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

FORM 10-Q

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

For the quarterly period ended June 26, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

Class	Outstanding as of June 26, 2011
Common stock, \$1 par value per share	335,622,531

LOCKHEED MARTIN CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JUNE 26, 2011

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statements of Earnings

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions, except per share data)</i>			
Net Sales				
Products	\$ 9,117	\$ 9,043	\$ 17,621	\$ 17,362
Services	2,434	2,237	4,563	4,255
Total net sales	<u>11,551</u>	<u>11,280</u>	<u>22,184</u>	<u>21,617</u>
Cost of Sales				
Products	(8,123)	(8,050)	(15,726)	(15,503)
Services	(2,178)	(2,039)	(4,107)	(3,850)
Severance charges	(97)	—	(97)	—
Unallocated corporate costs	(256)	(149)	(555)	(326)
Total cost of sales	<u>(10,654)</u>	<u>(10,238)</u>	<u>(20,485)</u>	<u>(19,679)</u>
Gross profit	897	1,042	1,699	1,938
Other income, net	87	73	137	115
Operating Profit	984	1,115	1,836	2,053
Interest expense	(84)	(86)	(169)	(173)
Other non-operating income (expense), net	9	(19)	28	9
Earnings from continuing operations before income taxes	909	1,010	1,695	1,889
Income tax expense	(167)	(296)	(405)	(656)
Net earnings from continuing operations	742	714	1,290	1,233
Net earnings (loss) from discontinued operations	—	110	(18)	124
Net Earnings	<u>\$ 742</u>	<u>\$ 824</u>	<u>\$ 1,272</u>	<u>\$ 1,357</u>
Earnings (Loss) Per Common Share				
Basic				
Continuing operations	\$ 2.16	\$ 1.94	\$ 3.73	\$ 3.33
Discontinued operations	—	.30	(.05)	.33
Basic earnings per common share	<u>\$ 2.16</u>	<u>\$ 2.24</u>	<u>\$ 3.68</u>	<u>\$ 3.66</u>
Diluted				
Continuing operations	\$ 2.14	\$ 1.92	\$ 3.69	\$ 3.29
Discontinued operations	—	.30	(.05)	.33
Diluted earnings per common share	<u>\$ 2.14</u>	<u>\$ 2.22</u>	<u>\$ 3.64</u>	<u>\$ 3.62</u>
Cash Dividends Paid Per Common Share	<u>\$.75</u>	<u>\$.63</u>	<u>\$ 1.50</u>	<u>\$ 1.26</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Balance Sheets

	June 26, 2011	December 31, 2010
	<i>(In millions, except per share data)</i>	
Assets		
Current assets		
Cash and cash equivalents	\$ 3,268	\$ 2,261
Short-term investments	254	516
Receivables, net	6,547	5,692
Inventories	2,226	2,363
Deferred income taxes	1,140	1,147
Other current assets	519	518
Assets of discontinued operation held for sale	—	396
Total current assets	<u>13,954</u>	<u>12,893</u>
Property, plant and equipment, net	4,421	4,554
Goodwill	9,615	9,605
Deferred income taxes	3,268	3,485
Other assets	4,460	4,576
Total assets	<u>\$ 35,718</u>	<u>\$ 35,113</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 2,219	\$ 1,627
Customer advances and amounts in excess of costs incurred	6,037	5,890
Salaries, benefits and payroll taxes	1,819	1,870
Other current liabilities	1,981	1,810
Liabilities of discontinued operation held for sale	—	204
Total current liabilities	<u>12,056</u>	<u>11,401</u>
Long-term debt, net	5,031	5,019
Accrued pension liabilities	10,720	10,607
Other postretirement benefit liabilities	1,240	1,213
Other liabilities	3,383	3,376
Total liabilities	<u>32,430</u>	<u>31,616</u>
Stockholders' equity		
Common stock, \$1 par value per share	333	346
Additional paid-in capital	—	—
Retained earnings	11,626	12,161
Accumulated other comprehensive loss	(8,671)	(9,010)
Total stockholders' equity	<u>3,288</u>	<u>3,497</u>
Total liabilities and stockholders' equity	<u>\$ 35,718</u>	<u>\$ 35,113</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	June 26, 2011	June 27, 2010
<i>(In millions)</i>		
Operating Activities		
Net earnings	\$ 1,272	\$ 1,357
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization of plant and equipment	349	351
Amortization of purchased intangibles	39	49
Stock-based compensation	79	82
Deferred income taxes	59	34
Severance charges	97	—
Reduction in tax expense from resolution of certain tax matters	(89)	—
Tax benefit related to sale of PAE	(15)	(96)
Tax expense related to Medicare Part D reimbursement	—	96
Changes in operating assets and liabilities		
Receivables, net	(861)	(536)
Inventories	148	(199)
Accounts payable	592	242
Customer advances and amounts in excess of costs incurred	151	143
Postretirement benefit plans	622	366
Income taxes	196	588
Other, net	(112)	397
Net cash provided by operating activities	<u>2,527</u>	<u>2,874</u>
Investing Activities		
Expenditures for property, plant and equipment	(242)	(223)
Net cash provided by (used for) short-term investment transactions	260	(531)
Other, net	236	(50)
Net cash provided by (used for) investing activities	<u>254</u>	<u>(804)</u>
Financing Activities		
Repurchases of common stock	(1,313)	(1,247)
Common stock dividends	(524)	(471)
Issuances of common stock and related amounts	65	45
Cash premium and transaction costs for debt exchange	—	(47)
Other	(12)	—
Net cash used for financing activities	<u>(1,784)</u>	<u>(1,720)</u>
Effect of exchange rate changes on cash and cash equivalents	10	(19)
Net increase in cash and cash equivalents	1,007	331
Cash and cash equivalents at beginning of period	2,261	2,391
Cash and cash equivalents at end of period	<u>\$ 3,268</u>	<u>\$ 2,722</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	<i>(In millions)</i>				
Balance at December 31, 2009	\$ 373	\$ —	\$12,351	\$ (8,595)	\$ 4,129
Cumulative effect of a change in accounting principle (Note 1)	—	—	(163)	—	(163)
Balance at December 31, 2009, as adjusted	373	—	12,188	(8,595)	3,966
Net earnings	—	—	1,357	—	1,357
Repurchases of common stock	(16)	(251)	(1,031)	—	(1,298)
Common stock dividends declared	—	—	(704)	—	(704)
Stock-based awards and ESOP activity	3	251	—	—	254
Other comprehensive income	—	—	—	212	212
Balance at June 27, 2010	<u>\$ 360</u>	<u>\$ —</u>	<u>\$11,810</u>	<u>\$ (8,383)</u>	<u>\$ 3,787</u>
Balance at December 31, 2010	\$ 346	\$ —	\$12,372	\$ (9,010)	\$ 3,708
Cumulative effect of a change in accounting principle (Note 1)	—	—	(211)	—	(211)
Balance at December 31, 2010, as adjusted	346	—	12,161	(9,010)	3,497
Net earnings	—	—	1,272	—	1,272
Repurchases of common stock	(17)	(261)	(1,021)	—	(1,299)
Common stock dividends declared	—	—	(786)	—	(786)
Stock-based awards and ESOP activity	4	261	—	—	265
Other comprehensive income	—	—	—	339	339
Balance at June 26, 2011	<u>\$ 333</u>	<u>\$ —</u>	<u>\$11,626</u>	<u>\$ (8,671)</u>	<u>\$ 3,288</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

We prepared the condensed consolidated financial statements in this Form 10-Q in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. We followed the accounting policies used and disclosed in the consolidated financial statements included in our Form 10-K for the year ended December 31, 2010 (2010 Form 10-K) filed with the Securities and Exchange Commission, except as described below.

We close our books and records on the Sunday prior to the end of the calendar quarter to align our financial closing with our business processes. The interim financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods, as our fiscal years end on December 31.

The interim financial information in this Form 10-Q reflects all adjustments, consisting of normal recurring adjustments, except as otherwise disclosed, necessary for a fair presentation of our results of operations for the interim periods presented. We have reclassified certain amounts in prior years to conform to the current year presentation. The results of operations for the quarter or six months ended June 26, 2011 are not necessarily indicative of results to be expected for the full year. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a “per diluted share” basis from continuing operations.

Change in Accounting Principle

On January 1, 2011, we changed the way we account for our services contracts with the U.S. Government. We now recognize sales on those contracts using the percentage-of-completion (POC) method that we use on our product contracts with the U.S. Government, such that approximately 95% of our sales are recognized under the POC method. All prior period amounts have been adjusted to reflect the new method of accounting.

The effect of this change in accounting was not material to our consolidated results of operations or financial position for any period, including the quarters and six months ended June 26, 2011 and June 27, 2010, and did not impact cash flows. We reduced retained earnings by \$211 million at December 31, 2010 to reflect the cumulative effect of adopting the new method. This adjustment reflects the inception-to-date timing differences between the two methods. Specifically, under the POC method, we typically record sales based on costs incurred and an estimated profit margin instead of recording sales ratably over the contract period. We record a loss on a contract in the period it is determined to be probable rather than recording a loss each period over the contract life, and recognize expected award fees over the contract period instead of when notified by the customer of the amount awarded.

We believe the POC method is preferable to the service accounting method we previously used, as consistent sales recognition for all contracts with the U.S. Government better reflects the underlying economics of those contracts and aligns our financial reporting with other companies in our industry. We classify net sales as products or services on our Statements of Earnings based on the attributes of the underlying contracts.

Adoption of New Accounting Standard

On January 1, 2011, we prospectively adopted a new accounting standard that revised accounting guidance related to sales arrangements with multiple deliverables. This standard potentially applies to new or materially modified contracts that are not accounted for under the POC method described above. The adoption did not have a material effect on our financial results in the quarter and six months ended June 26, 2011, and is not expected to have a material effect in future periods.

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

NOTE 2 – CERTAIN MATTERS INCLUDED IN EARNINGS

Severance Charges

In the second quarter of 2011, we recorded severance charges totaling \$97 million, net of state tax benefits, of which \$49 million and \$48 million related to our Aeronautics and Space Systems business segments. The charges reduced our net earnings by \$63 million (\$.18 per share) and consisted of severance costs associated with the planned elimination of certain positions (both direct and indirect) through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments based on years of service, which are expected to be paid in the second half of 2011.

These severance actions resulted from a strategic review of these businesses to better align our organization and cost structure with changing economic conditions. Specifically, the workforce reduction at Aeronautics is reflective of the global economic conditions which are forcing governments to reduce spending below levels previously planned. The headcount reduction at Space Systems primarily reflects program lifecycles, where several of our major programs are transitioning out of development and into production.

In the third quarter of 2010, we recorded a charge to cost of sales, net of state income tax benefits, of \$178 million related to the Voluntary Executive Separation Program (VESP) that we announced in July 2010. The effective date of termination of employment for most participants was February 1, 2011, with the lump-sum special payments to be made within 90 days from separation of service. We have made payments under the program since 2010 with over 90% of the lump-sum special payments made in the second quarter of 2011.

Income Tax Items

In April 2011, the U.S. Congressional Joint Committee on Taxation completed its review of the Internal Revenue Service (IRS) Appeals Division's resolution of certain adjustments related to our tax years 2003-2008. As a result, in the second quarter of 2011, we recorded a reduction in our income tax expense of \$89 million (\$.26 per share for the second quarter and \$.25 per share for the six-month period) through the elimination of liabilities for unrecognized tax benefits. The remaining balance of our unrecognized tax benefits as of June 26, 2011 is not material.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Beginning January 1, 2013, these laws change the tax treatment for retiree prescription drug expenses by eliminating the tax deduction available to the extent that those expenses are reimbursed under Medicare Part D. Because the tax benefits associated with these future deductions were reflected as deferred tax assets, the elimination of the tax deductions resulted in a reduction in deferred tax assets and an increase in income tax expense of \$96 million (\$.25 per share) for the six months ended June 27, 2010.

NOTE 3 – DISCONTINUED OPERATIONS

In June 2010, we announced plans to divest Pacific Architects and Engineers, Inc. (PAE) and most of our Enterprise Integration Group (EIG), two businesses within our Information Systems & Global Solutions (IS&GS) reporting segment. In November 2010, we closed on the sale of EIG. In April 2011, we closed on the sale of PAE for cash and the beneficial interest in certain receivables. Additional amounts related to the completion of certain post-closing items, such as working capital adjustments, and for PAE, the collection of certain receivables, may be recorded in discontinued operations in periods subsequent to the sale dates.

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

EIG's operating results are included in discontinued operations on our Statements of Earnings for the quarter and six months ended June 27, 2010. PAE's operating results are included in discontinued operations on our Statements of Earnings for the quarter and six months ended June 27, 2010 and through the date of sale in 2011. PAE's assets and liabilities are classified as held for sale on our December 31, 2010 Balance Sheet. In the following table, we have combined the results of operations of PAE and EIG for the quarter and six months ended June 27, 2010, as the amounts for the individual businesses are not material. As a result of our decision to sell PAE in June 2010, we were required to record a deferred tax asset to reflect the tax benefit that we expected to realize on the sale of PAE, because our tax basis was higher than our book basis. Accordingly, we recorded a \$15 million and \$96 million deferred tax asset in the first quarter of 2011 and the second quarter of 2010. Summary financial information related to discontinued operations is as follows:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions)</i>			
Net sales	\$ —	\$ 300	\$ 142	\$ 597
Earnings (loss) before income taxes	\$ —	\$ 22	\$ (35)	\$ 43
Earnings (loss) after income taxes	\$ —	\$ 14	\$ (33)	\$ 28
Tax benefit from recognition of deferred tax asset related to PAE sale	—	96	15	96
Net earnings (loss) from discontinued operations	<u>\$ —</u>	<u>\$ 110</u>	<u>\$ (18)</u>	<u>\$ 124</u>

The major classes of assets and liabilities related to PAE and classified as held for sale on our December 31, 2010 Balance Sheet is listed in the table below.

	December 31, 2010
	<i>(In millions)</i>
Assets	
Receivables, net	\$ 253
Goodwill and other assets	143
Assets of discontinued operation held for sale	<u>\$ 396</u>
Liabilities	
Accounts payable and accrued expenses	\$ 125
Other liabilities	79
Liabilities of discontinued operation held for sale	<u>\$ 204</u>

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

NOTE 4 – EARNINGS PER COMMON SHARE

We compute basic and diluted earnings per share amounts based on net earnings for the periods presented. We use the weighted average number of common shares outstanding during the period to calculate basic earnings per share. Our calculation of diluted per share amounts includes the dilutive effects of stock options and restricted stock units based on the treasury stock method.

The calculations of basic and diluted earnings per share are as follows:

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 26, 2011</u>	<u>June 27, 2010</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	<i>(In millions, except per share data)</i>			
Net earnings:				
Net earnings from continuing operations	\$ 742	\$ 714	\$ 1,290	\$ 1,233
Net earnings (loss) from discontinued operations	—	110	(18)	124
Net earnings for basic and diluted computations	<u>\$ 742</u>	<u>\$ 824</u>	<u>\$ 1,272</u>	<u>\$ 1,357</u>
Weighted average common shares outstanding:				
Average number of common shares outstanding for basic computations	342.8	367.6	345.6	370.6
Dilutive stock options and restricted stock units	3.8	4.1	4.0	4.1
Average number of common shares outstanding for diluted computations	<u>346.6</u>	<u>371.7</u>	<u>349.6</u>	<u>374.7</u>
Earnings (loss) per common share:				
Basic				
Continuing operations	\$ 2.16	\$ 1.94	\$ 3.73	\$ 3.33
Discontinued operations	—	.30	(.05)	.33
Basic earnings per common share	<u>\$ 2.16</u>	<u>\$ 2.24</u>	<u>\$ 3.68</u>	<u>\$ 3.66</u>
Diluted				
Continuing operations	\$ 2.14	\$ 1.92	\$ 3.69	\$ 3.29
Discontinued operations	—	.30	(.05)	.33
Diluted earnings per common share	<u>\$ 2.14</u>	<u>\$ 2.22</u>	<u>\$ 3.64</u>	<u>\$ 3.62</u>

Stock options to purchase 16.9 million shares of common stock for both the quarter and six months ended June 26, 2011 and 14.7 million shares of common stock for both the quarter and six months ended June 27, 2010 were not included in the computation of diluted earnings per share, as their effect would have been anti-dilutive.

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

NOTE 5 – BUSINESS SEGMENT INFORMATION

We operate in four principal business segments: Aeronautics, Electronic Systems, IS&GS, and Space Systems. We organize our business segments based on the nature of the products and services offered.

The financial information in the following table excludes the PAE and EIG businesses from the IS&GS business segment information (Note 3) for all periods presented. Also, the financial information in the following table for 2010 has been adjusted to reflect our change in the methodology for recognizing net sales for services contracts with the U.S. Government (Note 1).

The following table presents net sales and operating profit of our four business segments. Net sales exclude intersegment revenue, as these activities are eliminated in consolidation. Intercompany transactions are generally negotiated under terms and conditions similar to other government and commercial contracts. Operating profit of the business segments includes the equity earnings or losses from investees in which certain of our business segments hold equity interests, because the activities of the investees are closely aligned with the operations of those segments.

Operating profit of the business segments excludes the FAS/CAS pension adjustment (defined below); expense for certain stock-based compensation programs, including costs for stock options and restricted stock units; the effects of items not considered part of management's evaluation of segment operating performance; gains or losses from divestitures; the effects of legal settlements; Corporate costs not allocated to the business segments; and other miscellaneous Corporate activities. These items are included in "Unallocated corporate expense, net" in the following table which reconciles operating profit from the business segments to operating profit in our Statements of Earnings.

The results of operations of our business segments include pension expense only as determined and funded in accordance with U.S. Government Cost Accounting Standards (CAS) rules. The FAS/CAS pension adjustment represents the difference between pension expense or income calculated under financial accounting standards (FAS) in accordance with GAAP and pension expense calculated and funded in accordance with CAS. CAS is a major factor in determining our pension funding requirements, and governs the extent to which pension costs can be allocated to and recovered on U.S. Government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in each of our business segments' net sales and cost of sales.

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

Selected Financial Data by Business Segment

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions)</i>			
Net sales				
Aeronautics	\$ 3,423	\$ 3,143	\$ 6,605	\$ 6,083
Electronic Systems	3,755	3,534	7,214	6,784
Information Systems & Global Solutions	2,361	2,522	4,510	4,756
Space Systems	2,012	2,081	3,855	3,994
Total ⁽¹⁾	<u>\$11,551</u>	<u>\$11,280</u>	<u>\$22,184</u>	<u>\$21,617</u>
Operating profit				
Aeronautics	\$ 400	\$ 370	\$ 731	\$ 701
Electronic Systems	466	441	883	820
Information Systems & Global Solutions	213	210	407	407
Space Systems	263	246	480	453
Total business segments	1,342	1,267	2,501	2,381
Unallocated corporate expense, net	(358)	(152)	(665)	(328)
Total	<u>\$ 984</u>	<u>\$ 1,115</u>	<u>\$ 1,836</u>	<u>\$ 2,053</u>
Intersegment revenue				
Aeronautics	\$ 45	\$ 35	\$ 82	\$ 74
Electronic Systems	255	232	504	449
Information Systems & Global Solutions	213	243	408	451
Space Systems	26	37	51	60
Total	<u>\$ 539</u>	<u>\$ 547</u>	<u>\$ 1,045</u>	<u>\$ 1,034</u>

(1) Approximately 84% and 82% of our total net sales for the quarter and six months ended June 26, 2011 were made with the U.S. Government. The remainder of our total net sales primarily were made with international customers, including sales made to foreign governments through the U.S. Government (i.e., foreign military sales), which represented 15% of total net sales for the quarter and 17% for the six months ended June 26, 2011.

Approximately 85% of our total net sales for the quarter and six months ended June 27, 2010 were made with the U.S. Government. The remainder of our total net sales primarily were made with international customers, which represented 14% of total net sales for the quarter and six months ended June 27, 2010. These percentages are consistent with fiscal year 2010, during which international sales were 14% of total net sales.

	June 26, 2011	December 31, 2010
	<i>(In millions)</i>	
Assets		
Aeronautics	\$ 5,913	\$ 5,231
Electronic Systems	9,991	9,925
Information Systems & Global Solutions	5,441	5,463
Space Systems	3,225	3,041
Total business segments	24,570	23,660
Corporate assets ⁽¹⁾	11,148	11,057
Assets of discontinued operation held for sale	—	396
Total	<u>\$35,718</u>	<u>\$ 35,113</u>

(1) Corporate assets primarily include cash and cash equivalents, short-term investments, deferred income taxes, deferred environmental assets, and investments held in a Rabbi Trust.

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

NOTE 6 – INVENTORIES

Inventories consisted of the following components:

	<u>June 26, 2011</u>	<u>December 31, 2010</u>
<i>(In millions)</i>		
Work-in-process, primarily related to long-term contracts and programs in progress	\$ 7,028	\$ 6,508
Less: Customer advances and progress payments	(5,248)	(4,788)
	1,780	1,720
Other inventories	446	643
Total inventories	<u>\$ 2,226</u>	<u>\$ 2,363</u>

NOTE 7 – POSTRETIREMENT BENEFIT PLANS

The net pension cost and the net postretirement benefit cost related to our qualified defined benefit pension plans and our retiree medical and life insurance plans include the following components:

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 26, 2011</u>	<u>June 27, 2010</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
<i>(In millions)</i>				
Qualified defined benefit pension plans				
Service cost	\$ 244	\$ 226	\$ 487	\$ 451
Interest cost	479	469	959	938
Expected return on plan assets	(508)	(507)	(1,016)	(1,014)
Amortization of prior service cost	21	20	41	41
Recognized net actuarial losses	220	149	440	298
Total net pension expense	<u>\$ 456</u>	<u>\$ 357</u>	<u>\$ 911</u>	<u>\$ 714</u>
Retiree medical and life insurance plans				
Service cost	\$ 8	\$ 9	\$ 16	\$ 18
Interest cost	40	41	81	82
Expected return on plan assets	(35)	(32)	(70)	(64)
Amortization of prior service cost	(4)	(4)	(8)	(8)
Recognized net actuarial losses	9	7	17	13
Total net postretirement expense	<u>\$ 18</u>	<u>\$ 21</u>	<u>\$ 36</u>	<u>\$ 41</u>

Based on our known requirements as of June 26, 2011, approximately \$1.0 billion of contributions related to our qualified defined benefit pension plans are expected to be required in 2011. We made \$325 million in contributions to those plans during the quarter and six months ended June 26, 2011. We plan to make additional contributions of \$975 million this year, inclusive of required amounts, for a total of \$1.3 billion. We also may review options for further voluntary contributions in 2011. We do not expect any contributions to be required related to the retiree medical and life insurance plans in 2011.

