
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2003 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, MD

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <u>Class</u> | <u>Outstanding as of October 31, 2003</u> |
|-----------------------------|---|
| Common stock, \$1 par value | 450,875,015 |

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FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2003

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| Exhibit 3 | Bylaws of Lockheed Martin Corporation, as amended |
| Exhibit 12 | Computation of Ratio of Earnings to Fixed Charges |
| Exhibit 31.1 | Rule 13a-14(a) Certification of Vance D. Coffman |
| Exhibit 31.2 | Rule 13a-14(a) Certification of Christopher E. Kubasik |
| Exhibit 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 of Vance D. Coffman |
| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 of Christopher E. Kubasik |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Earnings

| | Three Months Ended September 30, | | Nine months Ended September 30, | |
|---|---|---------------|------------------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions, except per share data)</i> | | | |
| Net sales | \$ 8,078 | \$ 6,542 | \$ 22,846 | \$ 18,798 |
| Cost of sales | 7,540 | 5,989 | 21,426 | 17,324 |
| Earnings from operations | 538 | 553 | 1,420 | 1,474 |
| Other income and expenses, net | (110) | 23 | (17) | 102 |
| | 428 | 576 | 1,403 | 1,576 |
| Interest expense | 117 | 147 | 376 | 440 |
| Earnings from continuing operations before income taxes | 311 | 429 | 1,027 | 1,136 |
| Income tax expense | 94 | 129 | 318 | 261 |
| Earnings from continuing operations | 217 | 300 | 709 | 875 |
| Discontinued operations | — | (10) | — | (28) |
| Net earnings | \$ 217 | \$ 290 | \$ 709 | \$ 847 |
| <u>Earnings (loss) per common share:</u> | | | | |
| Basic: | | | | |
| Continuing operations | \$ 0.49 | \$ 0.67 | \$ 1.59 | \$ 1.97 |
| Discontinued operations | — | (0.02) | — | (0.06) |
| | \$ 0.49 | \$ 0.65 | \$ 1.59 | \$ 1.91 |
| Diluted: | | | | |
| Continuing operations | \$ 0.48 | \$ 0.66 | \$ 1.57 | \$ 1.94 |
| Discontinued operations | — | (0.02) | — | (0.06) |
| | \$ 0.48 | \$ 0.64 | \$ 1.57 | \$ 1.88 |
| Cash dividends declared per common share | \$ 0.12 | \$ 0.11 | \$ 0.36 | \$ 0.33 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Cash Flows

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2003 | 2002 |
| | <i>(In millions)</i> | |
| Operating Activities: | | |
| Net earnings | \$ 709 | \$ 847 |
| Adjustments to reconcile earnings to net cash provided by operating activities: | | |
| Depreciation and amortization of property, plant and equipment | 344 | 309 |
| Amortization of contract intangibles | 94 | 94 |
| Changes in operating assets and liabilities: | | |
| Receivables | 97 | 319 |
| Inventories | 23 | 756 |
| Accounts payable | 196 | (312) |
| Customer advances and amounts in excess of costs incurred | (540) | 138 |
| Other | 751 | 577 |
| Net cash provided by operating activities | <u>1,674</u> | <u>2,728</u> |
| Investing Activities: | | |
| Expenditures for property, plant and equipment | (367) | (396) |
| Short-term investments | (247) | — |
| Acquisitions / investments in affiliated companies | (219) | (88) |
| Proceeds from divestitures of affiliated companies | — | 84 |
| Other | 18 | 55 |
| Net cash used for investing activities | <u>(815)</u> | <u>(345)</u> |
| Financing Activities: | | |
| Issuance of long-term debt | 1,000 | — |
| Repayments related to long-term debt | (2,185) | (87) |
| Long-term debt issuance and repayment costs | (175) | — |
| Issuances of common stock | 40 | 431 |
| Repurchases of common stock | (279) | — |
| Common stock dividends | (163) | (149) |
| Net cash (used for) provided by financing activities | <u>(1,762)</u> | <u>195</u> |
| Net (decrease) increase in cash and cash equivalents | (903) | 2,578 |
| Cash and cash equivalents at beginning of period | 2,738 | 912 |
| Cash and cash equivalents at end of period | <u>\$ 1,835</u> | <u>\$ 3,490</u> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Balance Sheet

| | September 30, 2003 | December 31, 2002 |
|--|-----------------------|----------------------|
| <i>(In millions)</i> | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,835 | \$ 2,738 |
| Short-term investments | 247 | — |
| Receivables | 3,552 | 3,655 |
| Inventories | 2,158 | 2,250 |
| Deferred income taxes | 1,286 | 1,277 |
| Other current assets | 636 | 706 |
| | <hr/> | <hr/> |
| Total current assets | 9,714 | 10,626 |
| Property, plant and equipment, net | 3,279 | 3,258 |
| Investments in equity securities | 1,089 | 1,009 |
| Intangible assets related to contracts and programs acquired | 721 | 814 |
| Goodwill | 7,380 | 7,380 |
| Other assets | 2,697 | 2,671 |
| | <hr/> | <hr/> |
| | \$ 24,880 | \$ 25,758 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,298 | \$ 1,102 |
| Customer advances and amounts in excess of costs incurred | 4,002 | 4,542 |
| Salaries, benefits and payroll taxes | 1,241 | 1,272 |
| Income taxes | 214 | 107 |
| Current maturities of long-term debt | 150 | 1,365 |
| Other current liabilities | 1,407 | 1,433 |
| | <hr/> | <hr/> |
| Total current liabilities | 8,312 | 9,821 |
| Long-term debt | 6,073 | 6,217 |
| Post-retirement benefit liabilities | 1,514 | 1,480 |
| Pension liabilities | 852 | 651 |
| Other liabilities | 1,831 | 1,724 |
| Stockholders' equity: | | |
| Common stock, \$1 par value per share | 451 | 455 |
| Additional paid-in capital | 2,652 | 2,796 |
| Retained earnings | 4,808 | 4,262 |
| Unearned ESOP shares | (25) | (50) |
| Accumulated other comprehensive loss | (1,588) | (1,598) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 6,298 | 5,865 |
| | <hr/> | <hr/> |
| | \$ 24,880 | \$ 25,758 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2003

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Lockheed Martin Corporation (Lockheed Martin or the Corporation) has continued to follow the accounting policies set forth in the consolidated financial statements included in its 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the quarter and nine months ended September 30, 2003 are not necessarily indicative of results to be expected for the full year. Certain amounts presented for prior periods have been reclassified to conform with the 2003 presentation.

NOTE 2 – STOCK-BASED COMPENSATION

The Corporation measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Corporation has adopted those provisions of Statement of Financial Accounting Standards (FAS) 123, "Accounting for Stock-Based Compensation" and FAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods. The Corporation's pro forma information follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| <i>(In millions, except per share data)</i> | | | | |
| Net earnings: | | | | |
| As reported | \$ 217 | \$ 290 | \$ 709 | \$ 847 |
| Fair value-based compensation cost, net of taxes | (16) | (17) | (46) | (50) |
| Pro forma net earnings | <u>\$ 201</u> | <u>\$ 273</u> | <u>\$ 663</u> | <u>\$ 797</u> |
| Basic earnings per share: | | | | |
| As reported | \$ 0.49 | \$ 0.65 | \$ 1.59 | \$ 1.91 |
| Pro forma | 0.46 | 0.61 | 1.49 | 1.79 |
| Diluted earnings per share: | | | | |
| As reported | \$ 0.48 | \$ 0.64 | \$ 1.57 | \$ 1.88 |
| Pro forma | 0.45 | 0.60 | 1.47 | 1.77 |

NOTE 3 – EARNINGS PER SHARE

Basic and diluted earnings per share were computed based on net earnings. The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings per share, and this number of shares was increased by the dilutive effect of stock options based on the treasury stock method in the calculation of diluted earnings per share.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

The following table sets forth the computations of basic and diluted earnings per share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| <i>(In millions, except per share data)</i> | | | | |
| Net earnings: | | | | |
| Earnings from continuing operations | \$ 217 | \$ 300 | \$ 709 | \$ 875 |
| Discontinued operations—results of operations | — | (10) | — | (28) |
| Net earnings for basic and diluted computations | <u>\$ 217</u> | <u>\$ 290</u> | <u>\$ 709</u> | <u>\$ 847</u> |
| Average common shares outstanding: | | | | |
| Average number of common shares outstanding for basic computations | 446.6 | 448.5 | 446.9 | 443.5 |
| Dilutive stock options—based on the treasury stock method | 3.8 | 7.2 | 3.6 | 7.4 |
| Average number of common shares outstanding for diluted computations | <u>450.4</u> | <u>455.7</u> | <u>450.5</u> | <u>450.9</u> |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Continuing operations | \$ 0.49 | \$ 0.67 | \$ 1.59 | \$ 1.97 |
| Discontinued operations | — | (0.02) | — | (0.06) |
| | <u>\$ 0.49</u> | <u>\$ 0.65</u> | <u>\$ 1.59</u> | <u>\$ 1.91</u> |
| Diluted: | | | | |
| Continuing operations | \$ 0.48 | \$ 0.66 | \$ 1.57 | \$ 1.94 |
| Discontinued operations | — | (0.02) | — | (0.06) |
| | <u>\$ 0.48</u> | <u>\$ 0.64</u> | <u>\$ 1.57</u> | <u>\$ 1.88</u> |

NOTE 4 – INVENTORIES

| | September 30, 2003 | December 31, 2002 |
|--|-----------------------|----------------------|
| <i>(In millions)</i> | | |
| Work in process, primarily related to long-term contracts and programs in progress | \$ 5,721 | \$ 6,221 |
| Less customer advances and progress payments | (3,784) | (4,272) |
| | <u>1,937</u> | <u>1,949</u> |
| Other inventories | 221 | 301 |
| | <u>\$ 2,158</u> | <u>\$ 2,250</u> |

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

Work in process inventories included amounts advanced to Khrunichev State Research and Production Space Center (Khrunichev), the Russian manufacturer of Proton launch vehicles and provider of related launch services. Such amounts, net of reserves, totaled \$310 million and \$391 million at September 30, 2003 and December 31, 2002, respectively. Work in process inventories also included amounts advanced to RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of \$86 million and \$61 million at September 30, 2003 and December 31, 2002, respectively, for the development and purchase, subject to certain conditions, of RD-180 booster engines used for Atlas launch vehicles.

NOTE 5 – CONTINGENCIES

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under federal and state requirements relating to the protection of the environment. In the opinion of management and in-house counsel, the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation's consolidated results of operations, financial position or cash flows. These matters include the following items:

Environmental matters—The Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with the Corporation's former Lockheed Propulsion Company facilities in Redlands, California. Under the orders, the Corporation is investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. The Regional Board has approved the Corporation's plan to maintain public water supplies with respect to chlorinated solvents during this investigation, and the Corporation continues to negotiate with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation is also coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct preliminary studies of the potential health effects of perchlorate exposure in connection with several sites across the country, including the Redlands site. The results of these studies are intended to assist state and federal regulators in setting appropriate action levels for perchlorates in groundwater. In January 2002, the State of California reduced its provisional standard for perchlorate concentration in water from 18 parts per billion (ppb) to 4 ppb, a move that neither industry nor the Air Force believes is supported by the current studies.

Although this provisional standard does not create any legally enforceable requirements for the Corporation at this time, the Corporation has developed a preliminary remediation plan that would meet the provisional standard if it were to become final. Because this plan entails a long lead-time for implementation, the Corporation has begun implementing this plan and has recognized the increased costs that are associated with the plan. The consolidated balance sheet at September 30, 2003 includes a liability of approximately \$185 million representing the Corporation's current estimate of the remaining expenditures necessary to implement remediation and other work required at the site. As at other sites, the Corporation is pursuing claims against

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

other potentially responsible parties (PRPs), including the U.S. Government, for contribution to site clean-up costs.

The Corporation has been conducting remediation activities to address soil and groundwater contamination by chlorinated solvents at its former operations in Great Neck, New York which it acquired as part of its acquisition of Loral Corporation in 1996. This work is being done pursuant to a series of orders and agreements with the New York State Department of Environmental Conservation beginning with a 1991 administrative order entered into by Unisys Tactical Defense Systems, a predecessor company at the site. The remediation work associated with this site includes work performed on the site itself, as well as implementation of an interim remedial measure intended to address an off-site plume of groundwater contamination. Total projected future costs for the site are estimated to be approximately \$70 million through 2025. This amount is included as a liability in the consolidated balance sheet at September 30, 2003. As at other sites, the Corporation is pursuing claims against other PRPs, including the U.S. Government, for contribution to site clean-up costs.

Since 1990, the Corporation has been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with the Corporation's former operations in Burbank and Glendale, California. Among other things, these consent decrees and orders obligate the Corporation to construct and fund the operations of soil and groundwater treatment facilities in Burbank and Glendale, California through 2018 and 2012, respectively; however, responsibility for the long-term operation of these facilities has been assumed by the respective localities. The Corporation has been successful in limiting its financial responsibility for these activities to date to its pro rata share as a result of litigation and settlements with other PRPs. In addition, under an agreement reached with the U.S. Government in 2000, the Corporation will continue to be reimbursed in an amount equal to approximately 50% of future expenditures for certain remediation activities by the U.S. Government in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act. The Corporation has recorded a liability of approximately \$60 million representing its estimate of the total expenditures required over the remaining terms of the consent decrees and orders described above, net of the effects of the agreement.

