UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED JUNE 30, 2000 COMMISSION FILE NUMBER 1-11437

LOCKHEED MARTIN CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| MARYLAND | 52-1893632 |
|---|---|
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

| 6801 ROCKLEDGE DRIVE, BETHESDA, MD | 20817 |
|---|---|
| (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | (ZIP CODE) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (301) 897-6000

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 X 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 JULY 31, 2000 |
|---|---|
| COMMON STOCK, $1 PAR VALUE | 401,842,266 |

LOCKHEED MARTIN CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2000

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Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Operations

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (In millions, except per share data) | | | |
| Net sales | $ 6,212 | $ 6,203 | $ 11,774 | $ 12,391 |
| Cost of sales | 5,784 | 6,072 | 11,033 | 11,773 |
| Earnings from operations | 428 | 131 | 741 | 618 |
| Other income and expenses, net | (103) | 3 | (90) | 132 |
| | 325 | 134 | 651 | 750 |
| Interest expense | 220 | 191 | 447 | 383 |
| Earnings (loss) before income taxes and cumulative effect of change in accounting | 105 | (57) | 204 | 367 |
| Income tax expense (benefit) | 63 | (16) | 108 | 140 |
| Earnings (loss) before cumulative effect of change in accounting | 42 | (41) | 96 | 227 |
| Cumulative effect of change in accounting | -- | -- | -- | (355) |
| Net earnings (loss) | $ 42 | $ (41) | $ 96 | $ (128) |
| Earnings (loss) per common share: | | | | |
| - ------------------------------ | | | | |
| Basic: | | | | |
| Before cumulative effect of change in accounting | $ .11 | $ (.11) | $ .25 | $ .59 |
| Cumulative effect of change in accounting | -- | -- | -- | (.93) |
| | $ .11 | $ (.11) | $ .25 | $ (.34) |
| Diluted: | | | | |
| Before cumulative effect of change in accounting | $ .11 | $ (.11) | $ .25 | $ .59 |
| Cumulative effect of change in accounting | -- | -- | -- | (.93) |
| | $ .11 | $ (.11) | $ .25 | $ (.34) |
| Cash dividends declared per common share | $ .11 | $ .22 | $ .22 | $ .44 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Cash Flows

| | Six Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (In millions) | |
| Operating Activities: | | |
| Earnings before cumulative effect of change in accounting | $ 96 | $ 227 |
| Adjustments to reconcile earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 471 | 463 |
| Changes in operating assets and liabilities | 1,031 | (866) |
| Net cash provided by (used for) operating activities | 1,598 | (176) |
| Investing Activities: | | |
| Expenditures for property, plant and equipment | (185) | (276) |
| Sale of shares in L-3 Communications | -- | 182 |
| Other | (43) | 3 |
| Net cash used for investing activities | (228) | (91) |
| Financing Activities: | | |
| Net (decrease) increase in short-term borrowings | (467) | 861 |
| Net repayments related to long-term debt | (23) | (723) |
| Issuances of common stock | 2 | 15 |
| Common stock dividends | (88) | (171) |
| Net cash used for financing activities | (576) | (18) |
| Net increase (decrease) in cash and cash equivalents | 794 | (285) |
| Cash and cash equivalents at beginning of period | 455 | 285 |
| Cash and cash equivalents at end of period | $ 1,249 | $ -- |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation
Unaudited Condensed Consolidated Balance Sheet

| | June 30, 2000 | December 31, 1999 |
|---|---|---|
| | (In millions) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,249 | $ 455 |
| Receivables | 4,182 | 4,348 |
| Inventories | 3,809 | 4,051 |
| Deferred income taxes | 1,167 | 1,237 |
| Other current assets | 570 | 605 |
| Total current assets | 10,977 | 10,696 |
| Property, plant and equipment | 3,550 | 3,634 |
| Investments in equity securities | 2,200 | 2,210 |
| Intangible assets related to contracts and programs acquired | 1,181 | 1,259 |
| Cost in excess of net assets acquired | 9,027 | 9,162 |
| Other assets | 2,957 | 3,051 |
| | $ 29,892 | $ 30,012 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 1,037 | $ 1,228 |
| Customer advances and amounts in excess of costs incurred | 5,145 | 4,655 |
| Salaries, benefits and payroll taxes | 972 | 941 |
| Income taxes | 9 | 51 |
| Short-term borrowings | 8 | 475 |
| Current maturities of long-term debt | 803 | 52 |
| Other current liabilities | 1,557 | 1,410 |
| Total current liabilities | 9,531 | 8,812 |
| Long-term debt | 10,650 | 11,427 |
| Post-retirement benefit liabilities | 1,758 | 1,805 |
| Other liabilities | 1,514 | 1,607 |
| Stockholders' equity: | | |
| Common stock, $1 par value per share | 402 | 398 |
| Additional paid-in capital | 307 | 222 |
| Retained earnings | 5,909 | 5,901 |
| Unearned ESOP shares | (134) | (150) |
| Accumulated other comprehensive loss | (45) | (10) |
| Total stockholders' equity | 6,439 | 6,361 |
| | $ 29,892 | $ 30,012 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Lockheed Martin Corporation (Lockheed Martin or the Corporation) has continued to follow the accounting policies set forth in the consolidated financial statements included in its 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the three months and six months ended June 30, 2000 are not necessarily indicative of results to be expected for the full year. Certain amounts presented for prior periods have been reclassified to conform with the 2000 presentation.