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

NOTE 8 – LEGAL PROCEEDINGS AND CONTINGENCIES

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings discussed below, will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment, and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress. Unless otherwise indicated, a range of loss associated with any individual legal proceeding set forth below reasonably cannot be estimated. We cannot predict the outcome of legal proceedings with certainty. These matters include the following items that have been previously reported.

Legal Proceedings

On July 20, 2011, the City of Pontiac General Employees Retirement System filed a class action lawsuit against us and two of our executive officers (Robert J. Stevens, Chairman and Chief Executive Officer, and Bruce L. Tanner, Executive Vice President and Chief Financial Officer) in the U.S. District Court for the Southern District of New York. The complaint, filed on behalf of purchasers of our common stock from April 21, 2009 through July 21, 2009, alleges that we violated certain sections of the federal securities laws (including Sections 10(b) and 20(a) of the Securities Exchange Act of 1934) by allegedly making statements, primarily about the then-expected performance of our IS&GS business segment, that contained either false statements of material facts or omitted material facts necessary to make the statements made not misleading, or engaged in other acts that operated as an alleged fraud upon class members who purchased our common stock during that period. The complaint further alleges that the statutory safe harbor provided for forward-looking statements does not apply to any of the allegedly false statements. The complaint does not allege a specific amount of monetary damages. We believe that the allegations are without merit and intend to defend against the action and any related actions that may be filed.

On June 24, 2009, the U.K. Ministry of Defence (MoD) sent us a letter alleging that we were in default on the "Soothsayer" contract under which we were providing electronic warfare equipment to the British military. The total value of the contract is UK £144 million, of which UK £39 million has been paid to date (representing approximately US \$230 million and US \$62 million, based on the exchange rate as of June 26, 2011). The MoD has demanded repayment of amounts paid under the contract, liquidated damages of UK £2 million (representing approximately US \$3 million based on the exchange rate as of June 26, 2011), and interest on those amounts, and has reserved the right to collect any excess future re-procurement costs. We dispute the MoD's position. We have commenced an arbitration proceeding against the MoD pursuant to the contract terms and are seeking damages for wrongful termination of the contract.

On April 24, 2009, we filed a declaratory judgment action against the N.Y. Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of N.Y. to find that the MTA is in material breach of our agreement based on the MTA's failure to provide access to sites where work must be performed and customer-furnished equipment necessary to complete the contract. The contract has a total value of \$323 million, of which \$241 million has been paid to date. The MTA filed an answer and counterclaim alleging that we breached the contract, and subsequently terminated the contract for alleged default. The MTA is seeking monetary damages and other relief under the contract, including the cost to complete the contract and potential re-procurement costs. We dispute the MTA's allegations and are defending against them. Discovery is proceeding in the action.

On November 30, 2007, the Department of Justice (DoJ) filed a complaint in partial intervention in a lawsuit filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Northern District of Texas, United States ex rel. Becker and Spencer v. Lockheed Martin Corporation et al., alleging that we should have known that a subcontractor falsified and inflated invoices submitted to us that were passed through to the government. The DoJ is seeking approximately \$80 million in damages, including interest but excluding potential penalties under the False Claims Act. We dispute the allegations and are defending against them.

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

On September 11, 2006, we and Lockheed Martin Investment Management Company (LMIMCo), a subsidiary, were named as defendants in a lawsuit filed in the U.S. District Court for the Southern District of Illinois, seeking to represent a class of purportedly similarly situated participants and beneficiaries in two of our 401(k) plans. Plaintiffs allege that we or LMIMCo caused our plans to pay expenses that were higher than reasonable by, among other actions, permitting service providers of the plans to engage in revenue sharing, paying investment management fees for the company stock funds, and causing the company stock funds to hold cash for liquidity, thus reducing the return on those funds. The plaintiffs also allege that we failed to disclose information appropriately relating to the fees associated with managing the plans. In August 2008, plaintiffs filed an amended complaint, adding allegations that we breached fiduciary duties under ERISA by providing inadequate disclosures with respect to the Stable Value Fund offered under our 401(k) plans. The complaint does not allege a specific calculation of damages, and we cannot reasonably estimate the possible loss, or range of loss, which could be incurred if the plaintiffs were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them. On March 31, 2009, the Judge dismissed a number of the plaintiffs' claims, leaving three claims for trial, specifically the plaintiffs' claims involving the company stock funds, the Stable Value Fund, and overall fees. The Court also granted class certification on two of the plaintiffs' claims. We appealed the class certification. On March 15, 2011, the U.S. Court of Appeals for the Seventh Circuit vacated the Court's class certification. The case has been remanded to the District Court.

On August 28, 2003, the DoJ filed complaints in partial intervention in two 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 DoJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing, and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The complaint does not allege a specific calculation of damages, and we cannot reasonably estimate the possible loss, or range of loss, which could be incurred if the plaintiff were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

As described in the "Environmental Matters" discussion below, 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 matters and remediation obligations. This includes the litigation we have been in with certain residents of Redlands, California since 1997 before the California Superior Court for San Bernardino County regarding allegations of personal injury, property damage, and other tort claims on behalf of individuals arising from our alleged contribution to regional groundwater contamination. In 2006, the California Court of Appeal dismissed the plaintiffs' punitive damages claim. In 2008, the trial court dismissed the remaining first tier plaintiffs, ending the first round of individual trials. The dismissal was affirmed by both the California Court of Appeal and the California Supreme Court. The trial court has now established the procedures for the litigation of the next round of individual plaintiffs, and pre-trial proceedings are now underway. The complaint does not allege a specific calculation of damages, and we cannot reasonably estimate the possible loss, or range of loss, which could be incurred if the plaintiffs were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

Environmental Matters

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities, or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record an asset

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

for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to be unallowable for pricing under U.S. Government contracts, in our cost of sales at the time the liability is established. At June 26, 2011, and December 31, 2010, the aggregate amount of liabilities recorded relative to environmental matters was \$921 million and \$935 million, of which \$807 million is recorded in other liabilities on the Balance Sheets at June 26, 2011 and December 31, 2010, with the remainder recorded in other current liabilities. We have recorded assets totaling \$797 million and \$810 million at June 26, 2011, and December 31, 2010, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. Of those amounts, \$699 million are recorded in other assets on the Balance Sheets at June 26, 2011 and December 31, 2010, with the remainder recorded in other current assets. We project costs and recovery of costs over approximately twenty years.

Environmental cleanup activities usually span several years, which make estimating liabilities a matter of judgment because of such factors as changing remediation technologies, assessments of the extent of contamination, and continually evolving regulatory environmental standards. We consider these and other factors in estimates of the timing and amount of any future costs that may be required for remediation actions, which results in the calculation of a range of estimates for a particular environmental remediation site.

We perform quarterly reviews of the status of our environmental remediation sites and the related liabilities and assets. We record a liability when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our best estimate of the costs to be incurred for remediation at a particular site within a range of estimates for that site or, in cases where no amount within the range is better than another, we record an amount at the low end of the range. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined.

We cannot reasonably determine the extent of our financial exposure in all cases at this time. There are a number of former operating facilities that we are monitoring or investigating for potential future remediation. In some cases, although a loss may be probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory standard. We also are pursuing claims for contribution to site cleanup costs against other PRPs, including the U.S. Government.

In January 2011, both the U.S. Environmental Protection Agency and the California Office of Environmental Health Hazard Assessment announced plans to regulate two chemicals, perchlorate and hexavalent chromium, to levels that are expected to be substantially lower than the existing respective standards established in California. The rulemaking processes are lengthy ones and may take one or more years to complete. If substantially lower standards are adopted, we would expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular quarter.

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

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

Letters of Credit, Surety Bonds, and Third-Party Guarantees

We have entered into standby letters of credit, surety bonds, and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds are generally available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as joint venture partners. We have total outstanding letters of credit, surety bonds, and third-party guarantees aggregating \$4.1 billion and \$4.2 billion at June 26, 2011 and December 31, 2010. Of these amounts, approximately \$1.0 billion relate to third-party guarantees.

Approximately 90% and 85% of the \$1.0 billion in third-party guarantees outstanding at June 26, 2011 and December 31, 2010 related to guarantees of the contractual performance of joint ventures to which we are currently or were previously a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the joint venture partners. We evaluate the reputation, technical capabilities, and credit quality of potential joint venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. We believe our current and former joint venture partners will be able to perform their obligations, as they have done through June 26, 2011, and that it will not be necessary to make payments under the guarantees.

United Launch Alliance

In connection with our 50% ownership interest of United Launch Alliance, L.L.C. (ULA), we and The Boeing Company (Boeing) have each received distributions totaling \$305 million which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its \$400 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for certain financial support arrangements (e.g., letters of credit, surety bonds, or foreign exchange contracts provided by either party) and guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through June 26, 2011, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

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

NOTE 9 – FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on our Balance Sheets on a recurring basis, and their level within the fair value hierarchy:

<u>As of June 26, 2011</u>	Fair Value Hierarchy ⁽¹⁾		Total
	Level 1	Level 2	
	(In millions)		
Assets			
Equity securities	\$ 90	\$ —	\$ 90
Mutual funds	346	—	346
U.S. Government securities	—	510	510
Other securities	—	103	103
Derivative assets	—	39	39
Liabilities			
Derivative liabilities	—	28	28

<u>As of December 31, 2010</u>	Fair Value Hierarchy ⁽¹⁾		Total
	Level 1	Level 2	
	(In millions)		
Assets			
Equity securities	\$ 86	\$ —	\$ 86
Mutual funds	450	—	450
U.S. Government securities	—	719	719
Other securities	—	104	104
Derivative assets	—	26	26
Liabilities			
Derivative liabilities	—	33	33

- (1) We considered the following fair value hierarchy to prioritize the inputs we used in the valuation techniques to determine the fair values of the assets and liabilities included in the preceding tables:
- Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities. Level 1 assets in the preceding tables include equity securities and interests in mutual funds which are valued using quoted market prices.
 - Level 2 – Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets. Level 2 assets in the preceding tables are valued based on inputs other than quoted prices that are observable for the asset (e.g., interest rates and yield curves observable at commonly quoted intervals). The Level 2 derivative assets and liabilities relate to foreign currency exchange and interest rate swap contracts and are valued based on observable market prices, but are not exchanged in an active market.

We maintain a Rabbi Trust which includes investments to fund certain of our non-qualified deferred compensation plans. Investments in the trust are classified as trading securities and, accordingly, changes in their fair values are recorded in other non-operating income (expense), net. As of June 26, 2011 and December 31, 2010, investments in the trust totaled \$795 million and \$843 million and are included within the investment securities categories listed in the tables above. Those investment categories also include available-for-sale securities not held in the trust that we have classified as short-term investments on our Balance Sheets. As of June 26, 2011 and December 31, 2010, these securities primarily consisted of U.S. Treasury securities with a fair value of approximately \$250 million and \$500 million, which are contractually scheduled to mature in 2011. The cost basis of these securities was not materially different from their respective fair value in any periods presented.

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

Derivative assets and liabilities included in the tables above relate to derivative financial instruments that we use to manage our exposure to fluctuations in foreign currency exchange rates and interest rates. Foreign currency exchange contracts are entered into to manage the exchange rate risk of forecasted foreign currency denominated cash receipts and cash payments. The majority of our foreign currency exchange contracts are designated as cash flow hedges. We also use derivative financial instruments to manage our exposure to changes in interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate, long-term debt. Our interest rate swap contracts are designated as fair value hedges. We do not hold or issue derivative financial instruments for trading or speculative purposes.

The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to the effective portion of hedges that we consider highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items, or reflected net of income taxes in accumulated other comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are attributable to the ineffective portion of the hedges, or of derivatives that are not considered to be highly effective hedges, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding foreign currency exchange contracts at June 26, 2011 and December 31, 2010 was \$2.0 billion and \$2.2 billion. The aggregate notional amount of our interest rate swap contracts at June 26, 2011 was \$450 million, and we had no interest rate swap contracts outstanding at December 31, 2010. The effect of our derivative instruments on our Statements of Earnings for the quarters and six months ended June 26, 2011 and June 27, 2010, and on our Balance Sheets as of June 26, 2011 and December 31, 2010, was not material.

Our cash equivalents include highly liquid instruments with remaining maturities at the date of acquisition of 90 days or less. Due to the short maturity of these instruments, the carrying amount on our Balance Sheets approximates fair value. Our accounts receivable and accounts payable are carried at cost, which approximates fair value. The estimated fair values of our long-term debt instruments at June 26, 2011 and December 31, 2010, aggregated \$6,194 million and \$6,211 million, compared with a carrying amount of \$5,533 million and \$5,524 million, which excludes the \$502 million and \$505 million unamortized discount. The fair values of our long-term debt instruments were estimated based on quoted market prices of debt with terms and due dates similar to our long-term debt instruments.

NOTE 10 – OTHER

Long-term Debt

In May 2010, we issued \$728 million of new 5.72% Notes due 2040 (the New Notes) in exchange for \$611 million of our then outstanding debt securities (the Old Notes). We paid a premium of \$158 million in the exchange, of which \$117 million was in the form of New Notes. The remaining \$41 million, along with \$6 million in expenses associated with the transaction, was paid in cash and is included in the Statement of Cash Flows in financing activities. The premium paid to exchange the Old Notes was recorded as a discount on the New Notes and will be amortized as additional interest expense over the life of the New Notes, using the effective interest method.

Stockholders' Equity

Share Repurchase Program

During the first six months of 2011, we repurchased a total of 16.5 million shares of our common stock for \$1,299 million, of which 0.6 million shares for \$49 million were settled and paid for in July 2011. We paid cash totaling \$1,313 million for share repurchases in the first six months of 2011, which included \$63 million for shares we repurchased in December 2010 but that were not paid for until January 2011. During the first six months of 2010, we repurchased a total of 16.2 million shares for \$1,298 million, of which 0.6 million shares for \$51 million were settled and paid for in July 2010.

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

Our share repurchase program provides for the repurchase of our common stock from time-to-time, up to an authorized amount of \$3 billion. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. As of June 26, 2011, we had repurchased a total of 27.7 million shares under the program for \$2,074 million, and there remained \$926 million authorized for additional share repurchases.

As we repurchase our common shares, we reduce common stock for the \$1 of par value of the shares repurchased, with the remainder of the purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess of purchase price over par value as a reduction of retained earnings.

Stock Option and Restricted Stock Unit Grants

In January 2011, we granted a total of 2.5 million options to purchase our common stock to key employees at an exercise price of \$79.60. The fair value of each option on the date of grant was \$13.06. We recognize compensation cost for most of these stock options ratably over the three-year vesting period. In addition, we granted 1.9 million restricted stock units (RSUs) to key employees. The fair value of each RSU on the date of grant was \$79.43 and was based on the market value of a share of our common stock on the date of the award. We recognize the related compensation expense ratably over the three-year vesting period.

Dividends

During the first six months of 2011, we declared and paid quarterly dividends totaling \$524 million (\$.75 per share). In June 2011, we also declared our third quarter dividend totaling \$258 million (\$.75 per share), which was recorded as a current liability and a reduction of retained earnings on the declaration date. The dividend will be paid in September 2011. During the first six months of 2010, we declared and paid quarterly dividends totaling \$471 million (\$.63 per share).

Comprehensive Income

The components of comprehensive income consisted of the following:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions)</i>			
Net earnings	\$ 742	\$ 824	\$1,272	\$1,357
Other comprehensive income (loss):				
Adjustment for postretirement benefit plans, net of tax	165	115	330	231
Other, net	(8)	(6)	9	(19)
Total other comprehensive income	157	109	339	212
Comprehensive income	<u>\$ 899</u>	<u>\$ 933</u>	<u>\$1,611</u>	<u>\$1,569</u>

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

The adjustment for postretirement benefit plans relates to the components of net postretirement benefit plan expense that represent recognized net actuarial losses and the amortization of prior service costs, net of tax (Note 7). The net actuarial loss recognition relates primarily to investment losses incurred in 2008 on the assets held in a trust to support our qualified defined benefit pension plans, which previously had been recorded on the Balance Sheet as a reduction to stockholders' equity in other comprehensive income (loss). When we recognize expense for such items in subsequent periods, we record an increase to stockholders' equity in other comprehensive income (loss) for the after-tax effects. We have revised the June 27, 2010 Statement of Stockholders' Equity to include a reclassification adjustment for these items by increasing stockholders' equity through other comprehensive income (loss) by \$231 million, with related adjustments to deferred income taxes and postretirement benefit plan liabilities.

Income Taxes

We made federal and foreign income tax payments, net of refunds received, of \$229 million during the six months ended June 26, 2011. We received federal and foreign income tax refunds, net of payments made, of \$69 million during the six months ended June 27, 2010. These amounts included refunds of \$250 million and \$325 million received in the first quarter of 2011 and 2010 from the IRS related to estimated taxes paid for the 2010 and 2009 calendar years.

Changes in Estimates

Accounting for contracts under the POC method requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance), and making assumptions for schedule and technical issues. Due to the scope and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables and, accordingly, are subject to change. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of such changes.

At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract, or may decrease if we are not successful in retiring the risks and, as a result, our estimated costs at completion increase.

Our net profit booking rate adjustments resulting from changes in estimates increased operating profit, net of state taxes, by approximately \$425 million and \$350 million for the quarters ended June 26, 2011 and June 27, 2010, and approximately \$750 million and \$650 million for the six months ended June 26, 2011 and June 27, 2010. These adjustments increased net earnings by approximately \$275 million (\$.80 per share) and \$225 million (\$.60 per share) for the quarters ended June 26, 2011 and June 27, 2010, and approximately \$500 million (\$1.45 per share) and \$425 million (\$1.15 per share) for the six months ended June 26, 2011 and June 27, 2010.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued a new standard which changes the requirements for presenting comprehensive income in the financial statements. The new standard eliminates the option to present other comprehensive income (OCI) in the statement of stockholders' equity and instead requires net income, components of

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

OCI, and total comprehensive income to be presented in one continuous statement or two separate but consecutive statements. The standard will be effective for us beginning with our first quarter 2012 reporting and will be applied retrospectively. The adoption of the standard will not have an effect on our results of operations, financial position, or cash flows as it only requires a change in the presentation of OCI in our consolidated financial statements.

Lockheed Martin Corporation
Report of Ernst & Young LLP,
Independent Registered Public Accounting Firm

Board of Directors
Lockheed Martin Corporation

We have reviewed the condensed consolidated balance sheet of Lockheed Martin Corporation as of June 26, 2011, and the related condensed consolidated statements of earnings for the quarters and six months ended June 26, 2011 and June 27, 2010, and the condensed consolidated statements of cash flows and stockholders' equity for the six months ended June 26, 2011 and June 27, 2010. These financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated February 24, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

McLean, Virginia
July 27, 2011

Lockheed Martin Corporation

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

We are a global security company and principally engage in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We provide a broad range of management, engineering, technical, scientific, logistic, and information services. We serve both domestic and international customers with products and services that have defense, civil, and commercial applications, with our principal customers being agencies of the U.S. Government. In 2010, approximately 85% of our \$45.8 billion in net sales were to the U.S. Government, either as a prime contractor or as a subcontractor. Our U.S. Government sales were to both Department of Defense (DoD) and non-DoD agencies. The remainder of our net sales primarily were to international customers (including foreign military sales funded, in whole or in part, by the U.S. Government), which represented approximately 14% of our 2010 net sales. Our main areas of focus are in defense, space, intelligence, homeland security, and government information technology.

We operate in four principal business segments: Aeronautics, Electronic Systems, Information Systems & Global Solutions (IS&GS), and Space Systems. We organize our business segments based on the nature of the products and services offered.

The following discussion should be read along with our 2010 Form 10-K filed with the Securities and Exchange Commission, and with the unaudited condensed consolidated financial statements included in this Form 10-Q.

As disclosed in Note 1, on January 1, 2011, we changed the way we account for our services contracts with the U.S. Government. We now recognize sales on those contracts using the percentage-of-completion (POC) method that we use on our product contracts with the U.S. Government. The effect of this change in accounting was not material to our consolidated results of operations or financial position for any period, including the quarters and six months ended June 26, 2011 and June 27, 2010, is expected to have an immaterial effect on net sales and segment operating profit for the year 2011, and does not impact cash flows. All prior period amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to reflect the new method of accounting.

UPDATE ON INDUSTRY CONSIDERATIONS

The U.S. Government is continuing to focus on developing and implementing spending, tax, and other initiatives to reduce the deficit, create jobs, and stimulate the economy. The Administration is attempting to balance decisions regarding defense, homeland security, and other federal spending priorities with the cost of these initiatives and increased deficit spending, particularly in the longer term. This process has the potential to adversely affect acquisition programs, but decisions regarding specific programs have not been made or announced.

Relative to the fiscal year 2011 budget, the Administration and Congress reached agreement on a comprehensive appropriations bill to fund the operations of the federal government for the remainder of fiscal year 2011 at a level that is \$38 billion below the President's request for fiscal year 2011. The President signed the bill into law on April 15, 2011. We currently do not expect that the reductions in the 2011 budget will have a material effect on our operations in 2011.

The Administration and Congress are debating debt and deficit reductions as part of a package that would raise the Treasury Department's borrowing limit, or debt ceiling. The Administration and Congress are in discussions to act to increase the debt ceiling, but it remains unclear whether the action will occur prior to the estimated deadline of August 2, 2011, or whether

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subsequent actions to increase the debt ceiling or specific deficit reductions will be required. Should the Administration and the Congress fail to adopt legislation that raises the debt limit, it is not clear how the U.S. Department of the Treasury or individual agencies would prioritize which obligations would be honored and which would be deferred. In such an event, there could be significant disruption to all discretionary programs. Although we believe that key defense, intelligence, and homeland security programs would receive priority, the effect on individual programs or Lockheed Martin cannot be predicted at this time.

