to Fixed Charges
(in millions, except ratios)

	Six Months Ended	Six Months Ended	Years Ended December 31,				
	June 26, 2016	June 28, 2015	2015	2014	2013	2012	2011
Earnings							
Earnings from continuing operations before income taxes	\$ 2,534	\$ 2,609	\$ 5,023	\$ 5,258	\$ 4,155	\$ 4,072	\$ 3,631
Interest expense	330	197	443	340	350	383	354
Undistributed earnings from equity investees, net	(77)	(31)	(83)	(91)	(91)	20	(104)
Portion of rents representative of the interest factor	11	15	36	41	48	48	59
Earnings from continuing operations before income taxes, as adjusted	<u>\$ 2,798</u>	<u>\$ 2,790</u>	<u>\$ 5,419</u>	<u>\$ 5,548</u>	<u>\$ 4,462</u>	<u>\$ 4,523</u>	<u>\$ 3,940</u>
Fixed Charges							
Interest expense	\$ 330	\$ 197	\$ 443	\$ 340	\$ 350	\$ 383	\$ 354
Portion of rents representative of the interest factor	11	15	36	41	48	48	59
Total fixed charges	<u>\$ 341</u>	<u>\$ 212</u>	<u>\$ 479</u>	<u>\$ 381</u>	<u>\$ 398</u>	<u>\$ 431</u>	<u>\$ 413</u>
Ratio of Earnings to Fixed Charges	<u>8.2</u>	<u>13.2</u>	<u>11.3</u>	<u>14.6</u>	<u>11.2</u>	<u>10.5</u>	<u>9.5</u>

The ratio of earnings to fixed charges is a measure of our ability to meet the interest requirements of our outstanding debt securities and leases with current period earnings. A positive ratio indicates that earnings are sufficient to cover our current interest requirements.

**Acknowledgment of Ernst & Young LLP,
Independent Registered Public Accounting Firm**

Board of Directors
Lockheed Martin Corporation

We are aware of the incorporation by reference of our report dated July 20, 2016, relating to the unaudited consolidated interim financial statements of Lockheed Martin Corporation that is included in its Form 10-Q for the quarter ended June 26, 2016, in (i) the following Registration Statements of Lockheed Martin Corporation:

- 33-58073, 33-58077, 33-58079, and 33-58097 on Form S-8, each dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
- 333-20117 and 333-20139 on Form S-8, each dated January 22, 1997;
- 333-27309 on Form S-8, dated May 16, 1997;
- 333-37069 on Form S-8, dated October 2, 1997;
- 333-40997 on Form S-8, dated November 25, 1997;
- 333-58069 on Form S-8, dated June 30, 1998;
- 333-69295 on Form S-8, dated December 18, 1998;
- 333-92197 on Form S-8, dated December 6, 1999;
- 333-92363 on Form S-8, dated December 8, 1999;
- 333-78279 on Form S-8 (Post-Effective Amendments No. 2 and 3), each dated August 3, 2000;
- 333-56926 on Form S-8, dated March 12, 2001;
- 333-84154 on Form S-8, dated March 12, 2002;
- 333-105118 on Form S-8, dated May 9, 2003;
- 333-113769, 333-113770, 333-113771, 333-113772, and 333-113773 on Form S-8, each dated March 19, 2004;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-127084 on Form S-8, dated August 1, 2005;
- 333-146963 on Form S-8, dated October 26, 2007;
- 333-155687 on Form S-8, dated November 25, 2008;
- 333-162716 on Form S-8, dated October 28, 2009;
- 333-155684 on Form S-8 (Post-Effective Amendment No. 1), dated August 23, 2011;
- 333-176440 on Form S-8, dated August 23, 2011;
- 333-188118 on Form S-8, dated April 25, 2013;
- 333-195466 on Form S-8, dated April 24, 2014 and July 23, 2014 (Post-Effective Amendment No.1);
- 333-197577 on Form S-3, dated July 23, 2014;
- 333-199570 on Form S-3, dated October 23, 2014; and

(ii) the Registration Statement on Form S-4 and Form S-1 (333-210797) of Abacus Innovations Corporation, effective July 11, 2016, and the Registration Statement on Form S-4 (333-210796) of Leidos Holdings, Inc., effective July 11, 2016.

/s/ Ernst & Young LLP

McLean, Virginia
July 20, 2016

**CERTIFICATION OF MARILLYN A. HEWSON PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marillyn A. Hewson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lockheed Martin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Marillyn A. Hewson

Marillyn A. Hewson
Chief Executive Officer

Date: July 20, 2016

**CERTIFICATION OF BRUCE L. TANNER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bruce L. Tanner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lockheed Martin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bruce L. Tanner

Bruce L. Tanner
Chief Financial Officer

Date: July 20, 2016

**CERTIFICATION OF MARILLYN A. HEWSON AND BRUCE L. TANNER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Lockheed Martin Corporation (the "Corporation") on Form 10-Q for the quarter ended June 26, 2016, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Marilyn A. Hewson, Chief Executive Officer of the Corporation, and I, Bruce L. Tanner, Chief Financial Officer of the Corporation, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Marilyn A. Hewson

Marilyn A. Hewson
Chief Executive Officer

/s/ Bruce L. Tanner

Bruce L. Tanner
Chief Financial Officer

Date: July 20, 2016