NOTE 2 -- BUSINESS COMBINATION WITH COMSAT CORPORATION

In September 1998, the Corporation and COMSAT Corporation (COMSAT) announced that they had entered into an Agreement and Plan of Merger (the Merger Agreement) to combine the companies in a two-phase transaction (the Merger). Subsequent to obtaining all regulatory approvals necessary for the first phase of the transaction and approval of the Merger by the stockholders of COMSAT, the Corporation completed a cash tender offer (the Tender Offer) on September 18, 1999. The total value of this phase of the transaction was $1.2 billion, and such amount was included in investments in equity securities in the Unaudited Condensed Consolidated Balance Sheet at June 30, 2000. The Corporation accounted for its 49 percent investment in COMSAT under the equity method of accounting.

In connection with actions necessary to complete the second phase of the transaction, federal legislation to remove existing restrictions on ownership of COMSAT voting stock was signed into law on March 17, 2000. In addition, the Corporation filed separate notification and report forms under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act) with the Federal Trade Commission (FTC) and the U.S. Department of Justice (DOJ) in the first quarter of 2000 regarding the Corporation's acquisition of minority interests in two businesses held by COMSAT. On April 22, 2000, the waiting period under the HSR Act with respect to these acquisitions expired. On March 23, 2000, the Corporation and COMSAT filed applications with the FCC seeking authority for the transfer of control of various FCC authorizations held by COMSAT to a wholly-owned subsidiary of Lockheed Martin. In connection therewith, the FCC released an order on July 31, 2000, which allowed the Corporation and COMSAT to complete the Merger.

On August 3, 2000, pursuant to the terms of the Merger Agreement, the second phase of the transaction was accomplished which resulted in consummation of the Merger. On that date, each share of COMSAT common stock outstanding immediately prior to the effective time of the Merger (other than shares held by the Corporation) was converted into the right to receive one share of Lockheed Martin common stock. The total amount recorded related to this phase of the transaction will be approximately $1.3 billion based on the Corporation's issuance of approximately 27.5 million shares of its common stock (in exchange for each share of COMSAT's common stock, other than shares held by the Corporation) at a price of $49 per share. This price per share

represents the average of the price of Lockheed Martin's common stock a few days before and after the announcement of the transaction in September 1998. Based on the above, the total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately $2.6 billion, net of cash balances acquired.

The COMSAT transaction will be accounted for using the purchase method of accounting. Preliminary purchase accounting adjustments will be recorded in the third quarter of 2000 to allocate the purchase price to assets acquired and liabilities assumed based on their fair values. Such adjustments are expected to include certain amounts totaling approximately $2.3 billion, composed of adjustments to record equity investees acquired at their fair values and cost in excess of net assets acquired, which is expected to be amortized over a composite estimated life of 30 years. These preliminary adjustments and estimates are subject to change as a result of the completion of future analyses.

The following unaudited pro forma combined earnings data presents the results of operations of the Corporation and COMSAT as if the Merger had been consummated at the beginning of the periods presented. The pro forma combined earnings data does not purport to be indicative of the results of operations that would have resulted if the COMSAT transaction had occurred at the beginning of the respective periods. Moreover, this data is not intended to be indicative of future results of operations.

| | Pro Forma Combined Earnings Data Six Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (In millions, except per share data) | |
| Net sales | $ 12,066 | $ 12,664 |
| Earnings before cumulative effect of change in accounting | 93 | 197 |
| Net earnings (loss) | 93 | (158) |
| Earnings (loss) per common share: | | |
| Basic: | .22 | .48 |
| Before cumulative effect of change in accounting | .22 | (.39) |
| Net earnings (loss) per common share | | |
| Diluted: | | |
| Before cumulative effect of change in accounting | .22 | .48 |
| Net earnings (loss) per common share | .22 | (.38) |

The Corporation will include the operations of COMSAT with the results of operations of Lockheed Martin Global Telecommunications, Inc. (LMGT), a wholly owned subsidiary of the Corporation, from August 1, 2000.

NOTE 3 -- EARNINGS PER SHARE

Basic and diluted earnings (loss) per share were computed based on net earnings (loss). The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings (loss) per share, and this number of shares was increased by the

effects of dilutive stock options based on the treasury stock method in the calculation of diluted earnings (loss) per share.