The Corporation is involved in proceedings and potential proceedings relating to environmental matters at other facilities, including disposal of hazardous wastes and soil and water contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably determined at this time. In addition to the amounts with respect to the Redlands, Great Neck, Burbank and Glendale sites described above, a liability of approximately \$130 million for the other properties (including current operating facilities and certain sites related to facilities operated in prior years) in which an estimate of financial exposure can be determined has been recorded.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

Under agreements reached with the U.S. Government in 1990 and 2000, certain groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other PRPs, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the expenditures are being reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation.

The Corporation has recorded an asset for the portion of environmental costs that are probable of future recovery in pricing of its products and services for U.S. Government business. The portion that is expected to be allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other PRPs, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

Waste remediation contract—In 1994, the Corporation was awarded a \$180 million fixed-price contract by the U.S. Department of Energy (DoE) for remediation of waste found in Pit 9, located on the Idaho National Engineering and Environmental Laboratory reservation. The Corporation incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters, which it sought to remedy through submission of a request for equitable adjustment. To date, the Corporation has been unsuccessful in reaching any agreements with the DoE on cost recovery or contract restructuring. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, at the DoE's direction, terminated the Pit 9 contract for default. As a result, the Corporation filed a lawsuit against the DoE in the Court of Federal Claims seeking to overturn the default termination and recover its costs, which are included in inventories. Also in 1998, the management contractor, at the DoE's direction, filed suit against the Corporation in the United States District Court for the District of Idaho seeking, among other things, recovery of approximately \$54 million previously paid to the Corporation under the Pit 9 contract. The Corporation counterclaimed seeking to overturn the default termination and recover its costs.

In 2001, the Court of Federal Claims granted the DoE's motion to dismiss the Corporation's complaint, finding that there was no privity of contract between the Corporation and the United States sufficient to provide the Court with jurisdiction over the dispute. On September 30, 2002, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Court of Federal Claims. The Corporation did not appeal the decision further and will continue to pursue remedies in the Idaho proceeding, for which the trial before a judge began on August 5, 2003.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

NOTE 6 – INFORMATION ON BUSINESS SEGMENTS

In the second quarter of 2003, the Corporation announced the formation of Integrated Systems & Solutions (IS&S), a new business segment, from components of the Electronic Systems and Space Systems segments. IS&S is leveraging the Corporation's existing and emerging capabilities related to addressing customers' growing needs for integrated, network-centric solutions. The Aeronautics and Technology Services business segments were unaffected by this change. With the formation of IS&S, the former Systems Integration business segment is now called Electronic Systems.

The Corporation operates in five business segments: Aeronautics, Electronic Systems, Space Systems, IS&S, and Technology Services. In the following tables of financial data, the total of the operating results of the principal business segments is reconciled to the corresponding consolidated amount. With respect to the caption "Operating profit," the reconciling item "Unallocated Corporate (expense) income, net" includes the FAS/CAS pension adjustment (see discussion below), earnings and losses from equity investments (mainly telecommunications), interest income, costs for stock-based compensation programs, the effects of items not considered part of management's evaluation of segment operating performance, and Corporate costs not allocated to the operating segments, as well as other miscellaneous Corporate activities. For financial data other than "Operating profit," all activities other than those pertaining to the principal business segments are included in "Other."

The FAS/CAS pension adjustment represents the difference between pension expense or income calculated for financial reporting purposes under generally accepted accounting principles in accordance with FAS 87, "Employers' Accounting for Pensions," and pension costs calculated and funded in accordance with U.S. Government Cost Accounting Standards (CAS), which are reflected in the business segment results. CAS is a major factor in determining pension funding requirements for the Corporation, and governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts, and therefore recognized in segment net sales. The results of operations of the Corporation's segments only include pension expense as determined and funded in accordance with CAS rules.

The following segment information has been reclassified from amounts previously reported to reflect the Corporation's current business segments consistent with the discussion above and the related Form 8-K/A filed with the Securities and Exchange Commission on July 22, 2003. The reclassification did not result in any changes to the historical operating results in total for the Corporation.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| <i>(In millions)</i> | | | | |
| Net sales | | | | |
| Aeronautics | \$ 2,675 | \$ 1,668 | \$ 7,168 | \$ 4,549 |
| Electronic Systems | 2,234 | 2,045 | 6,389 | 5,956 |
| Space Systems | 1,498 | 1,342 | 4,570 | 3,974 |
| Integrated Systems & Solutions | 922 | 709 | 2,504 | 2,152 |
| Technology Services | 743 | 776 | 2,202 | 2,157 |
| | <u>8,072</u> | <u>6,540</u> | <u>22,833</u> | <u>18,788</u> |
| Total business segments | | | | |
| Other | 6 | 2 | 13 | 10 |
| | <u>8,078</u> | <u>6,542</u> | <u>22,846</u> | <u>18,798</u> |
| Operating profit | | | | |
| Aeronautics | \$ 183 | \$ 107 | \$ 490 | \$ 309 |
| Electronic Systems | 223 | 212 | 617 | 599 |
| Space Systems | 95 | 71 | 300 | 213 |
| Integrated Systems & Solutions | 75 | 61 | 214 | 185 |
| Technology Services | 51 | 44 | 150 | 122 |
| | <u>627</u> | <u>495</u> | <u>1,771</u> | <u>1,428</u> |
| Total business segments | | | | |
| Unallocated Corporate (expense) income, net ^(a) | (199) | 81 | (368) | 148 |
| | <u>\$ 428</u> | <u>\$ 576</u> | <u>\$ 1,403</u> | <u>\$ 1,576</u> |
| Intersegment revenue ^(b) | | | | |
| Aeronautics | \$ 11 | \$ 8 | \$ 27 | \$ 21 |
| Electronic Systems | 150 | 84 | 388 | 219 |
| Space Systems | 33 | 13 | 93 | 62 |
| Integrated Systems & Solutions | 122 | 55 | 355 | 175 |
| Technology Services | 190 | 154 | 589 | 526 |
| | <u>\$ 506</u> | <u>\$ 314</u> | <u>\$ 1,452</u> | <u>\$ 1,003</u> |
| Total business segments | | | | |
| Other | 22 | 16 | 60 | 56 |
| | <u>\$ 528</u> | <u>\$ 330</u> | <u>\$ 1,512</u> | <u>\$ 1,059</u> |

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

| | <u>September 30,</u> 2003 | <u>December 31,</u> 2002 |
|--|------------------------------|-----------------------------|
| <i>(In millions)</i> | | |
| Customer advances and amounts in excess of costs incurred | | |
| Aeronautics | \$ 1,955 | \$ 2,408 |
| Electronic Systems | 914 | 816 |
| Space Systems | 1,009 | 1,238 |
| Integrated Systems & Solutions | 106 | 57 |
| Technology Services | 18 | 19 |
| Total business segments | 4,002 | 4,538 |
| Other | — | 4 |
| Total | \$ 4,002 | \$ 4,542 |
| Assets | | |
| Aeronautics | \$ 2,938 | \$ 2,835 |
| Electronic Systems | 8,397 | 8,697 |
| Space Systems | 2,946 | 3,147 |
| Integrated Systems & Solutions | 2,106 | 2,070 |
| Technology Services | 1,713 | 1,634 |
| Total business segments | 18,100 | 18,383 |
| Other ^(c) | 6,780 | 7,375 |
| Total | \$ 24,880 | \$ 25,758 |

(a) Unallocated Corporate (expense) income, net includes the following:

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|----------------------------------|---|--------------|--|---------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| <i>(In millions)</i> | | | | |
| FAS/CAS pension adjustment | \$ (80) | \$ 64 | \$(220) | \$ 169 |
| Loss on early retirement of debt | (127) | — | (146) | — |
| Other | 8 | 17 | (2) | (21) |
| | \$ (199) | \$ 81 | \$(368) | \$ 148 |

(b) Intercompany transactions between segments are eliminated in consolidation and therefore excluded from the net sales and operating profit amounts presented above.

(c) Assets primarily include cash and cash equivalents, investments and deferred income taxes.

NOTE 7 – OTHER

In the third quarter of 2003, the Corporation completed a tender offer to purchase for cash any and all of its outstanding 7.25% notes due May 15, 2006 and 8.375% debentures due June 15, 2024. The Corporation retired a total principal amount of \$720 million of the notes and debentures. In addition, the Corporation repurchased \$251 million of outstanding long-term debt in the open market. The Corporation recorded a loss, net of state income tax benefits, totaling \$127 million in other income and expenses related to the tender offer and open market purchases. The loss reduced net earnings by \$83 million (\$0.18 per diluted share).

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Also in the third quarter of 2003, the Corporation issued \$1.0 billion in floating rate convertible debentures due in 2033. The debentures bear interest at a rate equal to three-month LIBOR less 25 basis points, reset quarterly. Interest on the debentures is payable quarterly through August 15, 2008, after which the interest will accrue as part of the value of the debenture and will be payable, along with the principal amount of the debenture, at maturity. The debentures are convertible by their holders into our common stock in certain limited circumstances as outlined in the indenture agreement. Upon conversion, the Corporation has the right to deliver, in lieu of common stock, cash or a combination of cash and common stock. The Corporation also has the right to redeem any or all of the debentures at any time after August 15, 2008.

In the second quarter of 2003, the Corporation recorded a charge, net of state income tax benefits, of \$41 million in cost of sales related to its decision to exit the commercial mail sorting business. The charge, which related primarily to the impairment of assets of the business, reduced net earnings by \$27 million (\$0.06 per diluted share).

Also in the second quarter of 2003, the Corporation acquired ORINCON Corporation International, a privately held defense and information technology company, whose operations are combined with the Integrated Systems & Solutions segment. The acquisition was not material to the Corporation's consolidated results of operations, financial position or cash flows.

As of the end of 2002, the global telecommunications services businesses identified for divestiture in 2001 had been sold, except for Lockheed Martin Intersputnik (LMI). The Corporation reached an agreement to sell LMI in the third quarter of 2002; however, in April 2003, the agreement was terminated. The Corporation is continuing to treat LMI as a discontinued operation, as it is still holding and actively marketing the business for sale. The operating results of LMI had no impact on the statement of earnings for the first nine months of 2003. LMI is carried at estimated fair value less cost to sell at September 30, 2003, and its assets and liabilities, which represented less than 1% of the Corporation's consolidated assets and liabilities, respectively, were included in the balance sheet in other current assets and other current liabilities. Changes in the estimated fair value of LMI will be recorded in the future if appropriate.

In the first quarter of 2003, the Corporation issued irrevocable redemption notices to the trustees for two issuances of callable debentures totaling \$450 million. This amount was included in current maturities of long-term debt on the Corporation's balance sheet at December 31, 2002. One notice was for \$300 million of 7.875% debentures due on March 15, 2023, which were repaid on March 15, 2003. The second notice was for \$150 million of 7.75% debentures due on April 15, 2023, which were repaid on April 15, 2003. The Corporation recorded a loss in the first quarter of 2003, net of state income tax benefits, of \$19 million in other income and expenses related to the early retirement of

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

the \$450 million of debt. The loss reduced net earnings for the nine months ended September 30, 2003 by \$13 million (\$0.03 per diluted share).

In December 2002, the Corporation recorded a charge, net of state income tax benefits, of \$163 million related to its investment in Space Imaging, LLC and its guarantee of up to \$150 million of Space Imaging's borrowings under a credit facility. At December 31, 2002, the Corporation's balance sheet included \$150 million in current maturities of long-term debt representing the estimated obligation under the guarantee. On March 31, 2003, Lockheed Martin paid \$130 million to acquire Space Imaging's outstanding borrowings under Space Imaging's credit facility, and the guarantee was eliminated. The Corporation therefore reversed in the first quarter of 2003, net of state income taxes, \$19 million of the charge recorded in December 2002, representing the unutilized portion of the credit facility covered by the Corporation's guarantee. This gain increased net earnings for the nine months ended September 30, 2003 by \$13 million (\$0.03 per diluted share). The \$130 million is included in investing activities on the statement of cash flows for the nine months ended September 30, 2003.

In the second quarter of 2002, the Corporation settled a research and development (R&D) tax credit claim and received a refund of \$117 million for the years 1982 through 1988. The settlement increased earnings from continuing operations for the quarter and nine months ended September 30, 2002 by \$90 million (\$0.20 per diluted share) and was recorded as a reduction of the Corporation's second quarter income tax expense.

The Corporation made federal and foreign income tax payments, net of refunds received, of \$144 million for the nine months ended September 30, 2003, and received net federal and foreign income tax refunds, including the R&D tax credit refund discussed above, of \$121 million for the same period in 2002.

The Corporation's total interest payments were \$320 million and \$332 million for the nine months ended September 30, 2003 and 2002, respectively.

The Corporation's short-term investments principally include U.S. Government obligations and corporate debt securities. All short-term investments are classified as available-for-sale and therefore are reported at fair value, generally based on quoted market prices. Unrealized gains and losses are excluded from earnings and included in other comprehensive income, net of income taxes. Certain of the investments have maturity dates that extend beyond one year. However, the Corporation has classified all investments as short-term, as they are available to sell to meet current operating, capital expenditure and debt service requirements, as well as discretionary investment needs.