CONSOLIDATED RESULTS OF OPERATIONS

Since our operating cycle is long-term and involves many types of design, development, and production (DD&P) contracts with varying production delivery schedules, the results of operations of a particular quarter or year-to-date period, or quarter-to-quarter or year-to-date comparisons of recorded sales and profits, may not be indicative of future operating results. The following discussions of comparative results among periods should be viewed in this context. All per share amounts cited in these discussions are presented on a "per diluted share" basis from continuing operations, unless otherwise noted.

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
<i>(In millions, except per share data)</i>				
Operating Results				
Net sales	\$ 11,551	\$ 11,280	\$ 22,184	\$ 21,617
Cost of sales	(10,654)	(10,238)	(20,485)	(19,679)
Operating profit	984	1,115	1,836	2,053
Interest expense	(84)	(86)	(169)	(173)
Other non-operating income (expense), net	9	(19)	28	9
Income tax expense	(167)	(296)	(405)	(656)
Net earnings from continuing operations	742	714	1,290	1,233
Net earnings (loss) from discontinued operations	—	110	(18)	124
Net earnings	<u>742</u>	<u>824</u>	<u>1,272</u>	<u>1,357</u>
Diluted Earnings Per Common Share				
Continuing operations	\$ 2.14	\$ 1.92	\$ 3.69	\$ 3.29
Discontinued operations	—	.30	(.05)	.33
Total	<u>\$ 2.14</u>	<u>\$ 2.22</u>	<u>\$ 3.64</u>	<u>\$ 3.62</u>

The following provides an overview of our consolidated results of operations by focusing on key elements in our Statements of Earnings. Product sales are predominantly generated in the Aeronautics, Electronic Systems, and Space Systems segments, and most of our services sales are generated in our Electronic Systems and IS&GS segments.

Net Sales

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
<i>(In millions)</i>				
Net Sales				
Products	\$ 9,117	\$ 9,043	\$ 17,621	\$ 17,362
Services	2,434	2,237	4,563	4,255
Total	<u>\$ 11,551</u>	<u>\$ 11,280</u>	<u>\$ 22,184</u>	<u>\$ 21,617</u>

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Net sales for the second quarter of 2011 were \$11.6 billion, a \$271 million or a 2% increase over the second quarter of 2010 net sales of \$11.3 billion. The increase was due to a 1% increase in product sales and a 9% increase in services sales. Product sales increases in Aeronautics and Electronic Systems of about \$350 million partially were offset by lower product sales in IS&GS and Space Systems. The services sales increase of about \$200 million primarily was attributable to Electronic Systems and IS&GS.

Net sales for the first six months of 2011 were \$22.2 billion, a \$567 million or a 3% increase over the \$21.6 billion recorded in the comparable 2010 period. The increase was due to a 1% increase in product sales and a 7% increase in services sales. Product sales increases in Aeronautics and Electronic Systems of about \$745 million partially were offset by lower product sales in IS&GS and Space Systems. The services sales increase of about \$305 million primarily was attributable to Electronic Systems and IS&GS.

Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, and subcontracting costs, as well as an allocation of indirect costs (overhead and general and administrative). For each of our contracts, we manage the nature and amount of costs at the contract level, which form the basis for estimating our total costs at completion of the contract.

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

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports is accumulated in a manner specified by the requirements of each contract. For example, cost data provided to our customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) or for services, the type of work being performed (such as help-desk support).

Our contracts generally are cost-based, which allows for the recovery of costs in the pricing of our products and services. Most of our contracts generally are bid and negotiated with our customers based on the mutual awareness of our estimated costs to provide the product or service. This approach for negotiating contracts with our U.S. Government customers generally allows for the recovery of our costs. We also may enter into long-term supply contracts for certain materials or components, to coincide with the production schedule of certain products and to ensure their availability at known unit prices.

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	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions, except percentages)</i>			
Cost of Sales				
Cost of product sales	\$ (8,123)	\$ (8,050)	\$ (15,726)	\$ (15,503)
% of product sales	89.1%	89.0%	89.2%	89.3%
Cost of services sales	(2,178)	(2,039)	(4,107)	(3,850)
% of services sales	89.5%	91.1%	90.0%	90.5%
Severance charges	(97)	—	(97)	—
Unallocated corporate costs	(256)	(149)	(555)	(326)
Total	<u>\$ (10,654)</u>	<u>\$ (10,238)</u>	<u>\$ (20,485)</u>	<u>\$ (19,679)</u>

Approximately 95% of our contracts are accounted for using the POC method of accounting. Under the POC method, we record net sales on contracts based upon our progress towards completion on a particular contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our cost of sales at the consolidated level should be read in tandem with our "Discussion of Business Segments," because, due to the nature of POC accounting, changes in our cost of sales are typically accompanied by a corresponding change in our net sales.

Cost of Product Sales – Cost of product sales increased by \$73 million or 1% for the second quarter of 2011 from the comparable 2010 period. This increase primarily was due to higher product volume, as the percentage of cost of product sales relative to product sales has remained consistent period over period. For the quarter, cost of product sales increased primarily due to higher volume associated with the delivery of an additional C-130J aircraft, work performed on C-5 programs and F-35 low-rate initial production (LRIP) contracts as well as F-16 support activities of about \$365 million at Aeronautics. Also, increased production on air defense (including Terminal High Altitude Area Defense (THAAD) and Patriot Advanced Capability-3 (PAC-3)) and tactical missile (including Hellfire) programs at Electronic Systems increased cost of product sales by approximately \$165 million. These increases partially were offset by lower costs due to the absence of the Decennial Response Integration System (DRIS) program that supported the 2010 United States census at IS&GS of approximately \$220 million and lower production levels on the F-22 program at Aeronautics of about \$130 million and on the NASA Orion program at Space Systems of approximately \$80 million.

Cost of product sales increased by \$223 million or 1% for the first six months of 2011 from the comparable 2010 period. This increase primarily was due to higher product volume, as the percentage of cost of product sales relative to product sales has remained consistent period over period. For the year-to-date period, cost of product sales increased primarily due to higher costs associated with the delivery of seven additional C-130J aircraft, work performed on C-5 programs and F-35 LRIP contracts as well as F-16 support activities of about \$860 million at Aeronautics. Also, production on air defense (including THAAD and PAC-3), tactical missile (including Hellfire), and radar programs at Electronic Systems increased cost of product sales by approximately \$360 million. These increases partially were offset by lower costs due to the absence of the DRIS program at IS&GS of approximately \$320 million, lower production levels on the F-22 and F-35 System Development and Demonstration programs at Aeronautics of about \$380 million, and on the NASA Orion and NASA external tank programs at Space Systems of approximately \$230 million.

Cost of Services Sales – Cost of services sales increased by \$139 million or 7% for the quarter and \$257 million or 7% for the first six months of 2011 from the comparable 2010 periods. In both periods, this increase primarily was due to higher services volume in logistics support services at Electronic Systems, primarily due to the Special Operations Forces Contractor

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Logistics Support Services (SOF CLSS) program of approximately \$95 million for the quarter and about \$180 million for the six first months of 2011, with the remainder of the increase attributable to work performed on numerous smaller programs at IS&GS. For the quarter, the approximate 2% decrease in percentage of cost of services sales relative to services sales primarily was due to the achievement of program milestones and other factors on numerous programs at IS&GS. For the year-to-date period, the percentage of cost of services sales relative to services sales declined slightly due to the aforementioned factors at IS&GS, partially offset by volume on SOF CLSS, which provides a lower margin relative to other Electronic Systems programs.

Severance Charges – In the second quarter of 2011, we recorded severance charges totaling \$97 million, net of state tax benefits, of which \$49 million and \$48 million related to our Aeronautics and Space Systems business segments. The charges reduced our net earnings by \$63 million (\$.18 per share) and consisted of severance costs associated with the planned elimination of certain positions (both direct and indirect) through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments based on years of service, which are expected to be paid in the second half of 2011. We expect to recover a substantial amount of the severance charge in future periods through sales of products and services to the U.S. Government and other customers.

These severance actions resulted from a strategic review of these businesses to better align our organization and cost structure with changing economic conditions. Specifically, the workforce reduction at Aeronautics is reflective of the global economic conditions which are forcing governments to reduce spending below levels previously planned. The headcount reduction at Space Systems primarily reflects program lifecycles, where several of our major programs are transitioning out of development and into production.

Unallocated Corporate Costs – Unallocated corporate costs were \$256 million and \$555 million for the quarter and six months ended June 26, 2011 compared to \$149 million and \$326 million for the quarter and six months ended June 27, 2011. In both periods, the increase primarily was attributable to an increase in the FAS/CAS pension adjustment (see "Discussion of Business Segments" for a description of this amount).

Changes in our cost of sales between periods were not material, except as described above. The period-over-period change in our cost of sales was due to the volume of costs resulting from production, deliveries of products, and/or services provided on our portfolio of contracts. We have not identified any developing trends in cost of sales that would have a material impact on our future operations.

Operating Profit

Our operating profit for the second quarter of 2011 was \$984 million, a decrease of 12% from the \$1,115 million recorded in the comparable 2010 period. Operating profit for the first six months ended June 26, 2011 was \$1,836 million, a decrease of 11% from the \$2,053 million recorded in the comparable 2010 period. In both quarter and six month periods, the decline in operating profit of \$131 million and \$217 million primarily was attributable to an increase in the FAS/CAS pension adjustment and the severance charges as discussed above. These declines partially were offset by increased operating profit at the Aeronautics, Electronic Systems, and Space Systems business segments.

Interest Expense

Interest expense for the quarter and six months ended June 26, 2011 was \$84 million and \$169 million, about the same as the comparable periods in 2010.

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Other Non-operating Income (Expense), Net

Other non-operating income (expense), net was income of \$9 million in the second quarter of 2011, compared to expense of \$19 million in the second quarter of 2010. Other non-operating income (expense), net was income of \$28 million in the first six months of 2011, compared to income of \$9 million in the comparable 2010 period. The increase in both periods primarily was due to net unrealized gains on marketable securities held to fund certain non-qualified employee benefit obligations.

Income Tax Expense

Our effective income tax rates from continuing operations were 18.4% and 23.9% for the quarter and six months ended June 26, 2011, compared to 29.3% and 34.7% for the quarter and six months ended June 27, 2010. The rates for all periods benefited from tax deductions for U.S. manufacturing activities and dividends related to certain of our defined contribution plans with an employee stock ownership plan feature.

The effective tax rates for the quarter and six months ended June 26, 2011 were lower than the comparable periods in 2010 primarily due to the completion by the U.S. Congressional Joint Committee on Taxation (JCT) of its review of IRS Appeals' resolution of certain adjustments related to tax years 2003-2008, and the research and development (R&D) tax credit. As a result of the JCT's completion of its review in April 2011, we recorded a reduction in income tax expense in the second quarter of 2011 of \$89 million (\$.26 per share for the second quarter and \$.25 per share for the six-month period). In the fourth quarter of 2010, tax legislation retroactively extended the R&D tax credit for two years, from January 1, 2010 to December 31, 2011. We recognized R&D tax credits of \$9 million and \$17 million as a reduction of income tax expense in the quarter and six months ended June 26, 2011. While the R&D tax credit extension was retroactive to January 1, 2010, we did not recognize the benefit until the fourth quarter of 2010.

The effective tax rate for the six months ended June 27, 2010 was also impacted by legislation enacted in 2010 related to Medicare Part D. In the first quarter of 2010, health care legislation eliminated the tax deduction for company-paid retiree prescription drug expenses to the extent they are reimbursed under Medicare Part D, beginning in 2013. As a result, we recorded additional income tax expense of \$96 million for the six months ended June 27, 2010.

Net Earnings from Continuing Operations

Net earnings from continuing operations for the second quarter of 2011 were \$742 million (\$2.14 per share), compared to \$714 million (\$1.92 per share) reported in the second quarter of 2010. Net earnings from continuing operations for the six months ended June 26, 2011 were \$1,290 million (\$3.69 per share), compared to \$1,233 million (\$3.29 per share) reported in the comparable 2010 period. Both net earnings from continuing operations and earnings per share were affected by the factors discussed above. In addition, earnings per share has benefited from the significant number of shares repurchased under our share repurchase program (Note 10).

Net Earnings (Loss) from Discontinued Operations

Discontinued operations included the operating results for Pacific Architects and Engineers, Inc. (PAE) for 2010 and through the date of its sale on April 4, 2011 and those of Enterprise Integration Group (EIG) in 2010. There were no earnings from discontinued operations for the second quarter of 2011, compared to income of \$110 million (\$.30 per share) for the second quarter of 2010. Net earnings (loss) from discontinued operations resulted in a loss of \$18 million (\$.05 per share) for the first six months of 2011, compared to income of \$124 million (\$.33 per share) reported in the comparable 2010 period. As a result of our decision to sell PAE in June

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2010, we were required to record a \$96 million deferred tax asset in the second quarter of 2010 to reflect the tax benefit that we expected to realize on the sale of PAE because our tax basis was higher than our book basis.

DISCUSSION OF BUSINESS SEGMENTS

The following tables of financial information and related discussion of the results of operations of our business segments are consistent with the presentation of segment information in Note 5 to the financial statements. The discussion describes the contributions of each of our business segments to our consolidated net sales and operating profit for the quarters and six months ended June 26, 2011 and June 27, 2010. We follow an integrated approach for managing the performance of our business segments, and discuss business segment results of operations around major products and services.

The following table presents net sales and operating profit of our four business segments. Net sales exclude intersegment revenue, as these activities are eliminated in consolidation. Intercompany transactions are generally negotiated under terms and conditions similar to other government and commercial contracts. Operating profit of the business segments includes the equity earnings or losses from investees in which certain of our business segments hold equity interests, because the activities of the investees are closely aligned with the operations of those segments.

Operating profit of the business segments excludes the FAS/CAS pension adjustment (Note 5); expense for certain stock-based compensation programs, including costs for stock options and restricted stock units; the effects of items not considered part of management's evaluation of segment operating performance; gains or losses from divestitures; the effects of legal settlements; Corporate costs not allocated to the business segments; and other miscellaneous Corporate activities. These items are included in "Unallocated corporate expense, net" in the following table which reconciles operating profit from the business segments to operating profit in our Statements of Earnings.

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions)</i>			
Net Sales				
Aeronautics	\$ 3,423	\$ 3,143	\$ 6,605	\$ 6,083
Electronic Systems	3,755	3,534	7,214	6,784
Information Systems & Global Solutions	2,361	2,522	4,510	4,756
Space Systems	2,012	2,081	3,855	3,994
Total	<u>11,551</u>	<u>11,280</u>	<u>22,184</u>	<u>21,617</u>
Operating Profit				
Aeronautics	400	370	731	701
Electronic Systems	466	441	883	820
Information Systems & Global Solutions	213	210	407	407
Space Systems	263	246	480	453
Total business segments	<u>1,342</u>	<u>1,267</u>	<u>2,501</u>	<u>2,381</u>
Unallocated corporate expense, net	<u>(358)</u>	<u>(152)</u>	<u>(665)</u>	<u>(328)</u>
Total	<u>\$ 984</u>	<u>\$ 1,115</u>	<u>\$ 1,836</u>	<u>\$ 2,053</u>

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Our net sales are derived from long-term contracts for DD&P activities and for services provided to the U.S. Government as well as foreign military sales conducted through the U.S. Government. We account for these contracts, as well as DD&P contracts with non-U.S. Government customers, under the POC method of accounting which represent approximately 95% of our net sales. Our remaining net sales are derived from contracts to provide services to non-U.S. Government customers, which we account for under the services accounting model.

Under the POC method of accounting, we record sales on contracts based upon our progress towards completion on a particular contract as well as our estimate of the profit to be earned at completion. Cost-reimbursable contracts, which account for the majority of our net sales, provide for the payment of allowable costs plus a fee. For fixed-priced contracts, net sales and cost of sales are recognized as products are delivered or as costs are incurred. Due to the nature of the POC method of accounting, changes in our costs of sales are typically accompanied by a related change in our net sales.

Changes in volume refer to increases or decreases in sales resulting from varying production activity levels, deliveries, or service levels on individual contracts. Volume changes typically include a corresponding change in operating profit based on the estimate of profit at completion for a particular contract. For example, if the cost volume on a cost-reimbursement-type contract increased or decreased compared with a prior period, sales and operating profit for that contract will also be increased or decreased.

Changes in performance refer to increases or decreases in the estimated profit booking rates on our contracts accounted for using the POC method of accounting and usually relate to revisions in the total estimated costs at completion that reflect improved or deteriorated conditions on a particular contract. Such changes in estimated profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. For example, if we increase the estimated profit booking rate on a cost-reimbursable contract, the increase in sales and operating profit for that contract will reflect a higher return on sales in the current period due to the recognition of the higher profit booking rate on both current period costs as well as previously incurred costs.

Many of our contracts are long-term in nature and often span several years. At the outset of each contract, we estimate the total costs to complete the contract. The estimates consider the technical requirements (for example, a newly-developed product versus a mature product), the schedule and associated tasks (for example, the number and type of milestone events), and costs (for example, material, labor, subcontractor and overhead). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract, if we successfully retire risks surrounding the technical, schedule and costs aspects of the contract. All of the estimates are subject to change during the performance of the contract and therefore may affect the profit booking rate.

We have a number of programs that are designated as classified by the U.S. Government and cannot be specifically described. The operating results of these classified programs are included in our consolidated and business segment results, and are subjected to the same oversight and internal controls as our other programs.

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Aeronautics

Our Aeronautics business segment is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. Key programs include the F-35 Lightning II, F-16 Fighting Falcon, F-22 Raptor, C-130J Super Hercules, and the C-5M Super Galaxy. Aeronautics provides logistics support, sustainment, and upgrade modification services for its aircraft. Aeronautics' operating results included the following:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions, except percentages)</i>			
Net sales	\$ 3,423	\$ 3,143	\$ 6,605	\$ 6,083
Operating profit	\$ 400	\$ 370	\$ 731	\$ 701
Operating margin	11.7%	11.8%	11.1%	11.5%

Net sales for Aeronautics increased by \$280 million or 9% for the quarter from the comparable 2010 period. The increase primarily was due to additional volume from work performed on the F-35 LRIP contracts of approximately \$160 million, higher volume on C-5 programs of about \$100 million, higher C-130J volume of approximately \$80 million due to an increase in deliveries (seven C-130J deliveries in the second quarter of 2011 as compared to six in 2010) and support activities, and higher F-16 volume, primarily due to support activities, of approximately \$70 million. These increases partially were offset by lower volume of approximately \$180 million on the F-22 program, as production continues to wind down with final deliveries expected to be completed in 2012.

Net sales for Aeronautics increased by \$522 million or 9% for the first six months of 2011 from the comparable 2010 period. The increase primarily was due to an increase in volume from work performed on the F-35 LRIP contracts of approximately \$380 million, higher volume on C-5 programs of about \$105 million, higher C-130J volume of approximately \$310 million due to an increase in deliveries (13 C-130J deliveries in the first six months of 2011 as compared to nine in 2010) and support activities, and higher F-16 volume of approximately \$110 million, primarily due to support activities. These increases partially were offset by lower volume of approximately \$360 million on the F-22 program, as production continues to wind down with final deliveries expected to be completed in 2012 and lower sales volume of approximately \$85 million on the F-35 System Development and Demonstration contract.

Operating profit for Aeronautics increased by \$30 million or 8% for the quarter from the comparable 2010 period. The increase primarily was attributable to higher operating profit on C-130J programs of about \$35 million due to higher volume and the achievement of production milestones and increased operating profit of about \$35 million due to achievement of milestones on other Aeronautics sustainment activities. These increases partially were offset by a decline in operating profit on the F-22 program of about \$50 million due to lower volume as the production program winds down and a reduction in the level of favorable profit booking rate adjustments.

Operating profit for Aeronautics increased by \$30 million or 4% for the first six months of 2011 from the comparable 2010 period. The increase primarily was attributable to higher operating profit on C-130J programs of about \$40 million due to higher volume and the achievement of production milestones and increased operating profit of about \$50 million due to achievement of milestones on other Aeronautics sustainment activities. These increases partially were offset by a decline in operating profit on the F-22 program of about \$65 million due to lower

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volume as the production program winds down and a reduction in the level of favorable profit booking rate adjustments.

The operating margin decrease for the quarter and year-to-date periods as compared to 2010 reflects the changing life cycle of significant Aeronautics programs. Specifically, Aeronautics' sales are driven by a larger share of LRIP activities on the F-35 and C-5 modernization programs with less work being performed on the F-22 production program. LRIP contracts typically yield lower margins than mature production programs.

We expect Aeronautics will have sales growth in the upper single digit percentage range for 2011 as compared to 2010. This increase primarily is driven by growth on F-35 LRIP contracts, the C-130J program, and the C-5 Reliability Enhancement and Re-engining Program (RERP) that will more than offset a decline on the F-22 program. Operating profit is projected to increase at a mid-single digit percentage rate above 2010 levels, resulting in a decline in operating margins between the years. The expected operating margin decrease from 2010 to 2011 reflects the trend of Aeronautics performing more initial production work on the F-35 and C-5 programs and performing less work on more mature programs such as the F-22 and F-16, with sales expected to increase in 2011 relative to 2010 due to the above mentioned increase in F-35 and C-5 LRIP activities.

Electronic Systems

Our Electronic Systems business segment manages complex programs and designs, develops, produces, and integrates hardware and software solutions to ensure the mission readiness of armed forces and government agencies worldwide. Global security solutions include advanced sensors, decision systems, and weapons for air-, land-, and sea-based platforms. The segment integrates land vehicles, ships, and fixed- and rotary-wing aircraft. Major products and programs include air and missile defense; tactical missiles; weapon fire control systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; land, sea-based, and airborne radars; surveillance and reconnaissance systems; simulation and training systems; and integrated logistics and sustainment services. Electronic Systems also manages and operates the Sandia National Laboratories for the U.S. Department of Energy and is part of the consortium that manages the United Kingdom's Atomic Weapons Establishment. Electronic Systems' operating results included the following:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 26, 2010
	<i>(In millions, except percentages)</i>			
Net sales	\$ 3,755	\$ 3,534	\$ 7,214	\$ 6,784
Operating profit	\$ 466	\$ 441	\$ 883	\$ 820
Operating margin	12.4%	12.5%	12.2%	12.1%

Net sales for Electronic Systems increased by \$221 million or 6% for the quarter and \$430 million or 6% for the first six months of 2011 from the comparable 2010 periods. The increase primarily was attributable to: higher volume on various air defense programs (including THAAD and PAC-3) of approximately \$110 million for the quarter and approximately \$205 million for the first six months of 2011; increased deliveries on tactical missiles programs (including Hellfire), of approximately \$90 million for the quarter and approximately \$75 million for the first six months of 2011; and volume on logistics activities (primarily SOF CLSS program which was not present in the comparable period of 2010), of about \$100 million for the quarter and approximately \$190 million for the first six months of 2011. The sales increase for the first six months of 2011 also was attributable to higher volume on various radar system programs of approximately \$135

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million. These increases partially were offset by lower volume on various other training and logistics services programs of approximately \$90 million for the quarter and approximately \$100 million for the first six months of 2011, and lower volume on ship and aviation systems programs (including P-3 upgrades), of about \$90 million for the first six months of 2011.