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Notes to Unaudited Condensed Consolidated Financial Statements (continued)

The components of comprehensive income for the three months and nine months ended September 30, 2003 and 2002 consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net earnings | \$ 217 | \$ 290 | \$ 709 | \$ 847 |
| Other comprehensive income (loss): | | | | |
| Net unrealized gain (loss) from available-for-sale investments | (3) | (27) | 29 | (104) |
| Other | (6) | (19) | (19) | (34) |
| | (9) | (46) | 10 | (138) |
| Comprehensive income | \$ 208 | \$ 244 | \$ 719 | \$ 709 |

As disclosed in its 2002 Annual Report on Form 10-K, on a combined basis, the Corporation's investments in Intelsat, Space Imaging, United Space Alliance and Americom Asia-Pacific (AAP) accounted for the majority of its total equity method investments at December 31, 2002 and equity earnings (losses) recorded for the year then ended. In June 2003, the Corporation sold its investment in AAP. The sale did not have a material impact on the Corporation's results of operations, financial position or cash flows. Summarized statement of operations information for these investees for the period ended September 30, 2003 on a combined basis is as follows: net sales of \$2.1 billion; net earnings of \$229 million.

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September 30, 2003

Lockheed Martin Corporation is involved in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. As a lead systems integrator, our products and services range from aircraft, spacecraft and launch vehicles to missiles, electronics and information systems, including integrated network-centric solutions. We have customers in both domestic and international defense and commercial markets. Our principal customers are agencies of the U.S. Government. Our main areas of focus are in the defense, space, homeland security, and government/civil information technology markets. The following discussion should be read along with our 2002 Annual Report on Form 10-K, the Form 8-K/A that we filed with the Securities and Exchange Commission on July 22, 2003, and the unaudited condensed consolidated financial statements included in this Form 10-Q.

RESULTS OF OPERATIONS

Consolidated Results of Operations

Since our operating cycle is long-term and involves many types of development and production contracts with varying production delivery schedules, the results of operations of a particular quarter, or quarter-to-quarter comparisons of recorded sales and profits, may not be indicative of our future operating results. The following discussions of comparative results among periods should be viewed in this context.

Continuing Operations

Net sales for the third quarter of 2003 were \$8.1 billion, a 23% increase over the third quarter 2002 sales of \$6.5 billion. Net sales for the nine months ended September 30, 2003 were \$22.8 billion, a 22% increase over the \$18.8 billion recorded in the comparable 2002 period. Sales increased in all business segments, except Technology Services, during the quarter and in all five business segments during the nine months ended September 30, 2003 from the comparable 2002 periods.

Operating profit (earnings before interest and taxes) for the third quarter of 2003 was \$428 million, a decrease of 26% from the \$576 million recorded in the comparable 2002 period. Operating profit for the nine months ended September 30, 2003 was \$1.4 billion, a decrease of 11% from the \$1.6 billion recorded in the comparable 2002 period.

Business segment operating profit increased in all business segments during the quarter and nine months ended September 30, 2003 from the comparable 2002 periods. On a consolidated basis, increases in Unallocated Corporate expense offset the higher operating profit recognized in the business segments during the quarter and nine-month periods ended September 30, 2003.

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For the quarter and nine months ended September 30, 2003, the items in the table below, among other things, were included in "Unallocated Corporate (expense) income, net" (see the related Discussion of Business Segments below).

| | Operating profit (loss) | Net earnings (loss) | Earnings (loss) per diluted share |
|---|----------------------------|---------------------------|---|
| <i>(In millions, except per share data)</i> | | | |
| Quarter ended September 30, 2003 | | | |
| Loss on early retirement of debt ^(a) | \$ (127) | \$ (83) | \$ (0.18) |
| Nine months ended September 30, 2003 | | | |
| Loss on early retirement of debt ^(b) | \$ (146) | \$ (96) | \$ (0.21) |
| Charge related to our exit from the commercial mail sorting business ^(c) | (41) | (27) | (0.06) |
| Gain on partial reversal of Space Imaging, LLC guarantee ^(d) | 19 | 13 | 0.03 |
| | <u>\$ (168)</u> | <u>\$ (110)</u> | <u>\$ (0.24)</u> |
| Quarter and nine months ended September 30, 2002 | | | |
| None | \$ — | \$ — | \$ — |

^(a) In the third quarter of 2003, we recognized a loss of \$127 million related to the early retirement of \$971 million of long-term debt securities.

^(b) In addition to the debt retirement in (a) above, we recognized a loss of \$19 million in the first quarter of 2003 associated with the early retirement of \$450 million of long-term debt.

^(c) In the second quarter of 2003, we recorded a \$41 million charge related to our decision to exit the commercial mail sorting business.

^(d) In the first quarter of 2003, we recognized a gain on the partial reversal of the \$150 million fourth quarter 2002 charge related to the guarantee of our share of Space Imaging, LLC's credit facility.

Interest expense for the third quarter and nine months ended September 30, 2003 was \$117 million and \$376 million, respectively, \$30 million and \$64 million lower than the comparable periods in 2002 primarily as a result of the reduction in our long-term debt.

The effective income tax rates for the quarter and nine months ended September 30, 2003 were 30.2% and 31.0%, respectively. The loss from the early retirement of debt reduced the amount of book income on which tax is provided at the 35% statutory rate, thereby reducing the effective tax rate by 1.3% for the quarter. The third quarter loss from the early retirement of debt and the second quarter charge to exit the commercial mail sorting business reduced the amount of book income on which tax is provided at the statutory rate, thereby reducing the effective tax rate by 0.5% for the nine months ended September 30, 2003. The effective tax rates for both periods in 2003 were lower than the

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statutory rate of 35% due to tax benefits related to export sales and the realization of tax savings initiatives.

The effective income tax rates for the quarter and nine months ended September 30, 2002 were 30.1% and 23.0%, respectively. The rate for the nine-month period included the benefit of the settlement of a research and development (R&D) tax credit claim which decreased 2002 income tax expense for the nine months ended September 30, 2002 by \$90 million and the effective rate by 7.9%. The effective rates for both periods in 2002 were also lower than the statutory rate of 35% due to tax benefits related to export sales and the realization of tax savings initiatives.

Congress is considering new tax legislation that would repeal the Extraterritorial Income Exclusion relating to export sales and enact new rules providing for a tax reduction on profits from the sale of property manufactured in the United States. In the event that this or other tax legislation is enacted, its impact on our deferred tax balances and effective tax rate will be recognized as of the date the new tax rules are enacted.

Earnings from continuing operations for the third quarter of 2003 were \$217 million (\$0.48 per diluted share) compared to \$300 million (\$0.66 per diluted share) reported in the third quarter of 2002. Earnings from continuing operations for the nine months ended September 30, 2003 were \$709 million (\$1.57 per diluted share) compared to \$875 million (\$1.94 per diluted share) reported in the comparable 2002 period.

Discontinued Operations

During 2003, the activities of the remaining telecommunications services business held for sale had no impact on earnings. In 2002, the loss from discontinued operations was \$10 million, (\$0.02 per diluted share) for the third quarter and \$28 million (\$0.06 per diluted share) for the nine months ended September 30, 2002.

Net Earnings

For the third quarters of 2003 and 2002, the Corporation's net earnings were \$217 million (\$0.48 per diluted share) and \$290 million (\$0.64 per diluted share), respectively. For the nine-month periods, net earnings were \$709 million (\$1.57 per diluted share) in 2003, and \$847 million (\$1.88 per diluted share) in 2002.

Discussion of Business Segments

As discussed in Note 6, in the second quarter of 2003, we announced the formation of Integrated Systems & Solutions (IS&S), a new business segment. With the formation of IS&S, the former Systems Integration business segment is now called Electronic Systems.

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We operate in five business segments: Aeronautics, Electronic Systems, Space Systems, IS&S, and Technology Services. The Aeronautics segment generally includes fewer programs that have much larger sales and operating results than programs included in the other segments. Therefore, due to the large number of comparatively smaller programs in the remaining segments, the discussions of the results of operations of these business segments generally focus on lines of business within the segments. The following tables of financial information and related discussions of the results of operations of our business segments are consistent with the presentation of segment information in Note 6 to the financial statements in Item 1 of this Form 10-Q.

Aeronautics

Aeronautics' operating results included the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net sales | \$ 2,675 | \$ 1,668 | \$ 7,168 | \$ 4,549 |
| Operating profit | \$ 183 | \$ 107 | \$ 490 | \$ 309 |

Net sales for Aeronautics increased by 60% for the quarter and 58% for the nine months ended September 30, 2003 from the 2002 periods, due to growth in the Combat Aircraft and Air Mobility lines of business. Higher volume on the F-35 Joint Strike Fighter and F/A-22 programs accounted for \$360 million and \$60 million, respectively, of the quarter-over-quarter increase in sales. Year over year, higher volume on these programs accounted for \$1.1 billion and \$340 million, respectively, of the increase in sales. F-16 programs, including more deliveries, contributed \$515 million to the quarter-over-quarter increase in sales and \$900 million to the year-over-year growth in sales. Twenty-five F-16's were delivered in the third quarter of 2003, 19 more than in the 2002 period. Forty F-16's were delivered year-to-date, 24 more than in the 2002 period. Increased C-130J deliveries and volume on other programs drove the remaining quarter-over-quarter and year-over-year increases in sales. In the third quarter of 2003, there were two C-130J deliveries as contrasted with one delivery in the 2002 period. On a year-to-date basis, there were nine C-130J deliveries compared to six deliveries in the 2002 period.

Segment operating profit increased by 71% for the quarter and 59% for the nine months ended September 30, 2003 from the 2002 periods. For both the quarter and nine-month period, operating profit was higher primarily due to the impact of the volume increases in the combat aircraft programs described above. The remainder of the growth in operating profit over the 2002 periods is attributable to volume changes on other air mobility programs and improved performance on other programs. The increase in C-130J deliveries did not impact operating profit for the comparative periods due to the previously disclosed suspension of earnings recognition on the program.

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Electronic Systems

Electronic Systems' operating results included the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net sales | \$ 2,234 | \$ 2,045 | \$ 6,389 | \$ 5,956 |
| Operating profit | \$ 223 | \$ 212 | \$ 617 | \$ 599 |

Net sales for Electronic Systems increased by 9% for the quarter and 7% for the nine months ended September 30, 2003 from the 2002 periods. For the quarter, the sales increase was attributable to higher volume in Missiles & Fire Control (M&FC) and Maritime Systems & Sensors (MS2), which were partially offset by declines in Platform, Training & Transportation Systems (PT&TS). In M&FC, sales increased by \$145 million over the comparable 2002 period due to growth in tactical missile and air defense programs. In MS2, sales increased by \$75 million mainly due to higher volume on radar and surface systems programs. The PT&TS decline of \$30 million was the result of lower volume on transportation and security system activities. PT&TS' 2002 sales included activities related to the rapid deployment of Transportation Security Administration programs that have not recurred this year.

Sales increased in all three lines of business for the nine months ended September 30, 2003 over the comparable 2002 period. In MS2, the \$175 million increase in sales was primarily due to higher volume on radar and surface systems programs. Increased volume in air defense accounted for the majority of M&FC's \$130 million sales growth over 2002. PT&TS' sales increased by \$125 million in the nine-months of 2003 over the prior period due to increased levels of distribution technology and transportation and security systems activities.

Segment operating profit increased by 5% for the quarter and 3% for the nine months ended September 30, 2003, when compared to the 2002 periods. For both the quarter and nine-month period, operating profit was higher primarily due to the impact of the volume increases at M&FC partially offset by lower operating profit on radar programs at MS2 and simulation and training programs at PT&TS.

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Space Systems

Space Systems' operating results included the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net sales | \$ 1,498 | \$ 1,342 | \$ 4,570 | \$ 3,974 |
| Operating profit | \$ 95 | \$ 71 | \$ 300 | \$ 213 |

Net sales for Space Systems increased 12% for the quarter and 15% for the nine months ended September 30, 2003 from the 2002 periods. For the third quarter of 2003, the sales growth over the 2002 period was primarily attributable to an increase of \$145 million in Satellites (primarily due to higher volume on government satellite programs) and \$40 million in Strategic and Defensive Missile Systems (S&DMS) that offset a \$30 million decline in Launch Services. In Launch Services the decline was mainly due to two less launches (one Atlas and one Proton) this quarter than in the comparable 2002 period, which more than offset increased Titan activities.

For the nine months ended September 30, 2003, sales increases of \$560 million in Satellites and \$100 million in S&DMS were partially offset by a \$60 million decline in Launch Services. The growth in Satellites is due to higher volume on government satellite programs. The growth in S&DMS is attributable to increases in both fleet ballistic missile and missile defense activities. Lower sales in Launch Services were due to one less Atlas launch and one less Proton launch during the nine-month period of 2003 compared to the 2002 period, which more than offset increased Titan activities.

Space Systems' operating profit increased by 34% for the quarter and 41% for the nine months ended September 30, 2003 from the 2002 periods. Satellites' operating profit declined slightly in the third quarter from the comparable 2002 period. A decline in operating profit in government satellite programs was due to a \$30 million charge related to the reversal of profits recorded to date due to a handling incident on a NASA satellite program. This decline was partially offset by improved performance in commercial satellites. Launch Services operating profit increased \$20 million due to improved performance and risk retirement activities on the maturing Titan program which more than offset the higher Atlas and Proton operating losses in 2003 as well as the impact of a profitable launch in 2002.

For the nine-month period, Satellites' operating profit increased by \$95 million over the 2002 period mainly due to improved performance on commercial satellite activities and volume increases on government satellite programs which more than offset the negative impact of the aforementioned charge. For the comparable nine-month periods, Launch Services' operating profit declined \$10 million. Higher Atlas and Proton operating losses and less profitable launches this year more than offset an increased

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operating profit from the improved performance and risk retirement activities on the maturing Titan program.

Integrated Systems & Solutions

IS&S' operating results included the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|-------------------------------------|--------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net sales | \$ 922 | \$ 709 | \$ 2,504 | \$ 2,152 |
| Operating profit | \$ 75 | \$ 61 | \$ 214 | \$ 185 |

Net sales for IS&S increased by 30% for the quarter and 16% for the nine months ended September 30, 2003 from the 2002 periods. For both the quarter and nine-month periods, the sales increases were primarily attributable to a higher volume of intelligence, defense and information assurance activities.

Segment operating profit increased by 23% for the quarter and 16% for the nine months ended September 30, 2003 from the comparable 2002 periods. The increase in operating profit for both the quarter and year were primarily attributable to higher volume on the activities described above.

Technology Services

Technology Services' operating results included the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|-------------------------------------|--------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| Net sales | \$ 743 | \$ 776 | \$ 2,202 | \$ 2,157 |
| Operating profit | \$ 51 | \$ 44 | \$ 150 | \$ 122 |

Net sales for Technology Services decreased by 4% for the quarter and increased by 2% for the nine months ended September 30, 2003 from the 2002 periods. For the quarter, the decrease in sales was primarily attributable to a \$30 million decline in volume in the Military Services line of business that includes Transportation Security Administration activities in 2002 that have not recurred this year. The sales increase for the nine-month period was mainly the result of increased volume totaling \$50 million in Military Services and Information Technology, which more than offset lower sales volume on NASA programs.

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Segment operating profit increased by 16% for the quarter and 23% for the nine months ended September 30, 2003 from the 2002 periods. For the quarter, operating profit increased mainly due to improved performance in Information Technology and NASA programs. Operating profit increased year over year mainly as the result of improved performance in Information Technology.

Unallocated Corporate (Expense) Income, Net

The following table shows the components of Unallocated Corporate (expense) income, net. For a discussion of the FAS/CAS pension adjustment and other types of items included in Unallocated Corporate (expense) income, see Note 6 to the financial statements in this Form 10-Q.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| FAS/CAS pension adjustment | \$ (80) | \$ 64 | \$ (220) | \$ 169 |
| Loss on early retirement of debt | (127) | — | (146) | — |
| Other, net | 8 | 17 | (2) | (21) |
| | <u>\$ (199)</u> | <u>\$ 81</u> | <u>\$ (368)</u> | <u>\$ 148</u> |

The following table shows the CAS funding that is included as expense in the segments' operating results, the related FAS (expense) income, and the FAS/CAS pension adjustment:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>(In millions)</i> | | | |
| FAS 87 (expense) income | \$ (128) | \$ 41 | \$ (353) | \$ 108 |
| CAS expense and funding | (48) | (23) | (133) | (61) |
| FAS/CAS pension adjustment—(expense) income | <u>\$ (80)</u> | <u>\$ 64</u> | <u>\$ (220)</u> | <u>\$ 169</u> |

The quarter-to-quarter change in the FAS/CAS pension adjustment is mainly due to our reporting FAS pension expense in 2003 versus FAS pension income in the prior year. We disclosed in our 2002 Form 10-K that we were projecting a substantial amount of pension expense, as well as a substantial increase in CAS funding, for 2003. The amounts of FAS 87 expense and CAS funding recorded in the first nine months of 2003 represent about 70% to 75% of the total amounts we expect to record for the full year. We are currently projecting that both the FAS 87 expense and CAS funding for 2004 will increase substantially over 2003 levels, though the actual amounts will not be finalized until January of 2004 and will depend on our judgments in such areas as determining

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assumptions, funding strategies, changes in interest rates, equity market performance and changes in demographics.

The change in "Other" unallocated Corporate (expense) income, net between the nine-month periods is primarily due to the impact of the decrease in our stock price, which lowered our stock-based compensation programs' obligations, and the \$19 million reversal of the prior-year charge related to Space Imaging, LLC. These amounts were partially offset by the inclusion in the current nine-month period of the \$41 million charge related to our decision to exit the commercial mail sorting business.

LIQUIDITY AND CAPITAL RESOURCES

During the nine-months ended September 30, 2003, \$1.7 billion of cash was provided by operating activities, compared to \$2.7 billion during the comparable 2002 period. Each period includes the impact of earnings from continuing operations, adjusted for non-cash depreciation and amortization, and changes in operating assets and liabilities.

Net cash used for investing activities during the nine months ended September 30, 2003 was \$815 million as compared to \$345 million during the comparable 2002 period. Investing activities for 2003 included \$247 million used for short-term investments; a \$130 million payment related to the Space Imaging guarantee; and net payments totaling approximately \$71 million primarily related to the second quarter 2003 acquisition of ORINCON Corporation International, the 2001 acquisition of OAO Corporation and proceeds from property dispositions. Additions to property, plant and equipment amounted to \$367 million in 2003. Investing activities for 2002 included \$139 million in proceeds from the March 2002 sale of COMSAT Mobile Communications and property dispositions, offset mainly by a \$76 million payment related to the 2001 acquisition of OAO Corporation. Additions to property, plant and equipment amounted to \$396 million in 2002.

Net cash used by financing activities during the nine months ended September 30, 2003 was \$1.8 billion as compared to \$195 million provided by financing activities during the comparable 2002 period. The 2003 amount included \$1,421 million for the early retirement of debt, \$764 million for scheduled debt repayments, \$279 million for the repurchase of 6.3 million shares of common stock, \$175 million for premiums associated with the early retirement of debt and for debt issuance costs, and \$163 million in dividend payments. These outflows more than offset proceeds of \$1.0 billion from the issuance of long-term debt and \$40 million from the issuance of common stock, primarily from the exercise of employee stock options. The 2002 amount included \$431 million in proceeds from the issuance of common stock, primarily from the exercise of employee stock options, partially offset by \$149 million in dividend payments and \$87 million in net debt repayments.

Total debt decreased by \$1.4 billion during the nine months ended September 30, 2003 from approximately \$7.6 billion at December 31, 2002. This decrease was mainly

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attributable to the early retirements of debt, scheduled debt repayments and the resolution of our guarantee of Space Imaging, LLC's credit facility. Our debt repayments this year more than offset the issuance this quarter of \$1.0 billion of floating rate convertible debentures. Total stockholders' equity was \$6.3 billion at September 30, 2003, an increase of \$433 million from the December 31, 2002 balance. This increase resulted from net earnings of \$709 million, employee stock option and ESOP activities of \$156 million and other comprehensive income of \$10 million, partially offset by stock repurchases of \$279 million and dividend payments of \$163 million. Our ratio of debt to total capitalization improved from the 56 percent reported at December 31, 2002 to 50 percent at September 30, 2003. At September 30, 2003, we held cash and cash equivalents of approximately \$1.8 billion and had short-term investments of \$247 million.

We paid a quarterly dividend of \$0.12 per share during each of the first three quarters of 2003. On September 15, 2003 we announced that our board of directors authorized an increase to the dividend per share of our common stock from \$0.12 per quarter to \$0.22 per quarter. This increase will be effective beginning in the fourth quarter of 2003.

At September 30, 2003, we had in place a \$1.5 billion revolving credit facility; no borrowings were outstanding. This credit facility will expire in November 2006.

We actively seek to finance our business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. Our management continually reviews changes in financial, market and economic conditions to manage the types, amounts and maturities of our indebtedness. We may at times refinance existing indebtedness, vary our mix of variable-rate and fixed-rate debt, or seek alternative financing sources for our cash and operational needs.

In August 2003, we completed a tender offer to purchase for cash any and all of our outstanding 7.25% notes due May 15, 2006 and 8.375% debentures due June 15, 2024. We retired a total principal amount of \$720 million of the notes and debentures. We also repurchased \$251 million of long-term debt securities from other of our outstanding debt issuances in the open market. About \$175 million of the debt securities repurchased in the open market bore interest at 7.75% and were due in 2026, and about \$50 million bore interest at 7.7% and were due in 2008, with the remainder relating to various other debt issuances. In the third quarter of 2003, we recorded a loss, net of state income tax benefits, totaling \$127 million in other income and expenses related to the early retirement of the long-term debt repurchased under the tender offer and in the open market. The loss reduced net earnings by \$83 million (\$0.18 per diluted share).

Also in August 2003, we issued \$1.0 billion in floating rate convertible debentures due in 2033. The debentures bear interest at a rate equal to three-month LIBOR less 25 basis points, reset quarterly. The interest rate in effect at September 30, 2003 was .89%. Interest on the debentures is payable quarterly through August 15, 2008, after which the interest will accrue as part of the value of the debenture and will be payable, along with the principal amount of the debenture, at maturity. The debentures are convertible by their holders into our common stock in certain limited circumstances as outlined in the indenture agreement. Upon conversion, we have the right to deliver, in lieu of common stock, cash or a combination of cash and common stock. We have the right to redeem any or all of the debentures at any time after August 15, 2008.

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

In the first quarter of 2003, we issued irrevocable redemption notices to the trustees for two issuances of callable debentures totaling \$450 million. This amount was included in current maturities of long-term debt on our balance sheet at December 31, 2002. One notice was for \$300 million of 7.875% debentures due on March 15, 2003, which we repaid on March 15, 2003. The second notice was for \$150 million of 7.75% debentures due on April 15, 2003, which we repaid on April 15, 2003. We recorded a loss, net of state income tax benefits, of \$19 million in other income and expenses related to the early repayment of the \$450 million of debt. The loss reduced first quarter 2003 net earnings by \$13 million (\$0.03 per diluted share).

In December 2002, we recorded a charge, net of state income tax benefits, of \$163 million related to our investment in Space Imaging, LLC and our guarantee of up to \$150 million of Space Imaging's borrowings under a credit facility that matured on March 30, 2003. At December 31, 2002, we increased current maturities of long-term debt by \$150 million representing our estimated obligation under the guarantee. On March 31, 2003, we paid \$130 million to acquire Space Imaging's outstanding borrowings under Space Imaging's credit facility, and the guarantee was eliminated. We therefore reversed, net of state income taxes, approximately \$19 million of the charge recorded in December 2002, representing the unutilized portion of the credit facility covered by our guarantee. This gain increased first quarter 2003 net earnings by \$13 million (\$0.03 per diluted share).

Cash and cash equivalents, short-term investments, internally generated cash flow from operations and other available financing resources, including those described above, are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements, as well as acquisition and other discretionary investment needs, during the next twelve months. Consistent with our desire to generate cash to reduce debt and invest in our core businesses, we expect that, depending on prevailing financial, market and economic conditions, we will continue to explore the sale of non-core businesses, passive equity investments and surplus real estate.

Realization of our investments in equity securities may be affected by an investee's ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the investee's business, and/or other factors. The inability of an investee to obtain future funding or successfully execute its business plan could adversely affect our earnings in the periods affected by those events.

In July 2003, Loral Space & Communications, Ltd. and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In the third quarter of 2003, we sold our ownership interest in Loral. The sale did not have a material impact on our results of operations, financial position or cash flows. We are also an unsecured creditor of Loral in the bankruptcy proceeding. Loral has made a claim that they are entitled to a refund of payments made to us under various terminated launch service contracts. We believe that the claim is without merit and that we are entitled to retain the amounts under the terms of the contracts. We do not expect these

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
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events to have a material impact on our results of operations, financial position or cash flow.

As previously disclosed, in January 2003, we entered into an agreement with Astrolink International, LLC's other members to restructure Astrolink. As part of the transaction, Liberty Satellite & Technology, a subsidiary of Liberty Media Corporation, had an option to acquire Astrolink's assets and pursue a business plan to build a one- or two- satellite system. On October 24, 2003, Liberty Satellite & Technology notified us that they do not plan to exercise the option to acquire Astrolink's assets and build the new system. As a result, as part of the previously disclosed restructuring agreement, Astrolink's procurement contracts have been terminated, and we will acquire the remaining ownership interests in Astrolink. The restructuring also entails the settlement of existing claims related to termination of Astrolink's procurement contracts with its members. Under these settlements, certain of the members, including the Corporation, will retain their work in process. Completion of the restructuring is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

ADVANCES TO RUSSIAN MANUFACTURERS

In 1992, we entered into a joint venture with two Russian government-owned space firms to form Lockheed-Khrunichev-Energia International, Inc. (LKEI). We own 51% of LKEI. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton family of rockets from a launch site in Kazakhstan. In 1995, another joint venture was formed, International Launch Services (ILS), with Lockheed Martin and LKEI each holding a 50% ownership. ILS was formed to market Atlas and Proton launch services around the world. We consolidate the results of operations of LKEI and ILS into our financial statements. Contracts for launch services usually require substantial advances from the customer before the launch. Advances received from customers for Proton launch services not yet provided totaled \$292 million at September 30, 2003 and \$412 million at December 31, 2002, and were included as a liability on our balance sheet in the caption customer advances and amounts in excess of costs incurred.

A sizable percentage of the advances we receive from customers for Proton launch services are sent to Khrunichev State Research and Production Space Center (Khrunichev), the Russian manufacturer of the launch vehicle and provider of the related launch services. If a contracted launch service is not provided, a sizeable percentage of the related advance would have to be refunded to the customer. In addition, we have previously sent advances to Khrunichev that are covered by an arrangement to reduce

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

future launch payments from us to Khrunichev, contingent on the receipt of new orders as well as a minimum number of actual launches each year. The advances sent to Khrunichev are included on our balance sheet in inventories. Total payments to Khrunichev included in inventories at September 30, 2003 and December 31, 2002, net of reserves, were \$310 million and \$391 million, respectively. Our ability to realize these amounts may be affected by the continuing overcapacity in the launch vehicle market, Khrunichev's ability to provide the launch services and the political environment in Russia. Through the end of September 2003, launch services through LKEI and ILS have been provided according to contract terms.