Operating profit for Electronic Systems increased by \$25 million or 6% for the quarter and \$63 million or 8% for the first six months of 2011 from the comparable 2010 periods. The increase primarily was attributable to higher operating profit of approximately \$25 million for the quarter and about \$50 million for the first six months of 2011 on air defense programs (including PAC-3), due to higher volume and achievement of production milestones.

We expect Electronic Systems' sales, operating profit, and margins in 2011 will be comparable with 2010 results. A decline in volume on the Persistent Threat Detection System (PTDS) program will be partially offset by an increase in volume on the SOF CLSS program and various air defense programs.

Information Systems & Global Solutions

Our IS&GS business segment provides management services, Information Technology (IT) solutions, and advanced technology expertise across a broad spectrum of applications to U.S. Government and other customers. IS&GS' key programs and activities include the En-Route Automation Modernization (ERAM) program, the Airborne Maritime Fixed Joint Tactical Radio System (JTRS) program, the Hanford Mission Support contract, and the DRIS program. The DRIS program, in support of the 2010 census for the U.S. Government, substantially was completed in 2010. IS&GS' programs also include a large number of indefinite-delivery, indefinite-quantity (IDIQ) and task order types of contracts.

We have classified PAE and EIG as discontinued operations (Note 3) and, therefore, financial information related to these businesses has been excluded from the segment information below. IS&GS' operating results included the following:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions, except percentages)</i>			
Net sales	\$ 2,361	\$ 2,522	\$ 4,510	\$ 4,756
Operating profit	\$ 213	\$ 210	\$ 407	\$ 407
Operating margin	9.0%	8.3%	9.0%	8.6%

Net sales for IS&GS decreased by \$161 million or 6% for the quarter and \$246 million or 5% for the first six months of 2011 from the comparable 2010 periods. The decrease primarily was attributable to lower volume of about \$240 million for the quarter and approximately \$350 million for the first six months of 2011 due to the absence of the DRIS program that supported the 2010 United States census. These decreases partially were offset by higher volume on numerous smaller programs.

Operating profit for IS&GS for the quarter and first six months of 2011 essentially was unchanged from the comparable 2010 periods. A decrease in operating profit from the absence of DRIS in 2011 was offset by a higher contribution of operating profit from numerous smaller programs including about \$30 million from the achievement of program milestones and other factors in the second quarter of 2011.

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We expect IS&GS' sales to decline in 2011 in the mid-single digit percentage range as compared to 2010 results. The decrease primarily is due to the completion of the DRIS program in 2010. Operating profit is expected to increase over 2010 in the high single digit percentage range due to program performance, resulting in an increase in operating margins. The sales backlog of our IS&GS business has reduced to \$8.6 billion since year-end primarily due to fiscal pressures constraining government purchases of information technology and other products and services.

Space Systems

Our Space Systems business segment is engaged in the design, research and development, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems, including activities related to the planned replacement of the Space Shuttle. Government satellite programs include the Advanced Extremely High Frequency (AEHF) system, the Mobile User Objective System (MUOS), the Global Positioning Satellite III (GPS III) system, the Space-Based Infrared System (SBIRS), and the Geostationary Operational Environmental Satellite R-Series (GOES-R). Strategic and missile defense programs include the targets and countermeasures program and the fleet ballistic missile program. Space transportation includes the NASA Orion program and, through ownership interests in two joint ventures, expendable launch services (United Launch Alliance, or ULA) and Space Shuttle processing activities for the U.S. Government (United Space Alliance, or USA). The Space Shuttle completed its final flight mission in July 2011 and our involvement with its launch and launch support activities ended at that time. Space Systems' operating results included the following:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions, except percentages)</i>			
Net sales	\$ 2,012	\$ 2,081	\$ 3,855	\$ 3,994
Operating profit	\$ 263	\$ 246	\$ 480	\$ 453
Operating margin	13.1%	11.8%	12.5%	11.3%

Net sales for Space Systems decreased by \$69 million or 3% for the quarter and \$139 million or 3% for the first six months of 2011 from the comparable 2010 periods. The decrease principally was due to lower volume on the NASA Orion program of about \$80 million for the quarter and approximately \$180 million for the first six months of 2011, and the NASA External Tank program of approximately \$25 million for the quarter and about \$60 million for the first six months of 2011 as the space shuttle program winds down. Partially offsetting these decreases was an increase of about \$20 million for both the quarter and first six months of 2011 due to higher volume in fleet ballistic and defensive missile systems and an increase of approximately \$20 million for the quarter and about \$95 million for the first six months of 2011 due to higher volume and performance in government satellite activities.

Operating profit for Space Systems increased by \$17 million or 7% for the quarter and \$27 million or 6% for the first six months of 2011 from the comparable 2010 periods. Equity earnings from ULA increased by approximately \$25 million for both the quarter and the first six months of 2011 related to launch related activities. The ULA increase partially was offset by lower equity earnings at USA of about \$10 million for the quarter and approximately \$15 million for the first six months of 2011 due to declining space shuttle activities. The increase in operating profit for the first six months of 2011 was also affected by the achievement of program milestones and volume on government satellite programs of about \$40 million, partially offset by lower operating profit of about \$25 million due to a decline in volume on the NASA Orion program and the completion of certain missile defense contracts in 2010.

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Total equity earnings recognized by Space Systems from ULA and USA represented about \$80 million or 30% of the segment's operating profit in the second quarter of 2011, compared to about \$65 million or 26% in the second quarter of 2010 and about \$130 million or 27% of the segment's operating profit in the first six months of 2011, compared with about \$120 million or 26% in the comparable 2010 period. The 2011 level of equity earnings are not indicative of future results and are expected to be lower due to the impact on USA of the space shuttle program. Operating margin primarily increased due to the combined impact of lower sales volume and an increase in operating income, as described above.

We expect Space Systems' sales to decline in 2011 in the low single digit percentage range as compared to 2010 results. Sales are expected to decline due to the end of our production of the external tank for the space shuttle, partially offset by growth in satellite activities. Segment operating profit and margin in 2011 are expected to be comparable with 2010.

Unallocated Corporate Expense, Net

The following table shows the components of unallocated Corporate expense, net, including the CAS expense that is included as expense in the segments' operating results, the related FAS pension expense, and the resulting FAS/CAS pension adjustment:

	Quarter Ended		Six Months Ended	
	June 26, 2011	June 27, 2010	June 26, 2011	June 27, 2010
	<i>(In millions)</i>			
Severance charges ⁽¹⁾	\$ (97)	\$ —	\$ (97)	\$ —
FAS/CAS pension adjustment:				
FAS pension expense	(456)	(357)	(911)	(714)
Less: CAS expense	(226)	(247)	(450)	(494)
FAS/CAS pension adjustment – expense	(230)	(110)	(461)	(220)
Stock compensation expense and other, net	(31)	(42)	(107)	(108)
Total	\$ (358)	\$ (152)	\$ (665)	\$ (328)

⁽¹⁾ The amount consists of \$49 million and \$48 million in severance charges, net of state taxes, at our Aeronautics and Space Systems business segments (Note 2).

The increase in the FAS pension expense in the second quarter and first six months of 2011 compared to the second quarter and first six months of 2010 primarily was due to the decrease in the discount rate at December 31, 2010 compared to December 31, 2009, together with the effect of the recognition of the 2008 investment losses, partially offset by the effects of investment gains in 2009 and 2010 (each as compared to our 8.50% long-term rate of return assumption). This trend is consistent with our expectations based on the assumptions we used in computing the FAS pension expense and CAS funding amounts as discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2010 Form 10-K under the caption "Critical Accounting Policies – Postretirement Benefit Plans."

LIQUIDITY AND CASH FLOWS

Our access to capital resources that provide liquidity has not been materially affected by the changing economic and market conditions over the past few years. We continually monitor changes in such conditions so that we can timely respond to any related developments. We have generated strong operating cash flows which have been the primary source of funding for our operations, debt service and repayments, capital expenditures, share repurchases, dividends, acquisitions, and postretirement benefit plan funding. We have accessed the capital markets on limited occasions, as needed or when opportunistic. We issued \$728 million of notes in exchange for \$611 million of our then outstanding debt securities in 2010.

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We expect our cash from operations to continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. The Administration and Congress are in discussions to increase the debt ceiling, but, if that action does not occur by the estimated deadline of August 2, 2011, we cannot predict currently how the U.S. Department of the Treasury or individual agencies would prioritize which obligations would be honored and which would be deferred, or the effect on individual programs or Lockheed Martin. See "Update on Industry Considerations" for additional discussion. We have financing resources available to fund potential cash outflows that are less predictable or more discretionary, as discussed under Capital Resources. We have access to the credit markets, if needed, for liquidity or general corporate purposes, including letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

We have a balanced cash deployment and disciplined growth strategy to enhance shareholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have invested in our business, including capital expenditures and independent research and development, repurchased shares, increased our dividends, made selective acquisitions of businesses, and managed our debt levels. The following table provides a summary of our cash flow information and the subsequent discussion provides an overview of our execution of this strategy.

	Six Months Ended	
	June 26, 2011	June 27, 2010
	<i>(In millions)</i>	
Net cash provided by operating activities	\$ 2,527	\$ 2,874
Net cash provided by (used for) investing activities	254	(804)
Net cash used for financing activities	(1,784)	(1,720)

Operating Activities

Net cash provided by operating activities for the first six months of 2011 was \$2,527 million, which was \$347 million lower than the same period in 2010. The decrease primarily was attributable to a net increase in income tax payments of about \$300 million, payments totaling about \$160 million related to the previously announced Voluntary Executive Separation Program (Note 2), an \$85 million decline in net earnings, and timing of other corporate items. These decreases were offset by an improvement of \$380 million in cash from operating working capital.

Operating working capital accounts consist of accounts receivable, inventories, accounts payable, and customer advances in excess of cost incurred. The increase in cash provided by operating working capital was due to a decline in inventory of \$347 million and a growth in accounts payable of \$350 million, which partially were offset by increases in accounts receivable of \$325 million. The decrease in inventories primarily related to various programs at Electronic Systems and to the C-130J program at Aeronautics. The growth in accounts payable primarily was attributable to the timing of disbursement activities across the Corporation. Increases in accounts receivable primarily were due to the F-35 program at Aeronautics.

In the first six months of 2011, there were \$325 million in contributions made to our qualified defined benefit pension plans compared to \$350 million in the first six months of 2010. We expect to make additional contributions of \$975 million related to our qualified defined benefit pension plans during the remainder of 2011. We may also review options for further contributions in 2011. We anticipate recovering approximately \$900 million as CAS cost during 2011, with the remainder being recoverable in future years.

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Investing Activities

Capital expenditures – The majority of our capital expenditures relate to facilities infrastructure and equipment which are generally incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for IT to support programs and general enterprise IT infrastructure. Capital expenditures for property, plant and equipment amounted to \$242 million in the first six months of 2011 and \$223 million in the comparable 2010 period. We expect that our operating cash flows will continue to be sufficient to fund our annual capital expenditures over the next few years.

Divestitures and other activities – In the first six months of 2011, we received proceeds related to the sale of PAE (Note 3). There were no material divestiture activities in the comparable period of 2010. During the first six months of 2011, we decreased our short-term investments by \$260 million compared to an increase of \$531 million during the comparable 2010 period.

Financing Activities

Share activity and dividends – We paid cash totaling \$1,313 million for share repurchases during the first six months of 2011, which included \$63 million for shares we repurchased in December 2010 but that were not paid for until January 2011 (Note 10 under the caption "Stockholders' Equity").

Our share repurchase program provides for the repurchase of our common stock from time-to-time, up to an authorized amount of \$3 billion. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. As of June 26, 2011, we had repurchased a total of 27.7 million shares under the new program for \$2,074 million, and there remained \$926 million authorized for additional share repurchases. See Part II, Item 2 of this Form 10-Q for additional information regarding the repurchase of shares during the second quarter of 2011.

During the first six months of 2011, we declared and paid dividends totaling \$524 million (\$.75 per share). During the first six months of 2010, we declared and paid dividends totaling \$471 million (\$.63 per share). We also declared our third quarter dividend of \$258 million (\$.75 per share) in June 2011. This dividend will be paid in September 2011.

Cash received from the issuance of our common stock in connection with stock option exercises and tax benefits associated with stock-based compensation during the first six months of 2011 and 2010 totaled \$65 million and \$45 million. Those activities resulted in the issuance of 1.0 million shares and 0.9 million shares during the respective periods.

Long-term debt – In connection with the debt exchange completed in May 2010 (Note 10 under the caption "Long-term Debt"), we paid a total of \$47 million for a portion of the premium associated with the transaction and related expenses incurred with third parties.

CAPITAL RESOURCES

At June 26, 2011, we held cash and cash equivalents of \$3.3 billion and short-term investments of \$254 million. Our long-term debt, net of amortized discounts, amounted to \$5.0 billion as of June 26, 2011, and mainly is in the form of publicly-issued notes and debentures that bear interest at fixed rates.

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At June 26, 2011, we had in place with a group of banks a \$1.5 billion revolving credit facility which expires in June 2012. There were no borrowings outstanding under the facility during the first six months of 2011. As of June 26, 2011, we were in compliance with all covenants contained in the credit facility agreement, as well as in our debt agreements. We have agreements in place with banking institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding during the first six months of 2011. If we were to issue commercial paper, the borrowings would be supported by the \$1.5 billion revolving credit facility. We also have an effective shelf registration statement on Form S-3 on file with the Securities and Exchange Commission to provide for the issuance of an indeterminate amount of debt securities.

Our stockholders' equity was \$3.3 billion at June 26, 2011, a decrease of \$209 million from December 31, 2010. The decrease primarily was due to the repurchase of 16.5 million common shares for \$1,299 million and dividends declared of \$786 million during the first six months of 2011. These decreases partially were offset by net earnings of \$1,272 million, a reclassification adjustment of \$339 million, primarily related to our postretirement benefit plans, and employee stock activity of \$265 million. As we repurchase our common shares, we reduce common stock for the \$1 of par value of the shares repurchased, with the remainder of the purchase price over par value recorded as a reduction of additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess of purchase price over par value of \$1,021 million recorded as a reduction of retained earnings.

OTHER MATTERS

Status of the F-35 Program

The F-35 program has experienced schedule delays, work scope changes, and cost increases. In the second quarter of 2010, the DoD recertified the F-35 program after completing a legally required review of the program's priority, capability, cost, and management structure in accordance with the Nunn-McCurdy process. As part of that process, the DoD certified that continuation of the F-35 program is essential to national security, among other findings, and required the completion of a technical baseline review of the program. On January 6, 2011, the Secretary of Defense outlined the recommendations from the technical baseline review. Those recommendations included adding funding to the F-35 System Development and Demonstration (SDD) program and extending development through 2016. These funds, which were recognized as an order in the first quarter of 2011, will be used for additional development scope, for testing and risk retirement activities to better position the program for production, and to correct prior estimates. The SDD portion of the F-35 program has approximately \$575 million of fee remaining, of which about \$50 million has been tied to 2011 performance milestones. Any portion of the remaining fee that we or our partners receive is dependent upon completion of milestones, most of which have not yet been determined.

In addition to the continued development efforts, the program continues to ramp up low-rate initial production (LRIP). During the second quarter of 2011, the Netherlands exercised its one aircraft option on the F-35 LRIP 4 contract, which brings the total aircraft for LRIP 4 to 32 aircraft and the total number of production aircraft under contract to 63. We delivered both LRIP 1 production aircraft to the customer during the second quarter of 2011, and subsequently have started deliveries of the LRIP 2 aircraft.

Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to program schedule, cost, requirements, and aircraft quantities as part of the DoD, Congressional, and international partners' oversight and budgeting processes. Current program challenges include, but are not limited to, executing flight tests, supplier and partner performance, and software development.

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Although not exclusively related to the F-35 program, on October 4, 2010, the Defense Contracting Management Agency (DCMA) withdrew its prior validation and determination of compliance of the earned value management system (EVMS) at our Fort Worth, Texas location. EVMS is a tool for managing cost and schedule performance on complex programs. The DCMA may choose to re-audit our EVMS system at any time, but we understand that the DCMA will do so once a performance history on the new SDD baseline is established. The new SDD baseline may not be established until after the initial baseline review is completed in late 2011.

United Launch Alliance

In connection with our 50% ownership interest of United Launch Alliance, L.L.C. (ULA), we and The Boeing Company (Boeing) have each received distributions totaling \$305 million which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its \$400 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for certain financial support arrangements (e.g., letters of credit, surety bonds, or foreign exchange contracts provided by either party) and guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through June 26, 2011, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

CRITICAL ACCOUNTING POLICIES

The foregoing discussion of our financial condition and results of operations is based on the consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosures of contingencies. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

During the six months ended June 26, 2011, there were no significant changes to the critical accounting policies we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Form 10-K, except as disclosed in Note 1 to the accompanying consolidated financial statements. On January 1, 2011, we changed our methodology for recognizing net sales for services contracts with the U.S. Government to the POC method, and the way we evaluate new or significantly modified contracts with customers other than the U.S. Government, to the extent the contracts include multiple elements, to

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determine if the individual deliverables should be accounted for as separate units of accounting. However, these changes did not have a material effect on our consolidated results of operations, financial position, or cash flows, or on our related accounting policies. Due to the pervasiveness of the estimates and judgments that are necessary under the POC method of accounting and as a result of the changes disclosed in Note 1, we have revised our critical accounting policy related to contract accounting and sales recognition as set forth below.

Contract Accounting / Sales Recognition

Approximately 90% of our net sales are derived from long-term contracts for design, development, and production activities (also referred to as DD&P contracts) and services provided to the U.S. Government, and foreign military sales conducted through the U.S. Government. Approximately 95% of our net sales, including net sales related to DD&P contracts with non-U.S. Government customers, are accounted for using the POC method. The POC model requires that significant estimates and assumptions be made in accounting for the contracts. Our remaining net sales are derived from contracts to provide services to non-U.S. Government customers that are not associated with DD&P activities, which we continue to account for under the services accounting model.

Beginning January 1, 2011, we evaluate new or significantly modified contracts with customers other than the U.S. Government, to the extent the contracts include multiple elements, to determine if the individual deliverables should be accounted for as separate units of accounting. When we determine that accounting for the deliverables as separate units is appropriate, we allocate the contract value to the deliverables based on their relative estimated selling prices. The contracts or contract modifications we evaluate for multiple elements typically are long term in nature and include the provision of both DD&P activities and services. Based on the nature of our business, we generally account for components of such contracts using the POC accounting model or the services accounting model, as appropriate. This change in accounting has not had a material effect on our financial results, and is not expected to have a material effect in future periods.

We classify net sales as products or services on our Statements of Earnings based on the predominant attributes of the underlying contract. Most of our long-term contracts are denominated in U.S. dollars, including contracts for sales of military products and services to foreign governments conducted through the U.S. Government. We record sales for both DD&P activities and services under cost-reimbursable, fixed-price, and time-and-materials contracts.

Contract Types

Cost-reimbursable contracts

Cost-reimbursable contracts, which accounted for about 60% of our total net sales over the last three years, provide for the payment of allowable costs incurred during performance of the contract plus a fee, up to a ceiling based on the amount that has been funded. We generate revenue under two general types of cost-reimbursable contracts: cost-plus-award-fee/incentive fee (which represent a substantial majority of our cost-reimbursable contracts) and cost-plus-fixed-fee contracts.

Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer's assessment of our performance against a predetermined set of criteria, such as targets based on cost, quality, technical, and schedule criteria. Cost-plus-incentive-fee contracts provide for reimbursement of costs plus a fee which is adjusted by a formula based on the relationship of total allowable costs to total target costs (incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (incentive based

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on performance). The fixed fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed fee does not vary with actual costs.

Fixed-price and other contracts

Under fixed-price contracts, which accounted for about 35% of our total net sales over the last three years, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit, or could incur a loss. Some fixed-price contracts have a performance-based component under which we may earn incentive payments or incur financial penalties based on our performance.

Under time-and-materials contracts, which accounted for about 5% of our total net sales over the last three years, we are paid a fixed hourly rate for each direct labor hour expended, and we are reimbursed for allowable material costs and allowable out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, or could incur a loss.

POC Method of Accounting

We record net sales and an estimated profit on a POC basis for cost-reimbursable and fixed-price contracts for DD&P activities, and services contracts with the U.S. Government. Sales are recorded on all time-and-materials contracts as the work is performed based on agreed-upon hourly rates and allowable costs.

The POC method for DD&P contracts depends on the nature of the products provided under the contract. For example, for contracts that require us to perform a significant level of development effort in comparison to the total value of the contract and/or to deliver minimal quantities, sales are recorded using the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize sales and an estimated profit as costs are incurred based on the proportion that the incurred costs bear to total estimated costs. For contracts that require us to provide a substantial number of similar items without a significant level of development, we record sales and an estimated profit on a percentage-of-completion basis using units-of-delivery as the basis to measure progress toward completing the contract. For contracts to provide services to the U.S. Government, sales are generally recorded using the cost-to-cost method.

Award fees and incentives, as well as penalties related to contract performance, are considered in estimating sales and profit rates on contracts accounted for under the POC method. Estimates of award fees are based on past experience and anticipated performance. We record incentives or penalties when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs. For contract change orders, claims, or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable.

Accounting for contracts under the POC method requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance), and making assumptions for schedule and technical issues. Due to the scope and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables.