We have entered into an agreement with RD AMROSS, a joint venture of the Pratt & Whitney division of United Technologies Corporation and the Russian firm NPO Energomash, for the development and purchase, subject to certain conditions, of RD-180 booster engines for use in our Atlas launch vehicles. Terms of the agreement call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Approximately \$86 million of payments made under this agreement for engines not yet delivered were included in inventories at September 30, 2003 (\$61 million at December 31, 2002).

OTHER MATTERS

On September 15, 2003, we announced that a definitive agreement had been reached to acquire The Titan Corporation. Under the terms of the merger agreement, stockholders of Titan may elect to receive \$22 in cash for each share of Titan common stock, an amount of Lockheed Martin common stock based on an exchange rate, or a combination of cash and our stock. Titan stockholders who elect to receive all cash or all stock will be subject to allocation procedures set forth in the merger agreement which require that, in the aggregate, 50% of the shares of outstanding Titan common stock must be exchanged for our common stock and 50% of the Titan common stock must be exchanged for cash. The announced value of the transaction, including the assumption of Titan's long-term debt, is approximately \$2.4 billion before accumulated tax benefits. Nearly all of Titan's sales are to the U.S. Government. For the nine month period ended September 30, 2003, Titan reported sales of \$1.3 billion. The acquisition of Titan is expected to close in the first quarter of 2004, subject to approval by Titan stockholders, regulatory approvals and satisfaction of other closing conditions.

On August 1, 2003, the Corporation and Affiliated Computer Services, Inc. (ACS) announced that we had entered into two definitive agreements whereby we will acquire ACS's federal government information technology (IT) business, and ACS will concurrently acquire our commercial IT business. Completion of the transactions is expected to result in net cash payments from us to ACS of approximately \$550 million. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 expired for both transactions on September 15, 2003. Both transactions, which are subject to the satisfaction of certain closing conditions, are expected to close in the fourth quarter of 2003. Each transaction is also conditioned on the other transaction closing. The agreements between the parties provide that if the transactions have not closed by November 30, 2003, or a later date that is mutually agreed to by the parties, either party

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

may terminate the agreements provided that the failure to close the transaction is not the result of a breach of the agreement by the party terminating the agreements. Revenues for ACS's federal government IT business for the fiscal year ended June 30, 2003 were approximately \$700 million, and revenues for our commercial IT business for the fiscal year ended December 31, 2002 were approximately \$300 million.

In July 2003, the U.S. Air Force made a public announcement that our competitor in the Evolved Expendable Launch Vehicle competition had violated the Procurement Integrity Act. As a result of that determination, the Air Force reassigned 7 launch vehicles from the initial competition (referred to as "Buy 1") to Lockheed Martin and removed Lockheed Martin's exclusion from west coast launches. At the same time, the Air Force awarded Lockheed Martin 3 new west coast launches. The launches are expected to occur over the 2005 through 2009 time period. Contractual terms and conditions related to the west coast launches have not yet been finalized with the Air Force.

As of the end of 2002, the global telecommunications services businesses identified for divestiture in 2001 had been sold, except for Lockheed Martin Intersputnik (LMI). We reached an agreement to sell LMI in the third quarter of 2002; however, in April 2003, the agreement was terminated. We are continuing to treat LMI as a discontinued operation, as we are still holding and actively marketing the business for sale. The operating results of LMI had no impact on the statement of earnings for the first nine months of 2003. LMI is carried at estimated fair value less cost to sell at September 30, 2003, and its assets and liabilities, which represented less than 1% of our consolidated assets and liabilities, respectively, were included in our balance sheet in other current assets and other current liabilities. Changes in the estimated fair value of LMI will be recorded in the future if appropriate.

We provide products and services to NASA, including the Space Shuttle program, mainly through our Space Systems and Technology Services business segments. Work for NASA accounted for approximately 6% of our consolidated net sales in 2002, of which about one-half was related to the Space Shuttle program. We also have a 50% equity interest in United Space Alliance, LLC which provides ground processing and other operational services to the Space Shuttle program. We worked with NASA and others in the investigation of the tragic accident in February 2003 involving the Space Shuttle Columbia. The investigation is now completed. We do not expect that the effects of this accident will have a material impact on our results of operations, financial position or cash flows.

As described in Note 5 to the financial statements, we are continuing to pursue recovery of a significant portion of the unanticipated costs we incurred for a \$180 million fixed-price contract with the U.S. Department of Energy (DoE) for the remediation of waste found in Pit 9. We have been unsuccessful to date in reaching agreement with the DoE on cost recovery or contract restructuring. In 1998, the management contractor for the project, a wholly-owned subsidiary of ours, at the DoE's direction, terminated the Pit

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
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9 contract for default. We sued the DoE in the U.S. Court of Federal Claims seeking to overturn the default termination and to recover our costs. The management contractor, at the DoE's direction, sued us in the U.S. District Court in Idaho seeking, among other things, recovery of about \$54 million previously paid to us under the contract. We filed counterclaims, again seeking to overturn the default termination and recover our costs. In 2001, the Court of Federal Claims dismissed our lawsuit against the DoE, finding that we lacked privity of contract with the DoE. On September 30, 2002, the U.S. Court of Appeals for the Federal Circuit affirmed the dismissal. We did not appeal the decision further and will continue to pursue our remedies in the Idaho proceeding, for which the trial before a judge began on August 5, 2003. The trial should conclude in November 2003, but a decision in the case is not expected before the end of 2003.

Lockheed Martin Corporation

Item 3. Quantitative and Qualitative Disclosure of Market Risk

Our main exposure to market risk relates to interest rates and, to a lesser extent, foreign currency exchange rates. Our financial instruments that are subject to interest rate risk principally include short-term investments and long-term debt. Our long-term debt obligations are generally not callable until maturity. We sometimes use interest rate swaps to manage our exposure to fixed and variable interest rates. At the end of the third quarter of 2003, we had agreements in place to swap fixed interest rates on approximately \$70 million of our long-term debt for variable interest rates based on LIBOR. The interest rate swap agreements are designated as effective hedges of the fair value of the underlying fixed-rate debt instruments. At September 30, 2003, the fair values of interest rate swap agreements outstanding were not material. The amounts of gains and losses from changes in the fair values of the swap agreements were entirely offset by those from changes in the fair value of the associated debt obligations. Changes in swap rates would affect the market value of the agreements, but those changes in value would be offset by changes in value of the underlying debt obligations.

We use forward foreign exchange contracts to manage our exposure to fluctuations in foreign exchange rates. These contracts are designated as qualifying hedges of the cash flows associated with firm commitments or specific anticipated transactions, and related gains and losses on the contracts, to the extent they are effective hedges, are recognized in income when the hedged transaction occurs. To the extent the hedges are ineffective, gains and losses on the contracts are recognized currently. At September 30, 2003, the fair value of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the quarter then ended, were not material. We do not hold or issue derivative financial instruments for trading purposes.

Lockheed Martin Corporation

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to use its judgment in evaluating the cost to benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage those entities, our disclosure controls and procedures with respect to those entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

At September 30, 2003, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, and under the supervision of the CEO and CFO. Based on the evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective.

There have been no significant changes in our internal controls over financial reporting during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Lockheed Martin Corporation

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements which, to the extent that they are not recitations of historical fact, constitute forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “forecast” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of the Corporation’s future performance and are subject to risks, uncertainties and other important factors that could cause the Corporation’s actual performance to be materially different from those it projected.

Numerous factors, including potentially the following factors, could affect the Corporation’s forward-looking statements and actual performance: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities in response to terrorist threats or to improve homeland security); difficulties in developing and producing operationally advanced technology systems; the level of returns on pension and retirement plan assets; charges from any future FAS 142 reviews related to impairment of goodwill; the potential future impact of proposed tax legislation; the competitive environment; economic, business and political conditions both domestically and internationally; program performance (including performance issues with key suppliers and subcontractors); the timing and customer acceptance of product deliveries; the ability to achieve or realize savings through cost-cutting and other financial management programs; and the outcome of contingencies (including completion of acquisitions and divestitures, litigation and environmental remediation efforts).

The Corporation’s ability to monetize assets or the business reported in discontinued operations will depend upon market and economic conditions, and other factors, and may require receipt of regulatory or governmental approvals. Realization of the value of the Corporation’s investments in equity securities, or related equity earnings for a given period, may be affected by an investee’s ability to obtain adequate funding and execute its business plan, general market conditions, industry considerations specific to the investee’s business, and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this Form 10-Q. The Corporation does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act and 21E of the Exchange Act.

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the

Lockheed Martin Corporation

Corporation's Securities and Exchange Commission filings including, but not limited to, the discussions of "Government Contracts and Regulations" and "Risk Factors and Forward-Looking Statements" on pages 19 through 20 and pages 23 through 28, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002; "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 19 through 33 of this Form 10-Q; and "Note 5 – Contingencies" and "Note 7 – Other" of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 10 through 12 and pages 15 through 18, respectively, of this Form 10-Q; and Part II – Item 1, "Legal Proceedings" on pages 38 through 39 of this Form 10-Q.

PART II. OTHER INFORMATION

Lockheed Martin Corporation

Item 1. Legal Proceedings

The Corporation is a party to or has property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in “Note 5 – Contingencies” of the Notes to Unaudited Condensed Consolidated Financial Statements in this Form 10-Q, and in the Corporation’s 2002 Annual Report on Form 10-K (Form 10-K), or arising in the ordinary course of business. In the opinion of management, the probability is remote that the outcome of any such litigation or other proceedings will have a material adverse effect on the Corporation’s results of operations or financial position.

The Corporation is primarily engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. Government. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether the Corporation’s operations are being conducted in accordance with these requirements. U.S. Government investigations of the Corporation, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon the Corporation, or could lead to suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against the Corporation. For the U.S. Government investigations described in the Corporation’s Form 10-K, it is too early for Lockheed Martin to determine whether adverse decisions relating to these investigations could ultimately have a material adverse effect on its results of operations or financial position.

We are subject to federal and state 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 property subject to various other lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in our 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 5—Contingencies” on page 10 through page 12 and “Other Matters” in Management’s Discussion and Analysis of Results of Operations and Financial Condition on page 31 through page 33 of this Form 10-Q.

In addition, see the “Legal Proceedings” section of the Form 10-K for a description of previously reported matters.

Lockheed Martin Corporation

On August 28, 2003, the Department of Justice filed complaints in partial intervention in two previously reported lawsuits filed under the *qui tam* provisions of the Civil False Claims Act in the United States District Court for the Western District of Kentucky, *United States ex rel. Natural Resources Defense Council, et al. v. Lockheed Martin Corporation, et al.*, and *United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al.* The Department alleges that we committed violations of the Resource Conservation and Recovery Act (RCRA) at the Paducah Gaseous Diffusion Plant by failing to properly handle, store, and transport hazardous waste and that we violated the False Claims Act by purportedly misleading Department of Energy officials and state regulators regarding the nature and extent of environmental noncompliance at the Plant. We believe the allegations are without merit and plan to defend against them.

On August 26, 2003, we entered into a settlement agreement by which we resolved, without the admission of any liability or wrongdoing and with the payment to the Department of Justice of a \$37.9 million settlement amount, two previously reported *qui tam* lawsuits relating to the LANTIRN program. The settlement payment did not have a material impact on the Corporation's results of operations, financial position or cash flows.

As previously reported, on March 19, 2003, the United States District Court for the Northern District of California, granted our motion for summary judgment ruling invalid a patent that Space Systems Loral alleged was infringed by our series 3000, 4000, 5000 and 7000 satellites, as well as our A2100 satellites. On October 7, 2003, the district court entered an order denying Space Systems Loral's motion for reconsideration of the summary judgment order.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| | |
|--------------|--|
| Exhibit 3 | Bylaws of Lockheed Martin Corporation, as amended effective September 25, 2003 Amended Sections 3.04(a) and (b) of the Bylaws to change the charters of the Management Compensation and Development Committee and the Stock Option Subcommittee |
| Exhibit 12 | Lockheed Martin Corporation Computation of Ratio of Earnings to Fixed Charges for the nine months ended September 30, 2003 |
| Exhibit 31.1 | Rule 13a-14(a) Certification of Vance D. Coffman |
| Exhibit 31.2 | Rule 13a-14(a) Certification of Christopher E. Kubasik |

Lockheed Martin Corporation

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350 of Vance D. Coffman

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350 of Christopher E. Kubasik

(b) Reports on Form 8-K filed in the third quarter of 2003.

1. Current report on Form 8-K/A filed on July 22, 2003.

The Corporation amended its Form 8-K filed on June 27, 2003.

2. Current report on Form 8-K filed on July 24, 2003.

The Corporation furnished information contained in its press release dated July 24, 2003 related to the Corporation's financial results for quarter ended June 30, 2003.

3. Current report on Form 8-K filed on August 8, 2003.

The Corporation filed information contained in its press releases dated August 6, 2003 and August 8, 2003 related to its offering and pricing, respectively, of convertible debentures, and its press release dated August 6, 2003 related to a debt tender offer.

4. Current report on Form 8-K filed on August 26, 2003.

The Corporation filed information contained in its press release dated August 13, 2003 related to its completion of the sale of convertible debentures due 2033, and its press release dated August 20, 2003 related to completion of a debt tender offer.