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Contract costs include material, labor, and subcontracting costs, as well as an allocation of indirect costs. We have to make assumptions regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (to estimate increases in wages and prices for materials), performance by our subcontractors, and the availability and timing of funding from our customer, among other variables. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Business segment personnel evaluate our contracts through periodic reviews. Management personnel independent from the business segment performing work under the contract also perform recurring evaluations of technical matters, scheduling, and contract costs. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract. Likewise, the profit booking rate may decrease if we are not successful in retiring the risks; and, as a result, our estimated costs at completion increase. All of the estimates are subject to change during the performance of the contract and, therefore, may affect the profit booking rate.

When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of the changes. For example, if we increase the estimated profit booking rate on a cost-reimbursable contract, the increase in sales and operating profit for that contract will reflect a higher return on sales in the current period due to the recognition of the higher profit booking rate on both current period costs, as well as previously incurred costs. As examples of how changes in profit booking rates can affect our financial statements, our net profit booking rate adjustments increased operating profit, net of state taxes, by approximately \$425 million and \$750 million for the quarter and six months ended June 26, 2011, approximately \$350 million and \$650 million for the quarter and six months ended June 27, 2010, and approximately \$1.4 billion and \$1.6 billion for 2010 and 2009, as we were able to successfully retire risks across a broad portfolio of contracts in those periods.

Services Method of Accounting

For cost-reimbursable contracts for services to non-U.S. Government customers that provide for award and incentive fees, we record net sales as services are performed, except for award and incentive fees. Award and incentive fees are recorded when they are fixed or determinable, generally at the date the amount is communicated to us by the customer. This approach results in the recognition of such fees at contractual intervals (typically every six months) throughout the contract and is dependent on the customer's processes for notification of awards and issuance of formal notifications. Under a fixed-price service contract, we are paid a predetermined fixed amount for a specified scope of work and generally have full responsibility for the costs associated with the contract and the resulting profit or loss. We record net sales under fixed-price service contracts on a straight-line basis over the period of contract performance, unless evidence suggests that net sales are earned or the obligations are fulfilled in a different pattern. Costs for all service contracts are expensed as incurred.

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Other Contract Accounting Considerations

The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government. Cost-based pricing is determined under the Federal Acquisition Regulation (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, interest expense, and certain advertising and public relations activities are unallowable and, therefore, not recoverable through sales. In addition, we may enter into advance agreements with the U.S. Government that address the subjects of allowability and allocability of costs to contracts for specific matters. For example, most of the environmental costs we incur for groundwater treatment and soil remediation related to sites operated in prior years are allocated to our current operations as general and administrative costs under FAR provisions and supporting advance agreements reached with the U.S. Government.

We closely monitor compliance with, and the consistent application of, our critical accounting policies related to contract accounting. Costs incurred and allocated to contracts are reviewed for compliance with U.S. Government regulations by our personnel, and are subject to audit by the Defense Contract Audit Agency.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see the following sections of our Annual Report on Form 10-K for the year ended December 31, 2010: Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Quantitative and Qualitative Disclosures About Market Risk" on page 47; Note 1 under the caption "Derivative financial instruments" on page 58; and Note 10 beginning on page 68. During the first six months of 2011, we entered into interest rate swap contracts that were not material to our financial statements (Note 9). Our exposures to market risk have not changed materially since December 31, 2010.

Item 4. Controls and Procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 26, 2011. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, and under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were operating and effective as of June 26, 2011.

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

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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 federal securities laws, and are based on our current expectations and assumptions. 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 future performance and are subject to risks and uncertainties. Actual results could differ materially due to factors such as:

- The availability of government funding for the Corporation’s products and services both domestically and internationally due to performance, cost growth, or other factors;
- Changes in government and customer priorities and requirements (including the potential deferral of awards, terminations or reduction of expenditures, changes to respond to the priorities of Congress and the Administration, budgetary constraints, debt ceiling implications, and cost-cutting initiatives);
- Additional costs or schedule revisions to the F-35 program that may result from the detailed re-planning of the restructured program that is ongoing following completion of the technical baseline review;
- Actual returns (or losses) on pension plan assets, movements in interest and discount rates and other changes that may affect pension plan assumptions;
- The effect of capitalization changes (such as share repurchase activity, advance pension funding, option exercises, or debt levels) on earnings per share;
- Difficulties in developing and producing operationally advanced technology systems;
- The timing and customer acceptance of product deliveries;
- Materials availability and performance by key suppliers, subcontractors and customers;
- Charges from any future impairment reviews that may result in the recognition of losses and a reduction in the book value of goodwill or other long-term assets;
- The future effect of legislation, rulemaking, and changes in accounting, tax, defense procurement, changes in policy, interpretations or challenges to the allowability of costs incurred under government cost accounting standards or export policies;
- The future impact of acquisitions or divestitures, joint ventures or teaming arrangements;
- The outcome of legal proceedings and other contingencies (including lawsuits, government investigations or audits, and the cost of completing environmental remediation efforts);
- The competitive environment for the Corporation’s products and services and potential for delays in procurement due to bid protests;
- The ability to attract and retain key personnel; and
- Economic, business and political conditions domestically and internationally.

These are only some of the factors that may affect the forward-looking statements contained in this Form 10-Q. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see our filings with the SEC including, but not limited to, the discussions of “Government Contracts and Regulation” on page 9 and “Risk Factors” on pages 10 through 16, respectively, of our Annual Report on Form 10-K for the year ended December 31, 2010; “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 24 through 44 of this Form 10-Q; and “Note 3 – Discontinued Operations,” “Note 7 – Postretirement Benefit Plans,” and “Note 8 – Legal Proceedings and Contingencies” of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 8 and 9, page 13, and pages 14 through 17, respectively, included in this Form 10-Q.

Lockheed Martin Corporation

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

Lockheed Martin Corporation

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in “Note 8 – Legal Proceedings and Contingencies” in this Form 10-Q, and in our 2010 Annual Report on Form 10-K filed with the Securities Exchange Commission (Form 10-K). In the opinion of management and in-house counsel, the probability is remote that the outcome of each of those matters will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter. The results of legal proceedings, however, cannot be predicted with certainty.

We primarily are 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 our operations are being conducted in accordance with these requirements. U.S. Government investigations of us, 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 on us, or could lead to our 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 us.

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. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims, and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for environmental remediation to the extent estimable, see “Note 8 – Legal Proceedings and Contingencies” under the caption “Environmental Matters” in this Form 10-Q.

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

Item 1A. Risk Factors

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our 2010 Form 10-K (pages 10 through 16) describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. We do not believe that there have been any material changes to the risk factors previously disclosed in our 2010 Form 10-K. See “Update on Industry Considerations” on page 24 for an updated discussion of certain trends affecting our industry.

Lockheed Martin Corporation**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no sales of unregistered equity securities during the quarter ended June 26, 2011.

The following table provides information about the purchases during the quarter ended June 26, 2011 of our equity securities that had been registered pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾</u>	<u>Amount Available for Future Share Repurchases Under the Program ⁽²⁾</u> <i>(in millions)</i>
April (March 28, 2011 – April 24, 2011)	1,119,238	\$ 78.04	1,119,238	\$ 1,856
May (April 25, 2011 – May 29, 2011)	6,059,149	\$ 79.09	6,059,149	\$ 1,377
June (May 30, 2011 – June 26, 2011)	5,792,184	\$ 77.89	5,792,184	\$ 926
Total	<u>12,970,571</u>	\$ 78.46	<u>12,970,571</u>	\$ 926

⁽¹⁾ We repurchased a total of 13.0 million shares of our common stock for approximately \$1,017 million during the quarter ended June 26, 2011 under a share repurchase program that we announced in October 2010.

⁽²⁾ Our Board of Directors has approved a share repurchase program for the repurchase of our common stock from time-to-time, authorizing an amount available for share repurchases of \$3 billion. Under the program, management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. The program does not have an expiration date. As of June 26, 2011, we had repurchased a total of 27.7 million shares under the program for \$2,074 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)**Item 5. Other Information**

None.

Lockheed Martin Corporation

Item 6. Exhibits

(a) Exhibits

Exhibit 3.2	Bylaws of Lockheed Martin Corporation, as amended and restated on June 23, 2011
Exhibit 10.1	Amendment to Stock Option Award Agreement (Grant Date: January 31, 2011) for Robert J. Stevens
Exhibit 10.2	Post-Retirement Consulting Agreement, between Lockheed Martin Corporation and John C. McCarthy, effective as of July 1, 2011
Exhibit 15	Acknowledgment of Ernst & Young LLP, Independent Registered Public Accounting Firm
Exhibit 31.1	Rule 13a-14(a) Certification of Robert J. Stevens
Exhibit 31.2	Rule 13a-14(a) Certification of Bruce L. Tanner
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350 of Robert J. Stevens
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350 of Bruce L. Tanner
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Lockheed Martin Corporation

SIGNATURE

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

Lockheed Martin Corporation
(Registrant)

Date: July 27, 2011

by: /s/ Christopher J. Gregoire
Christopher J. Gregoire
Vice President and Controller
(Chief Accounting Officer)

BYLAWS
OF
LOCKHEED MARTIN CORPORATION

(Incorporated under the laws of Maryland, August 29, 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 other business as is within the powers of the Corporation and is properly brought before the meeting at such date and time as shall be determined by the Board of Directors. 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.

(a) Call of Special Meeting. At any time in the interval between annual meetings, special meetings of the stockholders may be called by the Chairman of the Board, the Chief Executive Officer or the President, or by the Board of Directors or the Executive Committee. Subject to the provisions of this Section 1.02, special meetings of stockholders also shall be called by the Secretary of the Corporation for the purpose of acting upon any matter that properly may be considered at a meeting of stockholders upon the written request of (i) a person who, individually, is the beneficial owner of shares of capital stock of the Corporation entitled to cast ten percent (10%) or more of the votes entitled to be cast at the meeting, or (ii) persons who, in the aggregate, are the beneficial owners of shares of capital stock of the Corporation entitled to cast twenty-five percent (25%) or more of the votes entitled to be cast at the meeting.

(b) Stockholder Special Meeting Requests. Any person or persons who beneficially own shares of the capital stock of the Corporation and who seek a special meeting of stockholders in accordance with subsection (a) of this Section 1.02 (collectively, "Stockholder Proponents") shall deliver a written notice to the Secretary of the Corporation at the principal executive offices of the Corporation that sets forth (i) the name and address of the Stockholder Proponents and any Associated Person, the class and number of shares of capital stock of the Corporation that are beneficially owned by the Stockholder Proponents and any Associated Person, and, if the Stockholder Proponents are not stockholders of record, satisfactory written evidence of the Stockholder Proponents' beneficial ownership of such shares of capital stock of the Corporation, (ii) a description of the business desired to be brought before the special meeting, the reasons for proposing such business at the meeting and any interest in such business of the Stockholder

Proponents or any Associated Person (including any anticipated benefit to the Stockholder Proponents or any Associated Person therefrom), (iii) a description of (A) any agreement, arrangement or understanding (including and derivative or short position, profits interests, options, hedging transactions, borrowing or lending of securities or proxy or voting agreements) in effect at the time of the giving of the notice or at any time during the six (6) month period then ending, by or on behalf of the Stockholder Proponents or any Associated Person, the effect or intent of which is to manage risk or benefit from changes in the price of any securities issued by the Corporation, or to increase or decrease the voting power of any such person in respect of securities issued by the Corporation, or (B) any direct or indirect economic interest of the Stockholder Proponents or any Associated Person in the Corporation (including by virtue of an existing or prospective commercial or contractual relationship with the Corporation), other than an interest arising solely out of the ownership of securities issued by the Corporation, and (iv) all other information relating to the Stockholder Proponents or any Associated Person that would be required to be disclosed in connection with the solicitation of proxies for the matters proposed to be considered at the special meeting of stockholders pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any Stockholder Proponent may revoke his, her or its request for a special meeting of stockholders at any time by written notice delivered to the Secretary of the Corporation. In the event a written revocation or revocations have been delivered to the Secretary of the Corporation such that the requirements of subsection (a) of this Section 1.02 no longer are satisfied with respect to the applicable stockholder request for a special meeting, (i) if the notice of the special meeting has not been mailed to the stockholders of the Corporation in accordance with Section 1.04, the Secretary shall refrain from delivering the notice of the meeting and shall send to all other Stockholder Proponents a written notice of the revocation of the request for a special meeting, and (ii) if the notice of the special meeting has been mailed to the stockholders of the Corporation in accordance with Section 1.04, (A) the Secretary may revoke the notice of the meeting, (B) the chairman of the meeting may call the meeting to order on the date and at the time of the special meeting and upon his or her own motion, without any action of the stockholders, adjourn the meeting without acting on the matter or matters to be considered at the meeting, or (C) the Corporation, in its discretion, may proceed with the special meeting. Any request for a special meeting received after a notice to the Stockholder Proponents under clause (i) of the preceding sentence or after a revocation by the Secretary of a notice of the meeting under clause (ii)(A) of the preceding sentence shall be considered a request for a new special meeting of stockholders.

(c) Obligation to Proceed with Stockholder Requested Special Meeting. In determining whether a request for a special meeting by the stockholders of the Corporation is valid, multiple special meeting requests will not be considered part of a single request for a special meeting for purposes of the requirement set forth in clause (ii) of the second sentence of subsection (a) of this Section 1.02.

Upon receipt of a proper request from Stockholder Proponents for the holding of a special meeting, the Secretary shall inform the Stockholder Proponents of the reasonably estimated cost

of preparing and mailing the notice of the meeting (including the related proxy materials). The Secretary shall not be required to call a special meeting upon stockholder request unless and until the Stockholder Proponents have paid the reasonably estimated cost of preparing and mailing the notice of the meeting (including the related proxy materials) as determined by the Secretary.

Unless requested by stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting, a special meeting need not be called to consider any matter that is substantially the same as a matter voted on at any meeting of stockholders of the Corporation held during the preceding twelve (12) months.

(d) **General.** For purposes of this Section 1.02, “beneficial ownership” (and the correlative term, “beneficial owner”) shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

For purposes of this Section 1.02, “Associated Person” shall have the meaning set forth in Section 1.10(c).

Notwithstanding the foregoing provisions of this Section 1.02, a Stockholder Proponent also shall 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 1.02.

Section 1.03. PLACE OF MEETINGS. All meetings of stockholders shall be held at such place inside or outside of the United States as determined by the Board of Directors and 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 or as otherwise may be required by the Maryland General Corporation Law, 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, by electronic transmission, or by any other means permitted by Maryland law. 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. The Corporation may give a single notice to stockholders who share an address. The single notice shall be effective as to all stockholders sharing the address if the Corporation gives notice to such stockholders of its intent to give a single notice and the stockholders either consent to receiving a single notice or fail to object to receiving a single notice within sixty (60) days after the Corporation gives notice of its intent to give a single notice. 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, (i) prior to being convened, may be postponed from time to time to a time and date not more than one-hundred twenty (120) days after

the original record date at the same place or some other place, or (ii) after being convened, may be adjourned from time to time without further notice to a time and date not more than one-hundred twenty (120) days after the original record date at the same or some other place. Notice of postponement of a meeting of stockholders shall be given by the Secretary in any manner sufficient for notice of the meeting as contemplated by this Section 1.04.

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 the absence of the Chairman of the Board the Lead Director, or in the absence of the Chairman of the Board and the Lead Director, 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 stockholders shall choose a chairman by a majority of all votes cast provided that a quorum is present at the meeting. To the extent the Board of Directors does not establish rules or procedures for the conduct of a meeting or the rules or procedures established by the Board of Directors do not address a particular matter, the chairman of the meeting shall have the sole right and authority to determine the rules or procedures to be applied at the meeting and to take action as chairman of the meeting as he or she deems necessary or appropriate, in his or her discretion and without any action of the stockholders, including (i) restricting admission to the meeting to the time set in the notice of the meeting for commencement of the meeting, (ii) restricting attendance at the meeting to stockholders of record of the Corporation, duly authorized proxies of stockholders of record of the Corporation and such other individuals as the chairman of the meeting may determine, (iii) maintaining order and security at the meeting and, in connection therewith, causing the removal of any stockholder of record of the Corporation, any duly authorized proxy of a stockholder of record of the Corporation and any other individual who fails or refuses to comply with the rules or procedures established for the meeting or the direction of the chairman of the meeting, (iv) complying with any applicable federal, state and local laws or regulations, (v) limiting participation at the meeting to stockholders of record of the Corporation, duly authorized proxies of stockholders of record of the Corporation and such other individuals as the chairman of the meeting may determine, (vi) limiting the time allotted to questions or comments by participants at the meeting; (vii) determining the opening and closing of the polls at the meeting, and (viii) declaring the meeting closed, recessing the meeting or adjourning the meeting to a later date and time and at a place announced at the meeting. Unless otherwise determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be held in accordance with or governed by rules of parliamentary procedure. 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. In the event the Secretary presides as chairman of the meeting, an Assistant Secretary or other individual designated by the Secretary 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 entitled to be cast on any matter at the meeting shall constitute a quorum; but this Section 1.06 shall not alter 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 chairman of the meeting or 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 one-hundred twenty (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, the affirmative vote of a majority of the votes cast at a meeting of stockholders, 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 (1) 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.

Notwithstanding the foregoing provisions of this Section 1.07, a nominee for election by the stockholders to the Board of Directors shall only be elected if the votes cast for the nominee's election exceed the votes cast against the nominee's election; provided, however, that a plurality of all votes cast at a meeting of stockholders at which a quorum is present is sufficient to elect a nominee to the Board of Directors if, in connection with the meeting, (i) a stockholder has duly nominated an individual for election to the Board of Directors in accordance with the advance notice and other nomination procedures and requirements adopted by the Corporation from time to time and set forth in these Bylaws or the applicable rules of the Securities and Exchange Commission (the "Commission") and (ii) the stockholder nomination has not been withdrawn on or prior to the date that is fourteen (14) days prior to the date on which the Corporation first mails its notice of meeting to the stockholders. If directors are to be elected by a plurality of all votes cast at a meeting, stockholders shall not be permitted to vote against a nominee for election to the Board of Directors.

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 the Maryland General Corporation Law, as in effect from time to time. Any such proxy or evidence of authorization of a proxy shall be filed with the Secretary at or before the meeting, and no proxy shall be valid more than eleven (11) months after its date, unless otherwise provided in the proxy.

Section 1.09. 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 may, and upon the demand of stockholders present in person or by proxy entitled to cast twenty-five percent (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 and tabulate 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 are proper to conduct fairly the election or vote. 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 1.10. DIRECTOR NOMINATIONS AND STOCKHOLDER BUSINESS.

(a) Director Nominations and Stockholder Business at Annual Meetings of Stockholders.

(1) 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 (A) was a stockholder of record both at the time of giving of notice provided for in this Section 1.10(a) and at the time of the meeting, (B) is entitled to vote at the meeting and (C) complies with the provisions of this Section 1.10(a).

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of subsection (a)(1) of this Section 1.10, 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 before 5:00 p.m., Eastern time, not less than one-hundred twenty (120) days nor more than one-hundred fifty (150) days before the first anniversary of the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting, and shall include the information required by this Section 1.10; provided, however, that if the annual meeting is advanced or delayed by more than thirty (30) days from the anniversary of the date of the previous year's annual meeting, to be timely notice by the stockholder must be so delivered before 5:00 p.m., Eastern time, not earlier than one-hundred fifty (150) days before the annual meeting and not later than the later of one-hundred twenty (120) days before the annual meeting or the tenth (10th) day following the day on which public announcement of the date of the annual 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 proposing such business at the meeting and any material interest in such business of the stockholder or any Associated Person (including any anticipated benefit to the stockholder or any Associated Person therefrom); and (iii) as to the stockholder giving the notice, any Associated Person and any nominee for election or reelection as a director, (x) the name and address of such stockholder, as they appear on the Corporation's books, and of such Associated Person or nominee, (y) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and any Associated Person, and (z) a description of (1) any agreement, arrangement or understanding (including any derivative or short position, profits interests, options, hedging transactions, borrowing or lending of securities or proxy or voting agreements) in effect at the time of the giving of the notice or at any time during the six (6) month period then ending, by or on behalf of the stockholder giving the notice, any Associated Person or nominee, the effect or intent of which is to manage risk or benefit from changes in the price of any securities issued by the Corporation, or to increase or decrease the voting power of any such person in respect of securities issued by the Corporation, or (2) any direct or indirect economic interest of the stockholder giving the notice, any Associated Person or nominee in the Corporation (including by virtue of an existing or prospective commercial or contractual relationship with the Corporation), other than an interest arising solely out of the ownership of securities issued by the Corporation. The announcement of a postponement of an annual meeting after notice of the meeting has been given or an adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described in this Section 1.10(a)(2).

(3) Notwithstanding anything in this subsection (a) of this Section 1.10 to the contrary, in the event that the number of directors to be elected is increased and there is no public announcement of the increase at least one-hundred thirty (130) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 1.10(a) also shall 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 office 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 special meeting has been called in accordance with Article I, Section 1.02 for the purpose of electing directors, by any stockholder of the Corporation who (A) is a stockholder of record both at the time of giving of notice provided for in this Section 1.10(b) and at the time of the meeting, (B) is entitled to vote at the meeting and (C) complies with the provisions of this Section 1.10. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one (1) or more persons to the Board, any such stockholder may nominate a person or persons (as the case may be) for election as a director as specified in the Corporation's notice of meeting, if the stockholder's notice containing

all of the information required by subsection (a)(2) of this Section 1.10, shall be delivered to the Secretary at the principal executive office of the Corporation before 5:00 p.m., Eastern time, not earlier than one-hundred twenty (120) days before the special meeting and not later than the later of ninety (90) days before the 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 the special meeting. The announcement of a postponement of a special meeting after notice of the meeting has been given or an adjournment of a special meeting shall not commence a new time period for the giving of a stockholder's notice as described in this Section 1.10(b).

(c) General. Only such persons who are nominated in accordance with the procedures set forth in this Section 1.10 shall be eligible for election by stockholders 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 provisions of this Section 1.10. 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 provisions of this Section 1.10 and, if any proposed nomination or business is not in compliance with this Section 1.10, to declare that such defective nomination or proposal be disregarded.