5. Current report on Form 8-K filed on September 16, 2003.

The Corporation filed information contained in its press release dated September 15, 2003 related to a definitive agreement to acquire The Titan Corporation.

(c) Reports on Form 8-K filed subsequent to the third quarter of 2003.

1. Current report on Form 8-K filed on October 28, 2003.

The Corporation furnished information contained in its press release dated October 28, 2003 related to the Corporation's financial results for quarter ended September 30, 2003.

Lockheed Martin Corporation

SIGNATURES

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: November 4, 2003

by: /s/ Rajeev Bhalla

Rajeev Bhalla
Vice President and Controller
(Chief Accounting Officer)

LOCKHEED MARTIN CORPORATION**B Y- L A W S**

Adopted August 26, 1994
(Amended February 6, 1995)
(Amended April 27, 1995)
(Amended September 28, 1995)
(Amended January 1, 1996)
(Amended January 7, 1996)
(Amended April 25, 1996)
(Amended January 23, 1997)
(Amended September 25, 1997)
(Amended October 23, 1997)
(Amended January 22, 1998)
(Amended June 26, 1998)
(Amended July 23, 1998)
(Amended April 22, 1999)
(Amended October 28, 1999)
(Amended February 24, 2000)
(Amended June 14, 2000)
(Amended April 24, 2003)
(Amended August 7, 2003)
(Amended September 25, 2003)

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**BYLAWS
OF
LOCKHEED MARTIN CORPORATION**

(Incorporated under the laws of Maryland, August 26, 1994, and herein referred to as the "Corporation")

**ARTICLE I
STOCKHOLDERS**

Section 1.01. ANNUAL MEETINGS. The Corporation shall hold an annual meeting of stockholders for the election of directors and the transaction of any business within the powers of the Corporation at such date during the month of April in each year as shall be determined by the Board of Directors. Subject to Article I, Section 1.11 of these Bylaws, any business of the Corporation may be transacted at such annual meeting. Failure to hold an annual meeting at the designated time shall not, however, invalidate the corporate existence or affect otherwise valid corporate acts.

Section 1.02. SPECIAL MEETINGS. At any time in the interval between annual meetings, special meetings of the stockholders may be called by the Chairman of the Board, Chief Executive Officer, or by the Board of Directors or by the Executive Committee by vote at a meeting or in writing with or without a meeting. Special meetings of stockholders shall also be called by the Secretary of the Corporation on the written request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting.

Section 1.03. PLACE OF MEETINGS. All meetings of stockholders shall be held at such place within the United States as may be designated in the notice of meeting.

Section 1.04. NOTICE OF MEETINGS. Not less than thirty (30) days nor more than ninety (90) days before the date of every stockholders' meeting, the Secretary shall give to each stockholder entitled to vote at such meeting and each other stockholder entitled to notice of the meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, either by mail or by presenting it to him or her personally or by leaving it at his or her residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at his or her post office address as it appears on the records of the Corporation, with postage thereon prepaid. Notwithstanding the foregoing provision for notice, a waiver of notice in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the

meeting in person or by proxy, shall be deemed equivalent to the giving of such notice to such persons. Any meeting of stockholders, annual or special, may adjourn from time to time without further notice to a date not more than one hundred twenty (120) days after the original record date at the same or some other place.

Section 1.05. CONDUCT OF MEETINGS. Each meeting of stockholders shall be conducted in accordance with such rules and procedures as the Board of Directors may determine subject to the requirements of applicable law and the Charter. The Chairman of the Board, or in his or her absence the Chief Executive Officer, or in their absence the person designated in writing by the Chairman of the Board, or if no person is so designated, then a person designated by the Board of Directors, shall preside as chairman of the meeting; if no person is so designated, then the meeting shall choose a chairman by a majority of all votes cast at a meeting at which a quorum is present. The Secretary or in the absence of the Secretary a person designated by the chairman of the meeting shall act as secretary of the meeting.

Section 1.06. QUORUM. At any meeting of stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of the votes thereat shall constitute a quorum; but this section shall not affect any requirement under statute or under the Charter of the Corporation for the vote necessary for the adoption of any measure. In the absence of a quorum, the stockholders present in person or by proxy, by majority vote and without further notice, may adjourn the meeting from time to time to a date not more than 120 days after the original record date until a quorum shall attend. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 1.07. VOTES REQUIRED. Unless applicable law or the Charter of the Corporation provides otherwise, at a meeting of stockholders, the vote of a majority of the votes entitled to be cast at a meeting, duly called and at which a quorum is present, shall be required to take or authorize action upon any matter which may properly come before the meeting. Unless the Charter provides for a greater or lesser number of votes per share or limits or denies voting rights, each outstanding share of stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders; but no share shall be entitled to any vote if any installment payable thereon is overdue and unpaid.

Section 1.08. PROXIES. A stockholder may vote shares of the Corporation's capital stock that are entitled to be voted and are owned of record by such stockholder either in person or by proxy in any manner permitted by Section 2-507 of the Maryland General Corporation Law, as in effect from time to time. No proxy shall be valid more than eleven (11) months after its date, unless otherwise provided in the proxy.

Section 1.09. LIST OF STOCKHOLDERS. At each meeting of stockholders, a true and complete list of all stockholders entitled to vote at such meeting, stating the number and class of shares held by each, shall be furnished by the Secretary.

Section 1.10. INSPECTORS OF ELECTION. In advance of any meeting of stockholders, the Board of Directors may appoint Inspectors of Election to act at such meeting or at any adjournment or adjournments thereof. If such Inspectors are not so appointed or fail or refuse to act, the chairman of any such meeting, upon the demand of stockholders present in person or by proxy entitled to cast 25% of all the votes entitled to be cast at the meeting, shall make such appointments.

If there are three (3) or more Inspectors of Election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all. The Inspectors of Election shall determine the number of shares outstanding, the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies; shall receive votes, ballots, assents or consents, hear and determine all challenges and questions in any way arising in connection with the vote, count and tabulate all votes, assents and consents, and determine the result; and do such acts as may be proper to conduct the election and the vote with fairness to all stockholders. On request, the Inspectors shall make a report in writing of any challenge, question or matter determined by them, and shall make and execute a certificate of any fact found by them.

No such Inspector need be a stockholder of the Corporation.

Section 1.11. DIRECTOR NOMINATIONS AND STOCKHOLDER BUSINESS.

(a) Nominations and Stockholder Business at Annual Meetings of Stockholders. Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Section 1.11(a), who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 1.11(a).

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) of this Section 1.11, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days nor more than one-hundred twenty (120) days prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; provided, however, that in the event that the date of mailing of the notice for the annual meeting is advanced or delayed by more than thirty (30) days from the anniversary date of mailing of the notice for the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the one-hundred twentieth (120th) day prior to the date of mailing of the notice for such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to the date of mailing of the notice for such annual meeting or the tenth (10th) day following the day on which public announcement of the date of mailing of the notice for such meeting is first made. Such stockholder's notice shall set forth (i) as to each person whom the

stockholder proposes to nominate for election or reelection as a director, (A) the name, age, business address and residence address of such person, (B) the class and number of shares of capital stock of the Corporation that are beneficially owned by such person, and (C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder (including any anticipated benefit to the stockholder therefrom) and of each beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and each beneficial owner, if any, on whose behalf the nomination or proposal is made, (x) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (y) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

Notwithstanding anything in this paragraph (a) of this Section 1.11 to the contrary, in the event that Section 2.02 of these Bylaws is amended, altered or repealed so as to increase or decrease the maximum or minimum number of directors and there is no public announcement of such action at least one-hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 1.11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) Director Nominations and Stockholder Business at Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Section 1.11, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 1.11. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a) of this Section 1.11 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the one-hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth

(10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(c) **General.** Only such persons who are nominated in accordance with the procedures set forth in this Section 1.11 and Article II, Section 2.04 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.11. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 1.11 and, if any proposed nomination or business is not in compliance with this Section 1.11, to declare that such defective nomination or proposal be disregarded.

For purposes of this Section 1.11, (a) the “date of mailing of the notice” shall mean the date of the proxy statement for the solicitation of proxies for election of directors and (b) “public announcement” shall mean disclosure (i) in a press release reported by the Dow Jones New Service, Associated Press or comparable news service or (ii) in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this Section 1.11, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.11. Nothing in this Section 1.11 shall be deemed to affect any rights of stockholders to request inclusion of proposals, nor the right of the Corporation to omit a proposal from, in the Corporation’s proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

ARTICLE II BOARD OF DIRECTORS

Section 2.01. POWERS. The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. The Board of Directors may exercise all the powers of the Corporation, except such as are by statute or the Charter or the Bylaws conferred upon or reserved to the stockholders.

Section 2.02. NUMBER OF DIRECTORS. The number of directors of the Corporation shall be not less than twelve (12) nor more than twenty-five (25). By vote of a majority of the Board of Directors, the number of directors may be increased or decreased, from time to time, within the limits above specified; provided, however, that except as set forth in the Charter of the Corporation, the tenure of office of a director shall not be affected by any decrease in the number of directors so made by the Board.

Section 2.03. ELECTION OF DIRECTORS. Except as set forth in the Charter of the Corporation, the members of the Board of Directors shall be elected each year at the annual meeting of stockholders, and each director shall hold office until the next annual meeting of stockholders held after his or her election and until his or her successor will have been elected and qualified. No person, other than a person granted an exemption from this provision by the Board of Directors, shall be eligible to be elected as a director for a term which expires after the first annual meeting of stockholders after he or she reaches the age of 72 years.

Section 2.04. CHAIRMAN OF THE BOARD. The Board of Directors shall designate from its membership a Chairman of the Board, who shall preside at all meetings of the stockholders and of the Board of Directors. He may sign with the Secretary or an Assistant Secretary certificates of stock of the Corporation, and he shall perform such other duties as may be prescribed by the Board of Directors.

Section 2.05. REMOVAL. Any director or the Board of Directors may be removed from office as a director at any time, but only for cause, by the affirmative vote at a duly called meeting of stockholders of at least 80% of the votes which all holders of the then outstanding shares of capital stock of the Corporation would be entitled to cast at an annual election of directors, voting together as a single class.

Section 2.06. VACANCIES. Vacancies in the Board of Directors, except for vacancies resulting from an increase in the number of directors, shall be filled only by a majority vote of the remaining directors then in office, though less than a quorum, except that vacancies resulting from removal from office by a vote of the stockholders may be filled by the stockholders at the same meeting at which such removal occurs. Vacancies resulting from an increase in the number of directors shall be filled only by a majority vote of the Board of Directors. Any director elected to fill a vacancy shall hold office until the next annual meeting of stockholders and until his or her successor will have been elected and qualified.

Section 2.07. REGULAR MEETINGS. After each meeting of stockholders at which a Board of Directors, or any class thereof, shall have been elected, the Board of Directors shall meet as soon as practicable for the purpose of organization and the transaction of other business, at such time and place within or without the State of Maryland as may be designated by the Board of Directors. Other regular meetings of the Board of Directors shall be held on such dates and at such places within or without the State of Maryland as may be designated from time to time by the Board of Directors.

Section 2.08. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called at any time, at any place, and for any purpose by the Chairman of the Board, the Chief Executive Officer, the Chairman of the Executive Committee, any three (3) directors, or by any officer of the Corporation upon the request of a majority of the Board.

Section 2.09. NOTICE OF MEETINGS. Notice of the place, day, and hour of every regular and special meeting of the Board of Directors shall be given to each director twenty-four (24) hours (or more) before the meeting, by telephoning the notice to such director, or by delivering

the notice to him or her personally, or by sending the notice to him or her by telegraph, or by facsimile, or by leaving the notice at his or her residence or usual place of business, or, in the alternative, by mailing such notice three (3) days (or more) before the meeting, postage prepaid, and addressed to him or her at his or her last known post office address, according to the records of the Corporation. If mailed, such notice shall be deemed to be given when deposited in the United States mail, properly addressed, with postage thereon prepaid. If notice be given by telegram or by facsimile, such notice shall be deemed to be given when the telegram is delivered to the telegraph company or when the facsimile is transmitted. If the notice be given by telephone or by personal delivery, such notice shall be deemed to be given at the time of the communication or delivery. Unless required by these Bylaws or by resolution of the Board of Directors, no notice of any meeting of the Board of Directors need state the business to be transacted thereat. No notice of any meeting of the Board of Directors need be given to any director who attends or to any director who, in a writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no further notice need be given of any such adjourned meeting.

Section 2.10. PRESENCE AT MEETING. Members of the Board, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in this manner shall constitute presence in person at the meeting.

Section 2.11. PRESIDING OFFICER AND SECRETARY AT MEETINGS. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his or her absence by the Chief Executive Officer or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The Secretary, or in his or her absence an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

Section 2.12. QUORUM. At all meetings of the Board of Directors, a majority of the Board of Directors shall constitute a quorum for the transaction of business. Except in cases in which it is by statute, by the Charter, or by the Bylaws otherwise provided, the vote of a majority of such quorum at a duly constituted meeting shall be sufficient to pass any measure. In the absence of a quorum, the directors present by majority vote and without notice other than by announcement may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 2.13. COMPENSATION. Directors shall not receive any stated salary for their services as Directors but, by resolution of the Board of Directors, annual retainers, fees and expenses of attendance, if any, may be provided to Directors for attendance at each annual, regular or special meeting of the Board of Directors or of any committee thereof; but nothing contained herein shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 2.14. VOTING OF SHARES BY CERTAIN HOLDERS. Notwithstanding any other provision of the Charter of the Corporation or these Bylaws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to any acquisition by any person of shares of stock of the Corporation. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

ARTICLE III COMMITTEES

Section 3.01. EXECUTIVE COMMITTEE. The Board of Directors, by resolution adopted by a majority of the Board of Directors, may provide for an Executive Committee of two (2) or more directors. If provision be made for an Executive Committee, the members thereof shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. During the intervals between the meetings of the Board of Directors, the Executive Committee shall possess and may exercise such powers in the management of the business and affairs of the Corporation as may be authorized by the Board of Directors, subject to applicable law. All action by the Executive Committee shall be reported to the Board of Directors at its meeting next succeeding such action, and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Executive Committee shall be filled by the Board of Directors.