For purposes of this Section 1.10, "public announcement" shall mean disclosure (i) in a press release reported by the Dow Jones New Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service or (ii) in a document publicly filed by the Corporation with the Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

For purposes of this Section 1.10, an "Associated Person" of a stockholder means (i) any person acting in concert with the stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by the stockholder (other than a stockholder that is a depositary) and (iii) any person that, directly or indirectly, controls, is controlled by or is under common control with the stockholder or an Associated Person of the stockholder.

Notwithstanding the foregoing provisions of this Section 1.10, a stockholder also shall 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 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights of stockholders to request inclusion of proposals in, nor the right of the Corporation to omit a proposal from, 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 eleven (11), until increased or decreased as provided in this Section 2.02 to not less than ten (10) and not more than fourteen (14). By vote of a majority of the entire 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 action of 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 seventy-five (75) 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. LEAD DIRECTOR. The Board of Directors, by the affirmative vote of a majority of those directors who have been determined to be "independent" for purposes of the New York Stock Exchange requirements, shall designate one of the independent directors as the Lead Director. The Lead Director shall (i) be independent and elected by a majority of the independent directors annually and may be removed from the position by a majority of the independent directors; (ii) preside as Chair at Board of Directors meetings while in executive sessions of the non-management members of the Board of Directors or executive sessions of the independent directors, or when the Chairman of the Board is ill, absent, incapacitated or otherwise unable to carry out the duties of Chairman of Board; (iii) determine the frequency and timing of executive sessions of non-management directors and report to the Chairman of the Board and the Chief Executive Officer on all relevant matters arising from those sessions, and shall invite the Chairman of the Board and the Chief Executive Officer to join the executive session for further discussion as appropriate; (iv) consult with the Chairman of the Board and the Chief Executive Officer and committee chairs regarding the topics and schedules of the meetings of the Board of Directors and committees; (v)

review all Board of Directors and committee agendas and provide input to management on the scope and quality of information sent to the Board of Directors; (vi) assist with recruitment of director candidates and, along with the Chairman of the Board, may extend the invitation to a new potential director to join the Board of Directors; (vii) act as liaison between the Board of Directors and management and among the directors and the committees of the Board of Directors; (viii) serve as member of the Executive Committee of the Board of Directors; (ix) serve as ex-officio member of each committee if not otherwise a member of the committee; (x) serve as the point of contact for stockholders and others to communicate with the Board of Directors; (xi) recommend to the Board of Directors and committees the retention of advisors and consultants who report directly to the Board of Directors; and (xii) perform all other duties as may be assigned by the Board of Directors from time to time.

Section 2.06. 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 a majority 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 2.07. 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, even if 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 2.08. 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 2.09. 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, any three (3) directors, or by any officer of the Corporation upon the request of a majority of the Board.

Section 2.10. 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, by electronic mail, 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, by electronic mail, or by facsimile, such notice shall be deemed to be given when the telegram is delivered to the telegraph company, when the electronic message is transmitted to the last known electronic mail address provided to the Corporation by the director, or when the facsimile is transmitted to the last known facsimile number provided to the Corporation by the director. 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 2.11. PRESENCE AT MEETING. Members of the Board of Directors, 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 2.12. CONDUCT OF MEETINGS. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or if the Chairman of the Board is not present by the Lead Director and if the Chairman of the Board and the Lead Director are not present by such member of the Board of Directors as shall be chosen at 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 2.13. 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 may adjourn the meeting from time to time until a quorum shall be present. At any such meeting following adjournment at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 2.14. 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 2.15. ACTION BY UNANIMOUS CONSENT. Any action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing or by electronic transmission to such action is given by each director and is filed with the minutes of proceedings of the Board of Directors.

Section 2.16. 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 Maryland General Corporation Law (or any successor statute) shall not apply to any acquisition by any person of shares of stock of the Corporation. This Section 2.16 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. Upon recommendation by the Nominating and Corporate Governance Committee, the Board of Directors may remove any committee member at any time. Vacancies on 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 "SAF Committee") of three (3) or more directors. If provision is made for a SAF Committee, the members of the SAF 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 SAF Committee. The SAF 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 SAF 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 SAF 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 SAF 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 budget of the Corporation and make recommendations to the Board of Directors for adoption. The SAF 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 SAF 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. Upon recommendation by the Nominating and Corporate Governance Committee, the Board of Directors may remove any member of the SAF Committee at any time. Vacancies on the SAF Committee shall be filled by the Board of Directors.

Section 3.03. AUDIT COMMITTEE.

(a) Membership. The Audit Committee shall consist of three (3) or more directors who meet the independence and financial literacy and expertise requirements of the New York Stock Exchange. The members of the Audit 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 a chairman from among the membership of the Audit Committee. Upon recommendation by the Nominating and Corporate Governance Committee, the Board of Directors may remove any member of the Audit Committee at any time. Vacancies on the Audit Committee shall be filled by the Board of Directors.

(b) Purposes. The purposes of the Audit Committee shall be to assist the Board of Directors in fulfilling its oversight responsibilities relating to (i) the integrity of the Corporation's financial statements, (ii) the Corporation's compliance with legal and regulatory requirements, (iii) the qualifications, independence and performance of the Corporation's independent auditors and (iv) the performance of the Corporation's internal audit function. The Audit Committee shall, except when such powers are by statute or regulation reserved to the Board of Directors, possess and may exercise the powers of the Board of Directors relating to all accounting and auditing matters for the Corporation. All action by the Audit Committee shall be reported to the Board of Directors at its meeting next succeeding such action.

(c) Responsibilities. In order to achieve the purposes outlined in this charter, the Audit Committee shall be assigned the following responsibilities:

(1) *Independent Auditors*.

(i) Be directly responsible for the appointment, compensation, retention, oversight and termination of the independent auditors, which auditors shall report directly to the Audit Committee;

(ii) Ensure that the independent auditors submit on a periodic basis (but at least annually) to the Audit Committee a report delineating all relationships

between the independent auditor and the Corporation, and have authority to take appropriate action in response to the independent auditors' report to assess and satisfy itself of the independent auditors' independence;

(iii) Ensure that the independent auditors submit on a periodic basis (but at least annually) to the Audit Committee a report or reports describing (i) the independent auditors' internal quality-control procedures and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the auditing firm; and any steps taken to deal with any such issues;

(iv) Pre-approve the audit, audit-related and non-audit services to be provided by the Corporation's independent auditors, and the related fees, pursuant to pre-approval policies and procedures established by the Audit Committee;

(v) Review with the independent auditors any audit problems or difficulties and management's response thereto, and be directly responsible for the resolution of disagreements between management and the independent auditors regarding the Corporation's financial reporting;

(vi) Require that the independent auditors advise the Audit Committee of any matters identified during reviews of quarterly financial statements or audits of annual financial statements which are required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards, and that the independent auditors provide such communication prior to the related quarterly or annual press release or, if not practicable, prior to filing the related Commission filings on Form 10-Q or Form 10-K;

(vii) Evaluate the independent auditors' qualifications, performance and independence, including evaluation of the lead partner of the independent auditor, and monitor the rotation of the lead partner; and

(viii) Establish policies for the Corporation's hiring of current or former employees of the independent auditors.

(2) *Internal Auditors.* Review the qualifications and work of the Corporation's internal audit staff, including evaluation of the performance and compensation assessment of the Vice President for Internal Audit, the scope of the internal audit staff's work plan for the year, its budget and staffing and, as appropriate, review significant findings and management's actions to address these findings.

(3) *Financial Statements, Disclosures and Related Matters.*

(i) Review with the Corporation's management, independent auditors and internal auditors, as appropriate, the following:

(A) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls;

(B) any analyses prepared by management and/or the independent auditors setting forth significant accounting and financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative methods under generally accepted accounting principles on the financial statements; and

(C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

(ii) Discuss with the Corporation's management the type and presentation of information included in the Corporation's earnings press releases, as well as financial information and earnings outlook provided to the public, analysts and rating agencies.

(iii) Prior to filing with the Commission, review and discuss with management and the independent auditors:

(A) the Corporation's annual audited financial statements to be filed on Form 10-K, and recommend to the Board whether the annual audited financial statements should be included in the Corporation's Form 10-K, with the review to include: (A) 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 (B) the disclosure included in "Management's Discussion and Analysis of Financial Condition and Results of Operations;"

(B) management's assessment of and report on the effectiveness of internal control over financial reporting as of the end of the most recent fiscal year, and the independent auditor's related report;

(C) the Corporation's quarterly financial statements to be filed on Form 10-Q, with the review to include the disclosures included in "Management's Discussion and Analysis of Financial Condition and Results of Operations;" and

(D) any significant deficiencies or material weaknesses identified by management in connection with required quarterly certifications, and any significant changes in internal control over financial reporting that are disclosed.

(iv) Obtain and review a report from the independent auditors, prior to filing of the Form 10-K with the Commission, related to the Corporation's critical accounting policies and practices used; all alternative treatments under generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternatives and the independent auditors' preferred treatment; and other material written communication between the independent auditors and management, as appropriate.

(v) Prepare an Audit Committee report as required by the Commission to be included in the Corporation's annual proxy statement.

(4) *Other Risk Management Matters.* Review the Corporation's policies and practices with respect to risk assessment and risk management, including discussing with management the Corporation's major financial risk exposures and the steps that have been taken to monitor and control such exposures.

(5) *Legal and Regulatory Compliance Matters.*

(i) Establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission to the Corporation of concerns regarding questionable accounting or auditing matters; and review any complaints regarding accounting, internal accounting controls or auditing matters received pursuant to such procedures; and

(ii) Review with the General Counsel the status of pending claims, litigation and other legal matters on a periodic basis, but no less frequently than once a year on a comprehensive basis.

(6) *Committee Self-Assessment.* The Audit Committee shall annually conduct an evaluation of its performance.

(d) Authorities. In furtherance of its responsibilities, the Audit Committee shall have the power to investigate any matter falling within its jurisdiction, and it shall also possess the following authorities:

(1) *Outside Advisors.* The Audit Committee may retain, at the Corporation's expense, special legal, accounting or other advisors and may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditors to meet with any members of, or advisors to, the Audit Committee.

(2) *Delegated Authority.* The Audit Committee shall 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) *Subcommittees*. The Audit Committee may delegate its authority to subcommittees (which may consist of one or more members of the Audit Committee) when it deems appropriate and in the best interests of the Corporation.

(4) *Reports to Board of Directors*. The Committee shall report regularly to the Board of Directors.

(5) *Committee Charter*. The Audit Committee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes from time to time as needed.

(6) *Funding*. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, in its capacity as a committee of the Board of Directors, for payment of: (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; (ii) compensation to any advisers employed by the Audit Committee; and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

(e) *Procedures*. The Audit Committee shall hold at least four meetings each year, and shall periodically, but at least annually, meet separately in executive session with representatives of the Corporation's independent auditors, management and internal audit department.

(f) *Limitations Inherent in the Audit Committee's Role*. Although the Audit Committee has the responsibilities and powers set forth in this charter, it is not the responsibility of the Audit 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 responsibility of the Audit Committee to assure compliance with laws and regulations and the Corporation's Code of Ethics and Business Conduct.

Section 3.04. ETHICS AND CORPORATE RESPONSIBILITY COMMITTEE.

(a) *Membership*. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for an Ethics and Corporate Responsibility Committee (the "ECR Committee") of three (3) or more directors. If provision is made for an ECR Committee, the members of the ECR 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 ECR Committee. Upon recommendation by the Nominating and Corporate Governance Committee, the Board of Directors may remove any member of the ECR Committee at any time. Vacancies on the ECR Committee shall be filled by the Board of Directors.

(b) Responsibilities. The ECR Committee shall:

(i) monitor compliance with the Code of Ethics and Business Conduct, and review and resolve all matters of concern presented to it by the Corporate Steering Committee on Ethics and Business conduct or the Corporate Ethics Office;

(ii) review and monitor the adequacy of the Corporation's policies and procedures with respect to corporate responsibility, including human rights, environmental, health and safety, diversity and equal opportunity, and the Corporation's record of compliance with laws and regulations related thereto;

(iii) oversee matters pertaining to community and public relations, including governmental relations; and

(iv) review as needed the proposed contributions budget of the Corporation and make recommendations to the Board of Directors for adoption.

The ECR 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 matters pertaining to ethics and business conduct and corporate responsibility. All action by the ECR 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.

Section 3.05. MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE.

(a) Membership. The Management Development and Compensation Committee (the "MDC Committee") shall consist of three (3) or more directors who satisfy the independence requirements of the New York Stock Exchange and Section 162(m) of the Internal Revenue Code. The members of the MDC 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 a chairman from among the membership of the MDC Committee. Upon recommendation by the Nominating and Corporate Governance Committee, the Board of Directors may remove any member of the MDC Committee at any time. Vacancies on the MDC Committee shall be filled by the Board of Directors.

(b) Purposes. The MDC 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.

(c) Responsibilities. In order to achieve the purposes outlined in this charter, the MDC 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 and grants provided by any bonus, supplemental, and special compensation plans, including pension, insurance, health, equity and performance-based executive compensation plans, and such powers as are by statute or the Charter or the Bylaws reserved to the Board of Directors.

(5) *Committee Self-Assessment.* The MDC Committee shall annually conduct an evaluation of its performance.

(d) Authorities. In furtherance of its responsibilities, the MDC 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 MDC Committee shall report all action by the MDC Committee to the Board of Directors at its meeting next succeeding such action, which (except as specifically reserved to the MDC 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 MDC Committee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes from time to time as needed.

Section 3.06. NOMINATING AND CORPORATE GOVERNANCE COMMITTEE.

(a) Membership. The Nominating and Corporate Governance Committee (the “NCG Committee”) shall consist of three (3) or more directors who satisfy the independence requirements of the New York Stock Exchange. The members of the NCG 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 a chairman from among the membership of the NCG Committee. On its own initiative or upon recommendation by the NCG Committee, the Board of Directors may remove any member of the NCG Committee at any time. Vacancies on the NCG Committee shall be filled by the Board of Directors.

(b) Purposes. The NCG Committee shall make recommendations to the Board of Directors concerning the composition of the Board of Directors and its committees including size and qualifications for membership; recommend to the Board of Directors the role of the Board of Directors in the corporate governance process; and oversee the evaluation of the Board of Directors and its committees.

(c) Responsibilities. In order to achieve the purposes outlined in this charter, the NCG 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 NCG 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 NCG 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 committees of the Board of Directors; each year, the NCG Committee shall recommend to the Board of Directors the membership of each committee to be effective following the annual meeting of stockholders. The NCG 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 applicable requirements, which shall be reviewed from time to time as needed.

(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 of Directors and each of its committees. The NCG Committee shall annually conduct an evaluation of its performance.

(d) Authorities. In furtherance of its responsibilities, the NCG Committee shall possess the following authorities:

(1) *Outside Advisors.* The NCG Committee may retain, at company expense, any outside advisor, including outside counsel and shall have sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms.

(2) *Delegated Authority.* The NCG 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 NCG Committee shall report all action by the NCG 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 NCG Committee shall review and recommend to the Board of Directors the adequacy of its charter and proposed changes from time to time as needed.

Section 3.07 CLASSIFIED BUSINESS AND SECURITY COMMITTEE.

(a) Membership. The Classified Business and Security Committee (the "CBS Committee") shall consist of three (3) or more directors who meet the independence requirements of the New York Stock Exchange and who possess the appropriate security clearance credentials, at least one of whom shall be a member of the Audit Committee, and all of whom are not officers or employees of the Corporation and are free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment as a member of the CBS Committee. The members of the CBS Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. Upon recommendation of the NCG Committee, the Board of Directors may remove any member of the CBS Committee at any time. Vacancies on the CBS Committee shall be filled by the Board of Directors.

(b) Purpose. The purpose of the CBS Committee shall be to assist the Board of Directors in fulfilling its oversight responsibilities relating to the Corporation's classified business activities and the security of personnel, data and facilities.

(c) Responsibilities. In order to achieve the purpose outlined in this charter, the CBS Committee shall:

(i) review with the Corporation's management the strategic, operational and financial aspects of classified business;

(ii) review the policies and practices with respect to risk assessment and risk management and the internal control environment in the area of classified business activities, including discussing with management any major financial risk exposures and the steps that have been taken to monitor and control such exposure, and in connection with such activities shall have access to the Corporation's internal audit staff and independent auditors, as necessary; and

(iii) review issues and procedures relating to the physical security of the Corporation's facilities and employees and the security of data and information maintained by the Corporation within the Corporation's business or on behalf of its customers.

(d) Authorities. In furtherance of its responsibilities, the CBS Committee shall have the power to investigate any matter falling within its jurisdiction, and it shall also possess the following authorities:

(1) *Delegated Authority*. The CBS Committee shall perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors.

(2) *Reports to Board of Directors*. The CBS Committee shall report to the Board of Directors following each meeting of the CBS Committee. Such reports to the Board of Directors will, if necessary, be general in nature due to the security requirements involved in discussing detailed business information.

(e) Procedures. The CBS Committee shall hold at least one meeting per year. Minutes shall be maintained in accordance with the classified nature of the material.

(f) Limitations Inherent in the CBS Committee Role. While the CBS Committee has the power and responsibilities set forth in this charter, it is not the responsibility of the CBS Committee to plan or conduct audits or to determine that the Corporation's financial statements, as they relate to classified business activities, security issues or security breaches, 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. It also is not the responsibility of the CBS Committee to assure that the Corporation's classified business activities or procedures relating to the security of personnel or data are in compliance with laws and regulations and the Corporation's Code of Ethics and Business Conduct. It is recognized that certain programs may have special or compartmentalized access requirements, with limited availability to obtain such access, and it is not the responsibility or obligation of the CBS Committee to obtain access to information pertaining to such programs.

Section 3.08. 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 3.09. 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 Article II of these Bylaws, entitled "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.

Section 3.10. ACTION BY UNANIMOUS CONSENT. Any action required or permitted to be taken at a meeting of a committee of the Board of Directors may be taken without a meeting if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

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, the President, such number of Vice Presidents as the Board of Directors may determine, a Secretary and a Treasurer. 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. The Chief Executive Officer shall serve as the Chairman of the Executive Committee and shall preside at all meetings of the Executive Committee. Subject to the authority of the Board of Directors, the Chief Executive Officer shall have general charge and supervision of the business and affairs of the Corporation. The Chief Executive Officer shall have the authority to sign and execute in the name of the Corporation all deeds, mortgages, bonds, contracts or other instruments. The Chief Executive Officer shall have the authority to vote stock in other corporations, and shall perform such other duties of management as may be prescribed by resolution or as otherwise may be assigned by the Board of Directors. As

vested by these Bylaws, the Chief Executive Officer shall have the authority to delegate such authorization and power to some other officer or employee or agent of the Corporation as deemed appropriate.

Section 4.03. PRESIDENT. The President 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, or Vice Presidents as appointed from time to time by the Chief Executive Officer. The Vice Presidents shall perform such duties as from time to time may be assigned to them by the Chief Executive Officer.

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 Chief Executive Officer.

Section 4.07. OTHER OFFICERS AND AGENTS. The Board of Directors, the Chief Executive Officer, or the Secretary may create such other offices and appoint or provide for the appointment of such other officers, agents, or attorneys-in-fact as any of them shall deem desirable. In the case of the Secretary, the authority to appoint other officers shall be limited to the appointment of subordinate or assistant officer positions. Each such officer, agent, or attorney-in-fact shall hold office or act for such period, have such authority, and perform such duties as the Board of Directors, the Chief Executive Officer, or the Secretary may prescribe.

Section 4.08. 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 Chief Executive Officer, or the Secretary, then the Board of Directors, the Chief Executive Officer, the Secretary, or any officer designated by any of them, may, for the time being, delegate such officer's duties and powers to any other person.

Section 4.09. OFFICERS HOLDING TWO OR MORE OFFICES. Any two (2) of the above mentioned offices, except President and 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 4.10. COMPENSATION. The Board of Directors shall have power to fix the compensation of all officers and employees of the Corporation.

Section 4.11. 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 4.12. 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; UNCERTIFICATED SHARES. 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 the stockholder in the Corporation; provided, however, that the Board of Directors may provide for some or all of any class or series of stock to be uncertificated. 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, and 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 or series 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. Within a reasonable time after the issuance of uncertificated shares, to the extent required by the Maryland General Corporation Law the Corporation shall furnish to the registered owner of the shares a written statement containing the information required by the Maryland General Corporation Law to be set forth of certificates representing shares of such stock.

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, or in the case of uncertificated shares, upon receipt of proper transfer instructions from the holder thereof. 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. Within a reasonable time after the transfer of uncertificated shares, to the extent required by the Maryland General Corporation Law the Corporation shall furnish to the registered owner of the shares a written statement containing the information required by the Maryland General Corporation Law to be set forth of certificates representing shares of such stock.

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 issuance of a new certificate or uncertificated shares 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 or agents, in their discretion, may refuse to issue such new certificate or uncertificated shares 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 any director, officer or employee who is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding," and any such individual, a "Covered Person"), to the fullest extent permitted by Maryland law as it may exist from time to time against all Losses incurred, suffered or sustained by the Covered Person, whether in such Covered Person's capacity as a director, officer or employee of the Corporation or to the extent the Covered Person is serving as a director, officer or employee of a subsidiary of the Corporation or, upon the written request of the Corporation, is serving as a director, manager, trustee or officer of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (including, without limitation, pension plans, retirement plans and savings plans) of any of the foregoing (such service being referred to collectively as the "Official Capacity" of the Covered Person). Notwithstanding the foregoing, a Covered Person shall not be entitled to indemnification and shall not be held harmless by the Corporation (i) in the case of a Proceeding by or in the right of the Corporation, if the Covered Person shall be adjudged to be liable to the Corporation by a court or arbitrator having jurisdiction over the matter, (ii) in the case of a Proceeding initiated by or on behalf of the Covered Person against the Corporation or another Covered Person in his or her Official Capacity (other than a Proceeding asserting a Covered Person's rights under this Article VI in which the Covered Person is successful), which Proceeding was not authorized by the Board of Directors, (iii) to the extent such indemnification would violate applicable law, or (iv) in respect of Losses arising from the purchase and sale by the Covered Person of securities in violation of Section 16(b) of the Exchange Act.

Section 6.02. ADVANCEMENT OF EXPENSES. The Corporation shall pay or reimburse Expenses incurred in connection with a Proceeding by a Covered Person to the extent acting in his or her Official Capacity in advance of a final disposition of the Proceeding (an "Advancement of Expenses"); provided, however, that (i) such Advancement of Expenses shall be made (without further inquiry by the Corporation) upon and only upon delivery to the Corporation of (A) a written affirmation by the Covered Person of his or her good faith belief that the standard of conduct necessary for indemnification by the Corporation under the MGCL has been met and (B) a written undertaking by or on behalf of the Covered Person to repay any Advancement of Expenses if it ultimately shall be determined by a final, nonappealable judicial decision that the Covered Person has not met the applicable standard of conduct necessary for indemnification under the MGCL, and (ii) the Corporation's obligation in respect of the Advancement of Expenses in connection with a criminal Proceeding in which the Covered Person is a defendant shall terminate at such time as he or she (A) pleads guilty or (B) is convicted after trial and such conviction becomes final and no longer subject to appeal. Any such undertaking shall be an unlimited, non-interest bearing general obligation of the Covered Person but need not be secured and shall be accepted by the Corporation without reference to the financial ability of the Covered Person to make repayment.

Section 6.03. INDEMNIFICATION PROCEDURES.

(a) Notices of Claims. Promptly upon being served with or receiving a summons, citation, subpoena, complaint, indictment, information, or other notice that may result in a Proceeding in respect of which a Covered Person may seek indemnification or Advancement of Expenses pursuant to this Article VI, the Covered Person shall notify the Corporation's Senior Vice President and General Counsel in writing (a "Claim Notice") and shall provide the Senior Vice President and General Counsel with copies of any such summons, citation, subpoena, complaint, indictment, information, or other notice; provided, however, that the failure to deliver a Claim Notice on a timely basis or to provide copies of such materials in accordance with this Section 6.03 shall not constitute a waiver of the Covered Person's rights under this Article VI, except to the extent that such failure or delay (i) causes the amounts paid or to be paid by the Corporation to be greater than they otherwise would have been, (ii) adversely affects the Corporation's ability to obtain for itself or the Covered Person coverage or proceeds under any insurance policy available to the Corporation or the Covered Person, including any policy in respect of director and officer liability insurance, or (iii) otherwise results in prejudice to the Corporation.

(b) Assumption of Defense. Upon receipt of a Claim Notice, the Corporation shall be entitled to assume the defense and control of any Proceeding by a third party against the Covered Person by providing written notice to the Covered Person of the assumption of the defense of the underlying claims within 15 days of receipt of the Claim Notice. If the Corporation elects to assume the defense of a Proceeding in accordance with this Section 6.03(b), the Corporation no longer will be responsible for any legal or related expenses incurred by the Covered Person in connection with the defense of the underlying Proceeding; provided, however, that (i) the Covered Person shall have the right, at his or her own expense, to employ his or her own counsel who shall be entitled to participate in the Proceeding and (ii) if in the written opinion of counsel to the Covered Person a conflict of interest exists in respect of the underlying Proceeding between the Corporation and the Covered Person or between the Covered Person and any other person party to the underlying Proceeding, the Covered Person shall have the right to employ separate counsel reasonably satisfactory to the Corporation to represent the Covered Person and in such event the reasonable fees and expenses of such separate counsel shall be paid by the Corporation.

(c) Subrogation. As a condition to the rights and benefits available to Covered Persons under this Article VI, (i) in the event the Corporation makes any payment to or for the benefit of a Covered Person pursuant to this Article VI, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Covered Person, and (ii) Covered Persons seeking indemnification or Advancement of Expenses shall execute all documents and agreements and take all actions necessary to secure the rights and obtain the benefits of the Corporation pursuant to this Section 6.03(c), including all documents as may be necessary to enable the Corporation to bring suit to enforce all such rights and obtain such benefits.

Section 6.04. GENERAL. For purposes of this Article VI, (i) "Expenses" means reasonable out-of-pocket expenses, costs, charges and fees, including reasonable attorneys' fees and expenses, court costs, reasonable fees and expenses of experts and witnesses and reasonable travel expenses, and (ii) "Losses" means Expenses, liabilities, damages, obligations, penalties, claims or losses.

Subject to the provisions of applicable law, including the MGCL, the Board of Directors, by resolution, may authorize one or more officers of the Corporation to act for and on behalf of the Corporation in all matters relating to indemnification and Advancement of Expenses as contemplated by this Article VI within any such limits as may be specified from time to time by the Board of Directors.

The rights conferred on any Covered Person by this Article VI shall not be exclusive of any other rights that the Covered 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. The indemnification and Advancement of Expenses available to Covered Persons under this Article VI shall continue as to each Covered Person after he or she has ceased to serve in an Official Capacity in respect of any action or failure to act during the course of such service, and shall inure to the benefit of each Covered Person's heirs, executors, administrators, conservators and guardians.

The rights and benefits provided to Covered Persons under this Article VI shall accrue for the benefit of each Covered Person at such time as he or she commences service in an Official Capacity. Repeal or modification of this Article VI or the relevant provisions of applicable law, including the MGCL, shall not affect adversely any rights to indemnification or Advancement of Expenses contemplated by this Article VI prior to such repeal or modification, whether or not a Proceeding was pending as of such repeal or modification, or any obligations then existing, in respect of any actions taken or failure to take action, any facts then or theretofore existing or any Proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such actions, failure to take action or 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 of the Board or President of the Corporation or by any other person to whom the Chairman of the Board or President of the Corporation may delegate such authority. The Board of Directors, 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.

Amendment

Stock Option Award Agreement (Grant Date: January 31, 2011)

The Stock Option Award Agreement (Grant Date: January 31, 2011) between Lockheed Martin Corporation and Robert J. Stevens ("Agreement") is amended by replacing the section entitled "Vesting, Expiration, and Forfeiture" in its entirety with the section set forth below. The Agreement shall remain the same in all other respects.

VESTING, EXPIRATION, AND FORFEITURE

General Rule - An Option is subject to forfeiture and may not be exercised until it has vested. In addition, an Option may not be exercised after its expiration or forfeiture.

Performance Goal - The Options granted pursuant to this Agreement are subject to satisfaction of two performance goals as follows:

1. 50% of the Options granted under this Agreement will be forfeited as of December 31, 2011 if the Corporation does not generate at least \$4 billion in cash from operations in 2011 (disregarding discretionary contributions to the Corporation's defined benefit pension plans that exceed the contributions forecasted in the Corporation's 2011 long range plan and any tax payments or benefits associated with divestitures in computing cash from operations). Cash shall be determined by the Committee based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the period for which Cash Flow is being determined, the Committee shall determine Cash Flow in a manner consistent with the historical practices used by the Corporation in determining net cash provided by operating activities as reported in its audited consolidated statement of cash flows, in either case as modified by this paragraph; and
2. 50% of the Options granted under this Agreement will be forfeited as of December 31, 2011 if the Corporation's return on invested capital ("ROIC") for 2011 is not at least 15%. ROIC is defined as net earnings plus after-tax interest expense divided by average invested capital (stockholders' equity plus debt), after adjusting stockholders' equity by adding back adjustments related to the Corporation's post retirement benefit plans. Stockholders' equity shall be determined by the Committee in accordance with generally accepted accounting principles in the United States and be based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the date or period on which ROIC is being determined, the Committee shall make its determination in a manner consistent with the historical practices used by the Corporation in determining the components of ROIC and postretirement plans amounts recorded in the Corporation's Statement of Stockholders' Equity for purposes of reporting those items on its audited financial statements, as modified by this paragraph.

Continued Employment Requirement - Subject to certain special rules discussed below, you must remain in the employ of the Corporation until the applicable date of vesting. The vesting schedule for any Options not forfeited as of December 31, 2011 due to a failure to satisfy the Performance Goals set forth in the section entitled "**Performance Goal**" is as follows:

First Vesting Date: January 31, 2012 – One-Third

Second Vesting Date: January 31, 2013 – One-Third

Third Vesting Date: January 31, 2014 – One-Third

If the number of Options granted cannot be evenly divided by three into whole shares, the fractional shares will vest on the Third Vesting Date. If you are not continuously employed by the Corporation from the Grant Date until the date on which an Option vests, that Option is forfeited.

Vested Options, except as otherwise provided in this letter, or in the Plan, or as may be restricted by law, may be exercised for a period ending on January 29, 2021. Options not exercised by that date will be forfeited.

You should make every effort to keep the Vice President of Total Rewards and Performance Management informed of your current address so that we may communicate with you about your Options and their current status. The Corporation cannot exercise the Options for you, and so you must pay close attention to their terms and any impending expiration.

Agreed:

/s/ Robert J. Stevens

Robert J. Stevens

POST-RETIREMENT CONSULTING AGREEMENT

between
Lockheed Martin Corporation
and
John C. McCarthy

This Post-Retirement Consulting Agreement (this "Agreement") is made and entered into effective as of July 1, 2011 by and between the parties (the "Parties") Lockheed Martin Corporation, a Maryland corporation, located at 6801 Rockledge Drive, Bethesda, MD 20817 (the "Corporation"), and John C. McCarthy, 10020 New London Dr., Potomac, MD 20854 (the "Consultant").

WHEREAS, the Consultant's employment by the Corporation terminated upon his retirement effective June 30, 2011; and

WHEREAS, the Corporation desires to secure the services of the Consultant in the role of liaison and representative of the Corporation to the board of directors of Ascent Flight Training (Holdings) Ltd. ("Ascent"), a joint venture between the Corporation and Babcock International Group PLC, which provides the United Kingdom Military Flying Training System (UKMFTS) to the United Kingdom Ministry of Defense ("MoD"), and AWE Management Limited ("AWE"), a joint venture between the Corporation, Serco Holdings Limited, and JEG Acquisition Company Limited, an affiliate of Jacobs Engineering Group Inc., which provides management services to the MoD Atomic Weapons Establishment; and

WHEREAS, the Corporation also desires to secure the services of Consultant on other matters regarding the Corporation's operations (or those of its subsidiaries), and Consultant is willing to consult with the Corporation to provide this assistance.

NOW THEREFORE, in consideration of the promises and mutual obligations set forth in this Agreement, the Corporation and the Consultant agree as follows:

1. PERIOD OF PERFORMANCE

The period of performance under this Agreement will commence on July 5, 2011, and, unless terminated earlier pursuant to the provisions of Section 20 of this Agreement, will terminate on June 30, 2012. This Agreement will not be renewed by its own terms and any further rendition of services by the Consultant beyond June 30, 2012, will require the execution of a new Post- Retirement Consulting Agreement.

2. DUTIES OF THE CONSULTANT

For the term of this Agreement, the Consultant will provide services to the Corporation, or its subsidiaries, under the supervision of Bruce Tanner, Chief Financial Officer of the Corporation, as liaison and designated representative of the Corporation to the board of directors of Ascent

and AWE, and on such other matters as may be specifically assigned (the "Services"). These Services will be provided on an "as needed", "on call" basis and will include attending the regularly scheduled board meetings, and such special meetings as may be called from time-to-time of Ascent and AWE. The Consultant will also provide consulting services on matters related to the Corporation's operations, also on an "as needed", "on call" basis.

3. COMPENSATION FOR SERVICES

- A. The Corporation fully intends to treat the Consultant as having separated from service with the Corporation within the meaning of Internal Revenue Code Section 409A(a)(2)(A)(i). Consequently, during the period of performance, the level of service provided by the Consultant may not exceed twenty percent (20%) of the average level of service provided to the Corporation by the Consultant during the three (3) full calendar years immediately preceding February 1, 2011. The Consultant acknowledges that exceeding this limitation on the number of hours that may be worked may result in the Consultant being deemed not to have separated from service with the Corporation. If this occurs, it may trigger early inclusion in income of all amounts deferred by the Consultant under the Corporation's nonqualified deferred compensation plans, as well as, a twenty percent (20%) penalty tax and an interest-rate-based tax on these amounts, in addition to those taxes that would ordinarily be due on the receipt of such amounts.
- B. The Corporation agrees to pay the Consultant, as compensation for the consulting Services, a flat hourly fee of \$320.00. Payments are due and payable monthly in arrears, with payment to be made by check mailed to the address specified by the Consultant in Section 21 no later than the 15th day of the month.
- C. The Corporation agrees to (i) provide the Consultant with assistance in preparing any tax returns or forms that may be required to be filed in the United Kingdom (U.K.) or United States of America (U.S.) as a result of the Consultant's services under this Agreement (and may arrange for an outside vendor to provide that assistance), or (ii) reimburse the Consultant for the reasonable cost of having such returns or forms prepared and filed. The Corporation, or one of its designated wholly-owned subsidiaries, will withhold and report U.K. taxes in accordance with the requirements of U.K. tax law for the portion of the services performed under this agreement which are attributable to the Consultant's role as a director of AWE or Ascent (the "U.K. Director Activities"). Because the Consultant is not an employee of the Corporation, the Corporation will not withhold or deduct from the compensation due to the Consultant, any amounts for any U.S. federal, state, or local payroll or income taxes. The payment of taxes shall be the sole responsibility of the Consultant, and consultant agrees to file any required tax returns. At the end of the calendar year, the Corporation will issue to the Consultant an IRS Form 1099-MISC with respect to the compensation paid under this Agreement. Consultant agrees to cooperate with the Corporation, as requested, by furnishing documentation, including a certificate of coverage and other forms or paperwork from the U.S. Social Security Administration, or evidence of the payment of U.S. self-employment taxes, to enable the Corporation to establish an exemption from withholding any applicable U.K. social taxes or to assist with the preparation of any tax returns or forms that may be

required. The Corporation agrees to provide tax equalization payments, as necessary, to reimburse the Consultant for any incremental taxes paid in the U.K. associated with the consulting services performed under this Agreement, net of any associated U.S. tax credits or deductions.

4. AGREEMENT MONITOR

The Consultant's primary contact with Corporation is Bruce Tanner, Executive Vice President and Chief Financial Officer (the "Agreement Monitor"). The Corporation may change the Agreement Monitor at any time by providing notice to the Consultant pursuant to the provisions of Section 21.

5. REIMBURSEMENT OF EXPENSES AND INVOICES

- A. The Corporation shall reimburse the Consultant for the reasonable expenses of travel required to provide the Services hereunder where such expenses are incurred by the Consultant, following prior approval by the Agreement Monitor of the trip in question. The Consultant may bill the time spent traveling to and from board meetings, or other business meetings in performing the Services, at the hourly rate specified in Section 3.B., based on the actual time spent traveling to and from meetings, except that the aggregate amount of time billed for travel shall not exceed 8 hours per day. For the purposes of this Agreement, the expenses of travel, including air or rail fare, mileage for use of the Consultant's personal automobile, tolls, parking, taxis, long distance telephone and/or Internet access fees, lodging, meals, and incidental expenses will be considered reasonable only to the extent that they do not exceed (i) the business class fare for international air and rail travel, and (ii) reasonable and actual expenses as set forth in the Corporation's travel policy. In addition, the Corporation shall provide the Consultant with the use of a laptop computer and Blackberry phone and data messaging service to perform the consulting services during the term of this Agreement.
- B. Entertainment expenses and any other expenses not included in the preceding Section 5.A. will be reimbursed only when such expenses are specifically approved in writing by the Agreement Monitor on an item-by-item basis prior to being incurred. It is not anticipated that the Services to be performed by the Consultant will involve any entertainment activities and, without regard to the reimbursement of expenses, the Consultant may not entertain or have direct contact, on behalf of the Corporation or in performance of this Agreement, with any of the Corporation's customers, including, but not limited to, any military and government employees or officials, any Members of Congress, Congressional staff, or employees of Congress, without the express prior written approval of the Agreement Monitor. Incidental contact with a customer in the ordinary course of serving as member of the board of AWE or Ascent without the prior written approval of the Agreement Monitor shall not be deemed to violate the foregoing provision restricting direct contact, but this exception shall not apply to entertainment. In addition, the Consultant may not give anything of value to any military or government officials or employees, any Members of Congress, Congressional staff, employees of Congress, or comparable positions with the U.K. Parliament.

- C. The Consultant must submit monthly invoices, describing in reasonable detail the Services performed in a manner which clearly delineates U.K. Director Activities from general consulting services performed, the number of days on which Services were performed, the amount of time required, and any related expenses incurred. Subject to the limitations set forth in this Agreement, the Corporation shall reimburse the Consultant for reasonable expenses incurred in connection with Services performed, within thirty (30) days following receipt and approval of an invoice that complies with the requirements of this Agreement. The Consultant must submit all invoices pertaining to expenses incurred during the 2011 calendar year before February 5, 2012, and all expenses incurred during the 2012 calendar year before February 5, 2013. In no event will the Corporation pay invoices pertaining to expenses incurred during the 2011 or 2012 calendar years after March 15 of the respective following year.
- D. The Consultant must attach to invoices submitted to the Corporation for payment all receipts and explanations for any expenditures in excess of \$75.00. If original receipts are not furnished, the reimbursement made to the Consultant may be subject to federal, state, and local taxes, which the Corporation may then be required to report on Form 1099-MISC.
- E. With each invoice, the Consultant must submit a Consultant Activity Report in a format which provides an itemized account of the Services rendered, delineating director activities from general consulting services, the date of service, and if business travel was incurred in rendering the Services, the geographic location.
- F. Each invoice submitted must also contain the following statement: "Submission of this invoice certifies compliance with the terms and conditions of the Post-Retirement Consulting Agreement under which this invoice is submitted and certifies compliance with all laws, regulations, and Lockheed Martin policies and procedures and standards of conduct referenced therein."
- G. Invoices and required supporting documentation must be submitted to:
Lockheed Martin Corporation
Enterprise Operations
Attn: Al Miller
6801 Rockledge Drive
Bethesda, MD 20817
- H. Invoices not in compliance with the requirements of this section will be returned to the Consultant for correction and resubmission.

6. INDEPENDENT CONTRACTOR RELATIONSHIP

- A. Neither this Agreement nor the Consultant's performance hereunder constitutes or creates an employee/employer relationship. The Parties understand and agree that Consultant is

not an employee of the Corporation. The Consultant will render Services hereunder as an independent contractor and not as an employee, agent, partner, or joint venturer of the Corporation or any of its affiliates or related entities. This Agreement does not require the Consultant's services on a full-time basis. The Consultant is not eligible for any benefits applicable to active employees of the Corporation. The Consultant is and must act solely as an independent contractor and not as an employee or agent of the Corporation. The Consultant's authority is limited to providing the consulting Services described above and the Consultant has no authority, nor may he make any attempt, without the express written consent of the Agreement Monitor, to incur any obligation or liability, or make any commitments on behalf of the Corporation.

- B. The Consultant is an independent contractor under this Agreement and no provision of, or action taken under, this Agreement will entitle the Consultant to any rights under any of the Corporation's compensation, employee benefit and welfare plans, programs, or practices. Neither will any provision of, or action taken under, this Agreement affect in any way the Consultant's rights or obligations under any of the Corporation's compensation, employee benefit and welfare plans, programs, or practices as these exist by virtue of his preretirement service as an employee of the Corporation. The Consultant and the Corporation agree that the Consultant will render Services according to the Consultant's own methods and is subject to the Corporation's control only with regard to the Consultant's final product or result. The Corporation will not exercise direct control or supervision over the means the Consultant uses to provide Services pursuant to this Agreement.

7. INDEMNIFICATION

- A. The Corporation shall indemnify and hold harmless the Consultant who by reason of Consultant's provision of Services under this Agreement, including service as a member of the board of directors of Ascent or AWE, was, is or is threatened to be made a party to, 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, reasonable attorneys' fees, judgments, fines, penalties, and amounts paid in settlement) actually and reasonably incurred by Consultant in connection with such proceeding; provided, however, that The Corporation shall not be required to indemnify Consultant:
- i. In connection with an action, suit or proceeding initiated by Consultant unless the action, suit or proceeding was authorized by the Corporation in advance in writing; or
 - ii. If the act or omission of Consultant was material to the matter giving rise to the proceeding; and
 1. Was committed in bad faith; or
 2. Was the result of active or deliberate dishonesty; or

- iii. If Consultant actually received an improper personal benefit in money, property, or services; or
 - iv. If, in the case of any criminal proceeding, Consultant had reasonable cause to believe that the act or omission was unlawful.
- B. To obtain indemnification, promptly after receipt by Consultant of notice of the commencement of any action, suit or proceeding, Consultant shall submit to The Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Consultant and is reasonably necessary to determine whether and to what extent Consultant is entitled to indemnification. The failure of Consultant to promptly notify the Corporation of the commencement of the action, suit or proceeding, or Consultant's request for indemnification, shall not relieve the Corporation from any liability that it may have to Consultant hereunder, except to the extent the Corporation is prejudiced in its defense of such action, suit or proceeding as a result of such failure.
- C. In the event the Corporation shall be obligated to indemnify Consultant with respect to an action, suit or proceeding, as provided in this Agreement, the Corporation shall be entitled to assume the defense of such action, suit or proceeding; provided, however, that Consultant shall have the right to assume his or her own such defense and to employ Consultant's own counsel in such action, suit or proceeding if the Corporation has not employed counsel or assumed the defense of such action, suit or proceeding. The reasonable fees and expenses of counsel employed by Consultant in such circumstances shall be at the expense of the Corporation, except as otherwise expressly provided by this Agreement.
- D. The Corporation, Ascent or AWE may obtain insurance on behalf of themselves or the Consultant against any liability asserted against, and incurred by, Consultant or on Consultant's behalf in any such capacity, or arising out of Consultant's status as a director of Ascent or AWE, respectively, whether or not the Corporation would have the power to indemnify Consultant against such liability under the provisions of this Agreement. In the event of any payment by the Corporation, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Consultant with respect to any insurance policy, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights in accordance with the terms of such insurance policy. The Corporation shall pay or reimburse all expenses actually and reasonably incurred by Consultant in connection with such subrogation.
- E. Ascent or AWE may indemnify the Consultant against any liability asserted against, and incurred by, Consultant or on Consultant's behalf in any such capacity, or arising out of Consultant's status as a director of Ascent or AWE, respectively, whether or not the Corporation would have the power to indemnify Consultant against such liability under the provisions of this Agreement. In the event of any payment by the Corporation, the Corporation shall be subrogated to the extent of such payment to all of the rights of

recovery of Consultant with respect to any claim for indemnification against Ascent or AWE, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights in accordance with the terms of such indemnification claim or right. The Corporation shall pay or reimburse all expenses actually and reasonably incurred by Consultant in connection with such subrogation.