Section 3.02. STRATEGIC AFFAIRS AND FINANCE COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for a Strategic Affairs and Finance Committee (“the Committee”) of three (3) or more directors. If provision is made for a Committee, the members of the Committee shall be elected by and serve at the pleasure of the Board of Directors. The Board of Directors shall designate a chairman from among the membership of the Committee. The Committee shall have responsibility for reviewing and recommending to the Board of Directors management’s long-term strategy for the Corporation, which shall include the allocation of corporate resources. The Committee will review and recommend to the Board of Directors certain strategic decisions regarding exit from existing lines of business and entry into new lines of business, acquisitions, joint ventures, investments or dispositions of businesses and assets, and the financing of related transactions. The Committee will review the allocation of corporate resources recommended by management, including the relationship of activities and allocations with the long-term business objectives and strategic plans of the Corporation. The Committee will review the financial condition of the Corporation, the status of all benefit plans and proposed changes to the capital structure of the Corporation, including the incurrence of indebtedness and the issuance of additional equity securities, and will make related recommendations to the Board of Directors for adoption. It will also review on an annual basis the proposed capital expenditure and contributions budgets of the Corporation and make recommendations to the Board of Directors for their adoption. The Committee shall, except when such powers are by statute, the Charter or the Bylaws either reserved to the Board

of Directors or delegated to another committee of the Board of Directors, possess all of the powers of the Board of Directors in the management of the strategic and financial affairs of the Corporation. All action by the Committee shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies on the Committee shall be filled by the Board of Directors.

Section 3.03. AUDIT AND ETHICS COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors shall provide for an Audit and Ethics Committee of three or more directors who are not officers or employees of the Corporation, who are free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of the independent judgment of each member as a Committee member, and who otherwise meet financial experience requirements as interpreted by the Board of Directors. The members of the Audit and Ethics Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Audit and Ethics Committee a chairman. The Audit and Ethics Committee shall, except when such powers are by statute or this charter or the Bylaws either reserved to the full Board of Directors or delegated to another committee of the Board of Directors, possess and may exercise the powers of the Board of Directors relating to all accounting and auditing matters of this Corporation. The Audit and Ethics Committee shall:

- recommend to the Board of Directors the selection, retention or termination of the independent auditors, who will be ultimately accountable to the Board of Directors and the Audit and Ethics Committee of the Corporation;
- ensure that the independent auditors submit on a periodic basis to the Audit and Ethics Committee a formal written statement delineating all relationships between the independent auditor and the Corporation, be responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors, and be responsible for recommending that the Board of Directors take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence;
- prior to the end of the Corporation's fiscal year shall review the scope and timing of the work to be performed and the compensation to be paid to the independent auditors selected by the Board;
- review with the Corporation's management and the independent auditors the financial accounting and reporting principles appropriate for the Corporation, the policies and procedures concerning audits, accounting and financial controls, and any recommendations to improve existing practices, and the qualifications and work of the Corporation's internal audit staff;
- require that the independent auditors advise the Audit and Ethics Committee through its Chair and the Corporation's management of any matters identified during reviews of interim quarterly financial statements which are required to be communicated to the Audit and Ethics

Committee by the independent auditors under auditing standards generally accepted in the United States, and that the independent auditors provide such communication prior to the related quarterly press release or, if not practicable, prior to filing the related Form 10-Q;

- review with management and the independent auditors the financial statements to be included in the Corporation's Annual Report on Form 10-K, including the independent auditors' judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements; and
- review with the independent auditors the results of their annual audit, their report and any other matters required to be communicated to the Audit and Ethics Committee by the independent auditors under auditing standards generally accepted in the United States.

The Audit and Ethics Committee shall also:

- review the scope of the internal audit staff's work plan for the year and, as appropriate, review significant findings and management's actions to address these findings;
- monitor compliance with the Code of Ethics and Standards of Conduct, and review and resolve all matters of concern presented to it by the Corporate Ethics Committee or the Corporate Ethics Office;
- review and monitor on a periodic basis the adequacy of the Corporation's policies and procedures with respect to environmental, health and safety laws and regulations, including the Corporation's record of compliance with such laws and regulations; and
- review with the General Counsel the status of pending claims, litigation and other legal matters on a periodic basis.

The Audit and Ethics Committee shall have the power to investigate any matter falling within its jurisdiction, and it shall also perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors. The Audit and Ethics Committee shall hold four meetings each year, and shall separately meet in executive session with the Corporation's independent auditors and internal audit department representative. The Audit and Ethics Committee shall review and reassess the Audit and Ethics Committee charter at least annually and make recommendations to the Board of Directors, as appropriate. All action by the Audit and Ethics Committee shall be reported to the Board of Directors at its next meeting succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Audit and Ethics Committee shall be filled by the Board of Directors. While the Audit and Ethics Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit and Ethics Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with accounting principles generally accepted in the United States. This is the responsibility of management and the independent auditors. Nor is it the duty of the Audit and Ethics Committee

to conduct investigations, to resolve disagreements, if any, between management and the independent auditors, or to assure compliance with laws and regulations and the Corporation's Code of Ethics and Business Conduct.

Section 3.04(a). MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE. *Membership:* The Management Development and Compensation Committee shall consist of three (3) or more Directors who meet the independence requirements of the New York Stock Exchange. The members of the Management Development and Compensation Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Management Development and Compensation Committee a committee chairman. Upon recommendation by the Nominating and Corporate Governance Committee, the Board may remove any committee member at any time.

Purposes: The Management Development and Compensation Committee shall make recommendations to the Board of Directors concerning the compensation of the Corporation's executives and produce an annual report on executive compensation for inclusion in the Corporation's annual proxy statement.

Responsibilities: In order to achieve the purposes outlined in this charter, the Management Development and Compensation Committee shall be assigned the following responsibilities:

1. *Compensation of Chief Executive Officer.* Review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation; evaluate the Chief Executive Officer's performance in light of those goals and objectives; and recommend to the Board of Directors the Chief Executive Officer's compensation level based on this evaluation.
2. *Compensation of Senior Officers.* Review proposed candidates for senior officer positions and their development plans and recommend to the Board of Directors the compensation to be paid for services of senior elected officers of the Corporation as established by resolution of the Board from time to time.
3. *Appraise management performance/other elected officers.* Appraise the performance of management and have the power to fix the compensation of all other elected officers.
4. *Other benefits.* Make recommendations to the board with respect to incentive-compensation plans which shall include the power to approve the benefits provided by any bonus, supplemental, and special compensation plans, including pension, insurance, and health plans, but excluding performance-based executive compensation plans, and such powers as are by statute or the Charter or the Bylaws reserved to the full Board of Directors.
5. *Committee Self-Assessment.* The Management Development and Compensation Committee shall annually conduct a performance evaluation of the committee.

Authorities: In furtherance of its responsibilities, the Management Development and Compensation Committee shall possess the following authorities:

1. *Outside Advisors.* The Committee may retain, at company expense, any outside advisor, including outside counsel and consulting firms to assist in evaluating executive compensation.
2. *Delegated Authority.* The Committee may perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.
3. *Reports to Board of Directors.* The Committee shall report all action by the Management Development and Compensation Committee to the Board of Directors at its meeting next succeeding such action, which (except as specifically reserved to the Management Development and Compensation Committee by statute or the Charter or these Bylaws) shall be subject to revision and alteration by the Board of Directors.
4. *Committee Charter.* The Committee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes annually or as otherwise needed.

Section 3.04(b). STOCK OPTION SUBCOMMITTEE. *Membership:* The Stock Option Subcommittee shall consist of three (3) or more Directors of the Management Development and Compensation Committee who meet the qualifications of an independent director under Section 162(m) of the Internal Revenue Code. The members of the Stock Option Subcommittee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Stock Option Subcommittee a chairman. Upon recommendation by the Nominating and Corporate Governance Committee, the Board may remove any Subcommittee member at any time.

Responsibilities: In order to achieve the purposes outlined in this charter, the Stock Option Subcommittee shall be assigned the following responsibilities:

1. *Equity or Performance-based executive compensation.* The Stock Option Subcommittee shall serve as the Stock Option Subcommittee of the Board and shall administer any equity or performance-based executive compensation plan and approve awards granted thereunder.

Authorities: In furtherance of its responsibilities, the Stock Option Subcommittee shall possess the following authorities:

1. *Outside Advisors.* The Subcommittee may retain, at company expense, any outside advisor, including outside counsel and consulting firms to assist in evaluating executive compensation.
2. *Delegated Authority.* The Subcommittee may perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.
3. *Reports to Board of Directors.* The Subcommittee shall report all action by the Stock Option Subcommittee to the Board of Directors at its meeting next succeeding such action, which (except as specifically reserved to the Stock Option Subcommittee by statute or the Charter or these Bylaws) shall be subject to revision and alteration by the Board of Directors.

4. *Subcommittee Charter.* The Subcommittee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes annually or as otherwise needed.

Section 3.05. NOMINATING AND CORPORATE GOVERNANCE COMMITTEE. *Membership:* The Nominating and Corporate Governance Committee shall consist of three (3) or more Directors who meet the independence requirements of the New York Stock Exchange. The members of the Nominating and Corporate Governance Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Nominating and Corporate Governance Committee a committee chairman. Upon recommendation by the Nominating and Corporate Governance Committee, the Board may remove any committee member at any time.

Purposes: The Nominating and Corporate Governance Committee shall make recommendations to the Board of Directors concerning the composition of the Board and its committees including size and qualifications for membership; recommend to the Board the role of the Board in the corporate governance process; and oversee the evaluation of the Board of Directors and its committees.

Responsibilities: In order to achieve the purposes outlined in this charter, the Nominating and Corporate Governance Committee shall be assigned the following responsibilities:

1. *Nominees for Election to Board of Directors.* Recommend to the Board of Directors nominees for election to fill any vacancy occurring in the Board and fill new positions created by an increase in the authorized number of directors of the Corporation. Each year, the Nominating and Corporate Governance Committee shall recommend to the Board of Directors a slate of directors to serve as management's nominees for election by the stockholders at the annual meeting. The Committee shall annually review the criteria for selection of director nominees and shall identify individuals for nomination as directors of the Corporation whose selection is consistent with the corporate governance guidelines of the Board of Directors.
2. *Board and Committee Organization and Assignments.* Oversee the organization and function of the Board's committees; each year, the committee shall recommend to the Board of Directors the membership of each committee to be effective following the Annual Meeting of Shareholders. The Committee shall recommend the filling of any vacancy occurring on a committee, as needed.
3. *Corporate Governance Guidelines.* Develop and recommend to the Board of Directors corporate governance guidelines applicable to the Corporation and compliant with application requirements, which shall be reviewed annually or more frequently, as appropriate.
4. *Compensation of Directors.* Review and recommend to the Board of Directors the compensation of the Board of Directors, including the nature and adequacy of director and officer indemnification and liability insurance.

5. *Board and Committee Self-Assessments.* Develop and recommend to the Board of Directors an annual self-evaluation of the Board and each of its committees. The Nominating and Corporate Governance Committee shall annually conduct a performance evaluation of the committee.
6. *Presiding Director.* The Chair of the Nominating and Corporate Governance Committee shall preside as Chair at Board of Directors meetings while in non-employee executive sessions of the Board, or when the Chairman of the Board is ill, absent, incapacitated or otherwise unable to carry out the duties of Chairman.

Authorities: In furtherance of its responsibilities, the Nominating and Corporate Governance Committee shall possess the following authorities:

1. *Outside Advisors.* The Committee may retain, at company expense, any outside advisor, including outside counsel and search firms to assist in identifying director candidates.
2. *Delegated Authority.* The Committee may perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.
3. *Reports to Board of Directors.* The Committee shall report all action by the Nominating and Corporate Governance Committee to the Board of Directors at its meeting next succeeding such action, which shall be subject to revision and alteration by the Board of Directors.
4. *Committee Charter.* The Committee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes annually or as otherwise needed.

Section 3.06. OTHER COMMITTEES. The Board of Directors may by resolution provide for such other standing or special committees, composed of two (2) or more directors, and discontinue the same at its pleasure. Each such committee shall have such powers and perform such duties, not inconsistent with law, as may be assigned to it by the Board of Directors.

Section 3.07. MEETINGS OF COMMITTEES. Each committee of the Board of Directors shall fix its own rules of procedure, consistent with the provisions of any rules or resolutions of the Board of Directors governing such committee, and shall meet as provided by such rules or by resolution of the Board of Directors, and it shall also meet at the call of its chairman or any two (2) members of such committee. Unless otherwise provided by such rules or by such resolution, the provisions of the article of these Bylaws entitled the "Board of Directors" relating to the place of holding and notice required of meetings of the Board of Directors shall govern committees of the Board of Directors. A majority of each committee shall constitute a quorum thereof; provided, however, that in the absence of any member of such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a member of the Board of Directors to act in the place of such absent member. Except in cases in which it is otherwise provided by the rules of such committee or by resolution of the Board of Directors, the vote of a majority of such quorum at a duly constituted meeting shall be sufficient to pass any measure.