- F. The Corporation shall not be liable to make any payment of amounts otherwise indemnifiable hereunder (including, but not limited to, judgments, fines, excise taxes or penalties, and amounts paid in settlement) if and to the extent that Consultant has otherwise actually received such payment under this Agreement or any insurance policy, contract, agreement, indemnification right or provision, or otherwise.
- G. The Corporation shall have no obligation to indemnify Consultant for amounts paid in settlement of any action, suit or proceeding without the Corporation's prior written consent to enter into the settlement, which consent shall not be unreasonably withheld. Neither the Corporation nor the Consultant shall settle any action, suit or proceeding in any manner that would impose any fine or other obligation on the other or admission of guilt on the part of the other without other's prior written consent, which consent shall not be unreasonably withheld.
- H. The Consultant shall disclose to the Executive Vice President and Chief Financial Officer of the Corporation and to other members of the board of directors of Ascent or AWE any circumstance involving a matter before the board of directors of Ascent or AWE, as applicable, in which the Consultant may have a direct or indirect financial or other interest or any other circumstance that may create a conflict of interest, that may create the appearance of a conflict of interest, or that may in any way affect the exercise of the Consultant's impartial judgment in the performance of his or her role as a member of the board of directors of Ascent or AWE, as applicable. With respect to Services other than U.K. Director Activities, the Consultant shall provide such disclosure to the Executive Vice President and Chief Financial Officer of the Corporation.
- I. The Consultant agrees to defend, indemnify, and hold the Corporation harmless on a dollar-for-dollar basis from and against all losses, damages, reasonably foreseeable consequential damages, liabilities, claims, demands, obligations, deficiencies, payments, taxes, fines, penalties, judgments, settlements, costs, and expenses of any nature whatsoever (including, without limitation, the costs and expenses of all investigations, actions, proceedings, demands, federal, state, and local government-imposed suspensions and debarments, assessments, judgments, settlements, and compromises relating thereto, and reasonable attorneys' and all other fees in connection therewith) resulting from, arising out of, or due directly or indirectly to the Consultant's violation of any foreign, federal, state, or local law in the course of performing the Services.

8. COOPERATION IN LITIGATION AND INVESTIGATIONS

During the term of this Agreement and thereafter, Consultant agrees, to the extent reasonably requested, to cooperate with the Corporation in any pending or future litigation (including

alternative dispute resolution proceedings) or investigations in which the Corporation or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of Consultant's prior employment with the Corporation or Services under this Agreement, Consultant reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Consultant's efforts and time spent in satisfaction of Consultant's obligation to cooperate will be without charge to the Corporation and will not be considered time worked under this Agreement, except that, in accordance with Sections 3 and 5, the Corporation will reimburse Consultant for any-out-of-pocket expenses incurred in connection with cooperating with the Corporation in any litigation or investigation. Notwithstanding any other provision of this Agreement, nothing in this Agreement shall affect Consultant's obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in legal proceedings.

9. NONDISCLOSURE OF PROPRIETARY OR CONFIDENTIAL INFORMATION

- A. The Consultant agrees not to disclose to others, either during or subsequent to the term of this Agreement, any information, knowledge, or data belonging or entrusted to the Corporation that the Consultant receives, or has access to, or which is otherwise disclosed to the Consultant, including proprietary or confidential information of the Corporation or of others having come into the Corporation's or the Consultant's possession, custody, or knowledge, in the course of performing Services under this Agreement that has independent economic value as a result of its not being generally known to the public and is the subject of reasonable means to preserve the confidentiality of the information. Such proprietary or confidential information, whether written or otherwise, includes, but is not limited to, information regarding the Corporation's personnel, proceedings of the Board of Directors or its committees, earnings, expenses, analyses, compilations, forecasts, studies, business plans, marketing information, cost estimates, bid and proposal data, financial data, information relating to the operations and requirements of the Corporation's customers and prospective customers, trade secrets, formulae, compositions, products, processes, inventions, systems, or designs ("Proprietary or Confidential Information"). Proprietary or Confidential Information also includes all materials prepared by the Consultant that contain or reflect any such information. For the purposes of this Agreement, the term "information" includes documents, video and audio materials, oral transmissions, electronic data, and any other method or means by which information may be conveyed. The Consultant acknowledges and agrees that he has a continuing obligation not to use or disclose Proprietary or Confidential Information that survives the termination of this Agreement.
- B. The Consultant agrees that Proprietary or Confidential Information must be used solely for the purpose of performing the Services required under this Agreement and further agrees that, except as may strictly be required by the Consultant's obligations under this Agreement, the Consultant shall not reproduce, nor allow any third party to use or reproduce, any Proprietary or Confidential Information or any documents or other material containing Proprietary or Confidential Information.

- C. Proprietary or Confidential Information is and shall remain the property of the Corporation. Upon expiration or termination of this Agreement, or upon request of the Corporation, the Consultant must promptly (and in all events within seven (7) days) return to the Corporation all Proprietary or Confidential Information. The return of Proprietary or Confidential Information must be effected in accordance with any specific instructions issued by the Corporation to the Consultant.
- D. The Corporation and the Consultant agree that unauthorized disclosure and/or use of Proprietary or Confidential Information would be harmful to the Corporation and that the Corporation may enforce the provisions of this Section 9 through an injunction without proof of damage.
- E. This Section 9 does not supersede any other agreements entered into by the Consultant with the Corporation pertaining to the use and treatment of confidential information, and any such agreements remain in full force and effect according to their terms.

10. ACCESS TO CLASSIFIED INFORMATION

Performance of this Agreement shall require access to classified information at the top secret level involving U.S. or U.K. national security. The Consultant must furnish the Corporation with all data required to obtain or verify personal security clearance with regard to access to classified information. Under no circumstances may the Consultant perform Services involving access to classified information until the Consultant's security clearance has been obtained or verified by the Corporation.

11. GOVERNMENT AND COMPETITOR DATA AND INFORMATION

The Consultant agrees that he will not solicit, attempt to obtain, or receive any information (i) that is unclassified, security-classified, or procurement-sensitive, directly or indirectly, from the U.S. Government, U.K. Government, or any other source, except in strict accordance with all laws and regulations and the Corporation's policies and procedures; or (ii) where there is reason to believe that such information cannot lawfully be in the Corporation's possession. The same prohibitions apply to information of another entity that is confidential, proprietary, or competitive information.

12. INTELLECTUAL PROPERTY

- A. The Consultant agrees that all work product created by the Consultant in performing Services under this Agreement is "work for hire" and is the exclusive property of the Corporation. Without limiting the foregoing, the Corporation shall be the owner of each and every invention, technology, discovery, design, work of authorship, mask works, technical information, computer software (source code, object code, and listings), business information, patent, or improvement relating to the field of effort covered by the Services, conceived, developed, or otherwise generated by the Consultant during performance of this Agreement (the "Intellectual Property") and agrees to assign, convey, and transfer the Intellectual Property to the Corporation without limitation and without requirement for further consideration. The Consultant hereby assigns and agrees to

assign all right, title, and interest in the foregoing to the Corporation, including, without limitation, all copyrights, patent rights, and other intellectual property rights therein and further agrees to execute promptly all documentation necessary to perfect title therein in the Corporation. To the extent the Consultant has property rights that are incorporated in or necessary to the use of the Intellectual Property, the Consultant grants the Corporation a royalty-free, irrevocable, worldwide, non-exclusive license to use, disclose, reproduce, modify, license, and distribute such Intellectual Property.

- B. The Consultant agrees that he will maintain and disclose to the Corporation written records of, and otherwise provide the Corporation, with full access to the subject matter covered by this Agreement and that all such subject matter will be deemed Proprietary or Confidential Information of the Corporation and subject to the protections of Section 9 of this Agreement. The Consultant agrees to assist the Corporation, at its request and expense, in every reasonable way, in obtaining, maintaining, and enforcing patent and other intellectual property protection of the subject matter covered by this Section 12.
- C. The Consultant warrants that the Services performed and delivered under this Agreement will not infringe or otherwise violate the intellectual property rights of any third party in the United States or any foreign country. The Consultant agrees to defend, indemnify, and hold harmless the Corporation and its customers from and against any claims, damages, losses, costs, and expenses, including reasonable attorney's fees, arising out of any action by a third party that is based upon a claim that the Services performed or delivered under this Agreement infringe or otherwise violate the intellectual property rights of any person or entity.

13. RELEASE OF INFORMATION

Except as required by law, no public release of any information, or confirmation or denial of same, with respect to this Agreement or the subject matter hereof, will be made by the Consultant without the prior written approval of the Corporation.

14. CERTIFICATIONS, UNDERTAKINGS, AND REPRESENTATIONS

- A. The Consultant represents and agrees that, in performing this Agreement, he will comply with all applicable federal, state, and local laws and with the terms and conditions of all certifications and forms in rendering Services to the Corporation and will, at all times, conduct himself in good faith, in accordance with the highest ethical standards and in accordance with the Corporation's policies and procedures then in effect.
- B. When requested to do so by the Corporation, the Consultant agrees to provide supporting information and to execute certifications as may be required to permit the Corporation to comply fully with applicable government regulations.
- C. Failure or refusal to furnish in a timely manner any required certificate or disclosure upon request from either the Corporation or a government procurement authority will be the basis for immediate termination of this Agreement. The Consultant further agrees that,

with regard to all certifications contained herein or executed as part of this Agreement, the Consultant will notify the Corporation promptly of any change in the Consultant's status. Failure to provide prompt notice will constitute cause for immediate termination of this Agreement.

D. Compliance with contracting restrictions:

- (i) The Consultant certifies that he is familiar with and shall comply with all federal laws and regulations relating to federal conflict of interest concerns.
- (ii) The Consultant certifies that he has not, and shall not engage in any activity which presents a conflict of interest in the line of his relationship with the Corporation.
- (iii) The Consultant further certifies that, to the best of his knowledge and belief, he is not prohibited by law from performing Services contracted for under this Agreement.

E. The Consultant hereby acknowledges receipt of a copy of the Corporation's Code of Ethics and Business Conduct, "Setting the Standard" (the "Code"), attached hereto as Exhibit B, and represents and agrees that he will fully comply with the Code and with all amendments or modifications thereto that are provided to the Consultant during the term of this Agreement. The Consultant further understands that each employee, agent, consultant, or representative of the Corporation is responsible for knowing and adhering to the principles and standards of the Code.

F. Compliance with lobbying prohibitions:

- (i) The Consultant represents and agrees that he will comply with 31 U.S. Code § 1352 and implementing regulations contained in the Federal Acquisition Regulations ("FAR") which prohibit use of federal-appropriated funds to influence or attempt to influence any federal actions. The Consultant represents and agrees that he will not engage in any efforts on the Corporation's behalf, or in connection with performing Services under this Agreement, to influence or attempt to influence agency or congressional personnel with respect to federal action (as these terms are defined by Section 1352 and its implementing regulations).
- (ii) The Consultant represents and agrees that he will not engage in any effort on behalf of the Corporation or in connection with performing Services under this Agreement, to lobby (*i.e.*, to influence or attempt to influence) Congress, any federal agency, any Member of Congress, any federal officer, or any federal agency employee or employee of a Member of Congress, unless such activity is expressly directed or approved in advance by the Agreement Monitor in writing.

15. GRATUITIES/KICKBACKS

No gratuities (in the form of entertainment, gifts, or otherwise) or kickbacks may be offered or given by the Consultant to any employee of the Corporation with a view toward securing favorable treatment as a contractor.

16. PERSONAL PERFORMANCE REQUIREMENT

The Consultant must personally perform the consulting Services described and may not assign to any third party the performance obligation or any rights to compensation or benefits accruing to the Consultant under this Agreement.

17. NON-SOLICITATION AND NON-COMPETITION

- A. The Consultant represents and agrees that, prior to June 30, 2012, he will not, without the prior written consent of the Agreement Monitor, directly or indirectly, solicit or attempt to solicit for employment on the Consultant's own account or for or on behalf of any corporation, partnership, limited liability corporation, venture, or other business entity (whether or not for profit) ("Business") any person who, on the date of execution of this Agreement or within 12 months prior to that date, was employed by or otherwise engaged to perform services for the Corporation, where such individual has a base salary of at least Eighty-Five Thousand Dollars (\$85,000) per year.
- B. The Consultant represents and agrees that, prior to June 30, 2012, he will not, without the prior written consent of the Agreement Monitor, directly or indirectly, engage, as a director, officer, employee, owner, partner, member, consultant, agent, independent contractor, joint venturer, lender, guarantor, investor, or in any other capacity, in any Business that substantially and directly competes with the Corporation, including, but not limited to, BAE Systems, The Boeing Company, General Dynamics Corporation, L3 Communications Holdings, Inc., Northrop Grumman Corporation, or Raytheon Corporation.
- C. Notwithstanding the foregoing, the Consultant may perform services for any Business that has a business segment that does not compete in more than a *de minimis* way with the Corporation; *provided that*, the Consultant performs services solely for that non-competing business segment and; *provided further that*, prior to beginning such services, the Consultant notifies the Agreement Monitor in writing of the nature of such services in sufficient detail to allow the Agreement Monitor to form a reasonable opinion as to whether such services are in compliance with this Agreement. In addition, the foregoing shall not prohibit (i) equity investments by the Consultant in publicly-traded Businesses where the Consultant owns less than five percent (5%) of the outstanding equity and does not actively participate in the Business in which such investment is made; or (ii) an equity investment made through a broad-based mutual fund.
- D. The Consultant acknowledges that, during the course of his previous employment with the Corporation, he received or had access to Proprietary or Confidential Information and that it is contemplated that he will receive or have access to Proprietary or Confidential

Information in his capacity as a consultant and, accordingly, he is willing to make the representations and enter into the covenants contained in this Section 17 which he agrees (i) are reasonable, fair, and equitable in scope, terms, and duration, (ii) are necessary to protect the future operations, profitability, and other legitimate business interests of the Corporation, and (iii) will not prevent the Consultant from earning a livelihood. The Consultant further covenants that he will not challenge the enforceability of this Section 17, nor will he raise any equitable defense to its enforcement and that adequate consideration has been received by the Consultant for such obligations. If, however, for any reason any court determines that the restrictions in this Section 17 are not reasonable, the consideration is inadequate, or the Consultant has been prevented unlawfully from earning a livelihood, such restrictions shall be interpreted, modified, or rewritten to include as much of the scope, terms, and duration as will render such restrictions valid and enforceable.

E. The provisions of this Section 17 survive until June 30, 2012, without regard to the earlier termination of this Agreement.

18. RECORDS AND AUDIT

The Consultant agrees to retain for a period of three (3) years from final payment hereunder, books, records, documents, and other evidence pertaining to the costs and expenses of this Agreement (collectively called the "records") to the extent and in such detail as shall properly reflect all net costs, direct and indirect, of labor, materials, equipment, supplies, and services, and other costs and expenses of whatever nature for which payment is claimed under the provisions of this Agreement. The Consultant agrees to make available at the offices of the Corporation, upon reasonable notice and at reasonable times during such retention period, any of the records for inspection, audit, or reproduction by any representative authorized by the Corporation. The term "records" also includes work product, trip reports (indicating persons visited and subjects discussed), minutes of meetings, collateral memoranda, and related documents.

19. ASSIGNMENT

Neither this Agreement nor any interest herein is assignable by the Consultant. The Corporation may assign this Agreement and its rights and obligations hereunder to any subsidiary, affiliate, or successor in interest.

20. TERMINATION

A. Neither the Corporation nor the Consultant may unilaterally terminate this Agreement without cause, except as described in Sections 14.C. and 20.B. The Corporation and the Consultant may terminate this Agreement by mutual agreement; *provided that*, the termination is in writing and is signed by each. In the event of mutual termination, the Corporation's obligations are limited to the payment of compensation due, up to and including the termination date, and the payment of otherwise reimbursable expenses incurred by the Consultant, up to and including the termination date, and claims for indemnification pursuant to Section 7 for events indemnifiable under that provision prior to the termination date. Any reports in progress at the time of termination must be submitted by the Consultant to the Corporation at no additional fee.

- B. This Agreement will terminate for cause immediately if the Consultant breaches any provision of this Agreement in any material respect.
- C. If this Agreement is terminated prior to June 30, 2012, other than by mutual agreement, all compensation payments then due and any right to future compensation will be forfeited by the Consultant. The Corporation's sole obligation to the Consultant will be the payment of otherwise reimbursable expenses incurred by the Consultant, up to and including the termination date, and claims for indemnification pursuant to Section 7 for events indemnifiable under that provision prior to the termination date.

21. NOTICES

Any notices to be furnished under this Agreement will be sufficient if in writing and (i) hand-delivered, (ii) sent by certified or registered mail, (iii) by express courier, or (iv) by E-mail, if each party separately designates an E-mail address for use in delivering notices and notice also is contemporaneously sent by one of the other methods of delivery, addressed as follows:

If to the Corporation:

Lockheed Martin Corporation
Attn: Bruce L. Tanner
Executive Vice President and Chief Financial Officer
6801 Rockledge Drive
Bethesda, MD 20817

With copy to:

Lockheed Martin Corporation
Attn: Maryanne Lavan
Senior Vice President & General Counsel
6801 Rockledge Drive
Bethesda, MD 20817

If to the Consultant:

John C. McCarthy
10020 New London Dr.
Potomac, MD 20854

The Corporation or the Consultant may at any time change the address to which notices to it, or him, as the case may be, are to be given by notice to the other.

22. AMENDMENTS; ENTIRE AGREEMENT; AND COUNTERPARTS

Only the Agreement Monitor has the authority to make changes in or amendments to this Agreement on behalf of the Corporation and to effect deviations (by way of addition or deletion) from the Services. Changes or amendments to this Agreement will have no effect, unless they are in writing and signed by the Agreement Monitor and the Consultant. This Agreement constitutes the entire agreement and supercedes all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same Agreement.

23. AGREEMENT AND CHOICE OF LAW

This Agreement together with all amendments, if any: (a) shall be construed and governed in accordance with the laws of the State of Maryland, without regard to its conflict of laws provisions; and (b) constitutes the entire understanding and agreement of the Corporation and the Consultant concerning its subject matter; and (c) supersedes all prior written or oral understandings of the Parties (including predecessors or assigns) concerning its subject matter.

24. WAIVER

The failure of the Corporation in any one or more instances to insist upon performance of any of the provisions of this Agreement shall not be construed as a waiver of such provisions with regard to future performance.

25. REMEDIES

The rights and remedies provided herein are cumulative and in addition to any other rights and remedies provided at law or in equity.

26. HEADINGS

The headings of the Sections of this Agreement are for convenience only and are to have no substantive or interpretive effect.

27. SEVERABILITY

If any provision of this Agreement or the application thereof is held invalid, such invalidity will not affect any other provisions or applications of this Agreement which may be given effect without the invalid provisions or application and, to this end, the provisions of this Agreement are severable.

28. ORDER OF PRECEDENCE

The exhibits to this Agreement are incorporated by reference herein and made a part hereof for all purposes, as fully set forth herein. In the event of any conflict, the controlling document shall be determined by the following order of precedence:

- This Agreement; and
- Exhibit B: Lockheed Martin Code of Ethics and Business Conduct, "Setting the Standard".

IN WITNESS WHEREOF, the Corporation and the Consultant execute this Agreement as of July 1, 2011.

Consultant

Lockheed Martin Corporation

/s/ John C. McCarthy

By /s/ Bruce L. Tanner

John C. McCarthy

Bruce L. Tanner
Executive Vice President and Chief
Financial Officer

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

Board of Directors
Lockheed Martin Corporation

We are aware of the incorporation by reference of our report dated July 27, 2011, relating to the unaudited condensed consolidated interim financial statements of Lockheed Martin Corporation that is included in its Form 10-Q for the quarter ended June 26, 2011, in the following Registration Statements of Lockheed Martin Corporation:

- 33-58067 on Form S-3, dated March 14, 1995;
- 33-58073, 33-58075, 33-58077, 33-58079, 33-58081, and 33-58097 on Form S-8, each dated March 15, 1995;
- 33-57645 on Form S-8 (Post-Effective Amendment No. 1 to Form S-4), dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
- 333-20117 and 333-20139 on Form S-8, each dated January 22, 1997;
- 333-27309 on Form S-8, dated May 16, 1997;
- 333-37069 on Form S-8, dated October 2, 1997;
- 333-40997 on Form S-8, dated November 25, 1997;
- 333-58069 on Form S-8, dated June 30, 1998;
- 333-69295 on Form S-8, dated December 18, 1998;
- 333-92197 on Form S-8, dated December 6, 1999;
- 333-92363 on Form S-8, dated December 8, 1999;
- 333-78279 on Form S-8 (Post-Effective Amendments No. 2 and 3), each dated August 3, 2000;
- 333-56926 on Form S-8, dated March 12, 2001;
- 333-84154 on Form S-8, dated March 12, 2002;
- 333-105118 on Form S-8, dated May 9, 2003;
- 333-113769, 333-113770, 333-113771, 333-113772, and 333-113773 on Form S-8, each dated March 19, 2004;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-127084 on Form S-8, dated August 1, 2005;
- 333-138352 on Form S-4, dated November 14, 2006;
- 333-146963 on Form S-8, dated October 26, 2007;
- 333-149630 on Form S-3, dated March 11, 2008;
- 333-155682 on Form S-3, dated November 25, 2008;
- 333-155684 and 333-155687 on Form S-8, each dated November 25, 2008;
- 333-162716 on Form S-8, dated October 28, 2009; and
- 333-172431 on Form S-4, dated June 28, 2011.

/s/ Ernst & Young LLP

McLean, Virginia
July 27, 2011

I, Robert J. Stevens, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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.

/s/ Robert J. Stevens

Robert J. Stevens

Chairman and Chief Executive Officer

Date: July 27, 2011

I, Bruce L. Tanner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lockheed Martin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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.

/s/ Bruce L. Tanner

Bruce L. Tanner

Executive Vice President and Chief Financial Officer

Date: July 27, 2011

**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 June 26, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Stevens, 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 results of operations of the Corporation.

/s/ Robert J. Stevens

Robert J. Stevens
Chairman and Chief Executive Officer

Date: July 27, 2011

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 June 26, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce L. Tanner, Executive 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 results of operations of the Corporation.

/s/ Bruce L. Tanner

Bruce L. Tanner

Executive Vice President and Chief Financial Officer

Date: July 27, 2011

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.