ARTICLE IV
OFFICERS

Section 4.01. EXECUTIVE OFFICERS—ELECTION AND TERM OF OFFICE. The Executive Officers of the Corporation shall be a Chairman of the Board, who shall also be the Chief Executive Officer, a President, such number of Vice Presidents as the Board of Directors may determine, a Secretary and a Treasurer. The Chairman and Chief Executive Officer and the President shall be chosen from among the Directors. The Executive Officers shall be elected annually by the Board of Directors at its first meeting following each annual meeting of stockholders and each such officer shall hold office until the corresponding meeting of the Board of Directors in the next year and until his or her successor shall have been duly chosen and qualified or until his or her death or until he or she shall have resigned, or shall have been removed from office in the manner provided in this Article IV. Any vacancy in any of the above offices may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

Section 4.02. CHAIRMAN OF THE BOARD. The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall preside at all meetings of the stockholders and of the Board of Directors. He shall serve as a member of the Executive Committee and, in the absence of the Chairman of the Executive Committee, preside at all meetings of the Executive Committee. Subject to the authority of the Board of Directors, he shall have general charge and supervision of the business and affairs of the Corporation. He shall have the authority to sign and execute in the name of the Corporation all deeds, mortgages, bonds, contracts or other instruments. He shall have the authority to vote stock in other corporations, and he shall perform such other duties of management as may be prescribed by resolution or as otherwise may be assigned to him by the Board of Directors. He shall have the authority to delegate such authorization and power as vested in him by these Bylaws to some other officer or employee or agent of the Corporation as he shall deem appropriate.

Section 4.03. PRESIDENT. The President shall be the Chief Operating Officer of the Corporation. He or she shall have general charge and supervision of the operations of the Corporation and shall have such other powers and duties of management as from time to time may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

Section 4.04. VICE PRESIDENTS. The Corporation shall have one (1) or more Vice Presidents, including Executive and Senior Vice Presidents as appropriate, as elected from time to time by the Board of Directors. The Vice Presidents shall perform such duties as from time to time may be assigned to them by the President.

Section 4.05. SECRETARY. The Secretary shall attend all meetings of the stockholders and of the Board of Directors and record all votes and minutes or proceedings, in books provided for that purpose; shall see that all notices of such meetings are duly given in accordance with the provisions of the Bylaws of the Corporation, or as required by law; may sign certificates of stock of the Corporation with the Chairman of the Board; shall be custodian of the corporate seal; shall see

that the corporate seal is affixed to all documents, the execution of which, on behalf of the Corporation, under its seal, is duly authorized, and when so affixed may attest the same; and in general, shall perform all duties incident to the office of a secretary of a corporation, and such other duties as from time to time may be assigned to the Secretary by the Chairman of the Board.

Section 4.06. TREASURER. The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation, and shall deposit, or cause to be deposited, in the name of the Corporation, all monies or other valuable effects in such banks, trust companies, or other depositories as shall, from time to time, be selected by the Board of Directors; and in general, shall render such reports and perform such other duties incident to the office of a treasurer of a corporation, and such other duties as from time to time may be assigned to him or her by the President.

Section 4.07. SUBORDINATE OFFICERS. The subordinate officers shall consist of such assistant officers and agents as may be deemed desirable and as may be appointed by the Chief Executive Officer or the President. Each such subordinate officer shall hold office for such period, have such authority and perform such duties as the Chief Executive Officer or the President may prescribe.

Section 4.08. OTHER OFFICERS AND AGENTS. The Board of Directors may create such other offices and appoint or provide for the appointment of such other officers and agents, attorneys-in-fact and employees as it shall deem necessary, who shall bear such titles, have such authority, receive such compensation, and provide such security for faithful service and hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 4.09. WHEN DUTIES OF AN OFFICER MAY BE DELEGATED. In the case of the absence or disability of an officer of the Corporation or for any other reason that may seem sufficient to the Board of Directors, the Board of Directors, or any officer designated by it, may, for the time being, delegate such officer's duties and powers to any other person.

Section 4.10. OFFICERS HOLDING TWO OR MORE OFFICES. Any two (2) of the above mentioned offices, except those of a Vice President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument be required by law, by the Charter or by these Bylaws, to be executed, acknowledged or verified by any two (2) or more officers.

Section 4.11. COMPENSATION. The Board of Directors shall have power to fix the compensation of all officers and employees of the Corporation.

Section 4.12. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect simultaneously with or at any time subsequent

to its delivery as shall be specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.13. REMOVAL. Any officer of the Corporation may be removed, with or without cause, by the Board of Directors, if such removal is determined in the judgment of the Board of Directors to be in the best interests of the Corporation, and any officer of the Corporation duly appointed by another officer may be removed, with or without cause, by such officer.

**ARTICLE V
STOCK**

Section 5.01. CERTIFICATES. Each stockholder shall be entitled to a certificate or certificates which shall represent and certify the number and kind of shares of stock owned by him or her in the Corporation. Such certificates shall be signed by the Chairman of the Board and countersigned by the Secretary or an Assistant Secretary, and sealed with the seal of the Corporation or a facsimile of such seal. Stock certificates shall be in such form, not inconsistent with law or with the Charter, as shall be approved by the Board of Directors. When certificates for stock of any class are countersigned by a transfer agent, other than the Corporation or its employee, or by a registrar, other than the Corporation or its employee, any other signature on such certificates may be a facsimile. In case any officer of the Corporation who has signed any certificate ceases to be an officer of the Corporation, whether because of death, resignation or otherwise, before such certificate is issued, the certificate may nevertheless be issued and delivered by the Corporation as if the officer had not ceased to be such officer as of the date of its issue.

Section 5.02. TRANSFER OF SHARES. Shares of stock shall be transferable only on the books of the Corporation only by the holder thereof, in person or by duly authorized attorney, upon the surrender of the certificate representing the shares to be transferred, properly endorsed. The Board of Directors shall have power and authority to make such other rules and regulations concerning the issue, transfer and registration of certificates of stock as it may deem expedient.

Section 5.03. TRANSFER AGENTS AND REGISTRARS. The Corporation may have one (1) or more transfer agents and one (1) or more registrars of its stock, whose respective duties the Board of Directors may, from time to time, define. No certificate of stock shall be valid until countersigned by a transfer agent, if the Corporation has a transfer agent, or until registered by a registrar, if the Corporation has a registrar. The duties of transfer agent and registrar may be combined.

Section 5.04. STOCK LEDGERS. Original or duplicate stock ledgers, containing the names and addresses of the stockholders of the Corporation and the number of shares of each class held by them respectively, shall be kept at an office or agency of the Corporation in such city or town as may be designated by the Board of Directors. If no other place is so designated such

original or duplicate stock ledgers shall be kept at an office or agency of the Corporation in New York, New York or Bethesda, Maryland.

Section 5.05. RECORD DATES. The Board of Directors is hereby empowered to fix, in advance, a date as the record date for the purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders, or stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose. Such date in any case shall be not more than ninety (90) days and, in case of a meeting of stockholders, not less than thirty (30) days, prior to the date on which the particular action, requiring such determination of stockholders, is to be taken. If a record date is not set and the transfer books are not closed, the record date for the purpose of making any proper determination with respect to stockholders shall be fixed in accordance with applicable law.

Section 5.06. NEW CERTIFICATES. In case any certificate of stock is lost, stolen, mutilated or destroyed, the Board of Directors may authorize the issue of a new certificate in place thereof upon such terms and conditions as it may deem advisable; or the Board of Directors may delegate such power to any officer or officers or agents of the Corporation; but the Board of Directors or such officer or officers, in their discretion, may refuse to issue such new certificate save upon the order of some court having jurisdiction in the premises.

ARTICLE VI INDEMNIFICATION

Section 6.01. INDEMNIFICATION OF DIRECTORS, OFFICERS, AND EMPLOYEES. The Corporation shall indemnify and hold harmless to the fullest extent permitted by, and under, applicable law as it presently exists and as is further set forth in Section 6.02 below or as may hereafter be amended any person who is or was a director, officer or employee of the Corporation or who is or was serving at the request of the Corporation as a director, officer or employee of another corporation or entity (including service with employee benefit plans), who by reason of this status or service in that capacity was, is, or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative, or investigative. Such indemnification shall be against all liability and loss suffered and expenses (including, but not limited to, attorneys' fees, judgments, fines, penalties, and amounts paid in settlement) actually and reasonably incurred by the individual in connection with such proceeding; provided, however, that the Corporation shall not be required to indemnify a person in connection with an action, suit or proceeding initiated by such person unless the action, suit or proceeding was authorized by the Board of Directors of the Corporation.

Section 6.02. STANDARD. Maryland General Corporation Law Section 2-418, on August 29, 1994, provided generally that a corporation may indemnify any individual made a party to a proceeding by reason of service on behalf of the corporation unless it is established that:

- (i) The act or omission of the individual was material to the matter giving rise to the proceeding; and
 - (1) Was committed in bad faith; or
 - (2) Was the result of active and deliberate dishonesty; or
- (ii) The individual actually received an improper personal benefit in money, property, or services; or
- (iii) In the case of any criminal proceeding, the individual had reasonable cause to believe that the act or omission was unlawful.

Section 6.03. ADVANCE PAYMENT OF EXPENSES. The Corporation shall pay or reimburse reasonable expenses in advance of a final disposition of the proceeding and without requiring a preliminary determination of the ultimate entitlement to indemnification provided that the individual first provides the Corporation with: (a) a written affirmation of the individual's good faith belief that the individual meets the standard of conduct necessary for indemnification under the laws of the State of Maryland; and (b) a written undertaking by or on behalf of the individual to repay the amount advanced if it shall ultimately be determined that the applicable standard of conduct has not been met.

Section 6.04. GENERAL. The Board of Directors, by resolution, may authorize the management of the Corporation to act for and on behalf of the Corporation in all matters relating to indemnification within any such limits as may be specified from time to time by the Board of Directors, all consistent with applicable law.

The rights conferred on any person by this Article VI shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Charter of the Corporation, these Bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

Repeal or modification of this Article VI or the relevant law shall not affect adversely any rights or obligations then existing with respect to any facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such facts.

ARTICLE VII

SUNDRY PROVISIONS

Section 7.01. SEAL. The corporate seal of the Corporation shall bear the name of the Corporation and the words "Incorporated 1994 Maryland" and "Corporate Seal."

Section 7.02. VOTING OF STOCK IN OTHER CORPORATIONS. Any shares of stock in other corporations or associations, which may from time to time be held by the Corporation, may be represented and voted at any of the stockholders' meetings thereof by the Chairman or President of the Corporation or by proxy or proxies appointed by the Chairman or President of the Corporation. The Board of Directors or Chairman, however, may by resolution or delegation appoint some other person or persons to vote such shares, in which case such person or persons shall be entitled to vote such shares upon the production of a certified copy of such resolution or delegation.

Section 7.03. AMENDMENTS. The Board of Directors shall have the exclusive power, at any regular or special meeting thereof, to make and adopt new Bylaws, or to amend, alter, or repeal any Bylaws of the Corporation, provided such revisions are not inconsistent with the Charter or statute.

Lockheed Martin Corporation
Computation of Ratio of Earnings to Fixed Charges
For the Nine Months Ended September 30, 2003
(In millions, except ratio)

| | |
|---|------------|
| Earnings | |
| Earnings from continuing operations before income taxes | \$ 1,027 |
| Interest expense | 376 |
| Losses (undistributed earnings) of 50% and less than 50% owned companies, net | (40) |
| Portion of rents representative of an interest factor | 23 |
| Amortization of debt premium and discount, net | 1 |
| | <hr/> |
| Adjusted earnings from continuing operations before income taxes | \$ 1,387 |
| | <hr/> |
| Fixed Charges | |
| Interest expense | \$ 376 |
| Portion of rents representative of an interest factor | 23 |
| Amortization of debt premium and discount, net | 1 |
| Capitalized interest | — |
| | <hr/> |
| Total fixed charges | \$ 400 |
| | <hr/> |
| Ratio of Earnings to Fixed Charges | 3.5 |
| | <hr/> |

I, Vance D. Coffman, Chairman and Chief Executive Officer, 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 officers 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)) for the registrant and we 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) 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
 - c) 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 officers 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 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.

Date: November 4, 2003

/s/ Vance D. Coffman

Vance D. Coffman
Chairman and Chief Executive Officer

I, Christopher E. Kubasik, Senior Vice President and Chief Financial Officer, 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 officers 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)) for the registrant and we 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) 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
 - c) 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 officers 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 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.

Date: November 4, 2003

/s/ Christopher E. Kubasik

Christopher E. Kubasik
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Lockheed Martin Corporation (the "Corporation") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vance D. Coffman, Chairman and Chief Executive Officer of the Corporation, 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 result of operations of the Corporation.

/s/ Vance D. Coffman

Vance D. Coffman
Chairman and Chief Executive Officer
November 4, 2003

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Lockheed Martin Corporation (the "Corporation") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher E. Kubasik, Senior Vice President and Chief Financial Officer of the Corporation, 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 result of operations of the Corporation.

/s/ Christopher E. Kubasik

Christopher E. Kubasik
Senior Vice President and Chief Financial Officer
November 4, 2003

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.