The following table sets forth the computations of basic and diluted earnings (loss) per common share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (In millions, except per share data) | | | |
| **Net earnings (loss) for basic and diluted computations:** | | | | |
| Earnings (loss) before cumulative effect of change in accounting | $ 42 | $ (41) | $ 96 | $ 227 |
| Cumulative effect of change in accounting | -- | -- | -- | (355) |
| Net earnings (loss) | $ 42 | $ (41) | $ 96 | $ (128) |
| **Average common shares outstanding:** | | | | |
| Average number of common shares outstanding for basic computations | 389.5 | 381.4 | 388.3 | 380.8 |
| Effects of dilutive stock options based on the treasury stock method | 1.7 | -- (a) | 1.0 | 2.5 |
| Average number of common shares outstanding for diluted computations | 391.2 | 381.4 (a) | 389.3 | 383.3 |
| **Earnings (loss) per common share:** | | | | |
| Basic: | | | | |
| Before cumulative effect of change in accounting | $ .11 | $ (.11) | $ .25 | $ .59 |
| Cumulative effect of change in accounting | -- | -- | -- | (.93) |
| | $ .11 | $ (.11) | $ .25 | $ (.34) |
| Diluted: | | | | |
| Before cumulative effect of change in accounting | $ .11 | $ (.11) | $ .25 | $ .59 |
| Cumulative effect of change in accounting | -- | -- | -- | (.93) |
| | $ .11 | $ (.11) | $ .25 | $ (.34) |

(a) In accordance with Statement of Financial Accounting Standards No. 128, the average number of common shares used in the calculation of diluted loss per share before cumulative effect of change in accounting have not been adjusted for the effects of stock options, as such shares would have an antidilutive effect.

NOTE 4 -- INVENTORIES

| | June 30, 2000 | December 31, 1999 |
|---|---|---|
| | (In millions) | |
| Work in process, commercial launch vehicles | $ 1,453 | $ 1,514 |
| Work in process, primarily related to other long-term contracts and programs in progress | 3,805 | 3,879 |
| Less customer advances and progress payments | (1,826) | (1,848) |
| | 3,432 | 3,545 |
| Other inventories | 377 | 506 |
| | $ 3,809 | $ 4,051 |

Commercial launch vehicle inventories at June 30, 2000 and December 31, 1999 included amounts advanced to Russian manufacturers, Khrunichev State Research and Production Space Center and RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of approximately $880 million and $903 million, respectively, for the manufacture of launch vehicles and related launch services. Work in process inventories related to commercial launch vehicles also included costs for launch vehicles, both under contract and not under contract, including unamortized deferred costs related to the commercial Atlas and the Evolved Expendable Launch Vehicle (Atlas V) programs.

Work in process inventories related to other long-term contracts and programs in progress included unamortized deferred costs for aircraft not under contract related to the Corporation's C-130J program. The total amount of unamortized deferred costs expected to be recognized related to unsold C-130J aircraft was $140 million and $150 million at June 30, 2000 and December 31, 1999, respectively.

NOTE 5 -- CONTINGENCIES

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

Environmental matters - The Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with the Corporation's former Lockheed Propulsion Company facilities in Redlands, California. Under the orders, the Corporation is investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. The Regional Board has approved the Corporation's plan to maintain public water supplies with respect to chlorinated solvents during this investigation, and the Corporation is negotiating with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation estimates that expenditures required to implement work currently approved will be approximately $140 million. The Corporation is also

coordinating with the U.S. Air Force, which is conducting preliminary studies of the potential health effects of exposure to perchlorates in connection with several sites across the country, including the Redlands site. The results of these studies indicate that current efforts with water purveyors regarding perchlorate issues are appropriate; however, the Corporation currently cannot project the extent of its ultimate clean-up obligation, if any, with respect to perchlorates.

The Corporation entered into a consent decree with the U.S. Environmental Protection Agency (EPA) in 1991 relating to certain property in Burbank, California, which obligated the Corporation to design and construct facilities to monitor, extract and treat groundwater, and to operate and maintain such facilities for approximately eight years. The Corporation entered into a follow-on consent decree in 1998 which obligates the Corporation to fund the continued operation and maintenance of these facilities through the year 2018; however, the responsibility for the actual operations of these facilities will be assumed by the city of Burbank in the fourth quarter of 2000. The Corporation has also been operating under a cleanup and abatement order from the Regional Board affecting its facilities and former facilities in Burbank, California. This order requires site assessment and action to abate groundwater contamination by a combination of groundwater and soil cleanup and treatment. Also as a result of its former operations at the Burbank facilities, the Corporation is participating as one of several parties to a consent decree with the EPA (entered August 3, 2000) to fund the operation of a groundwater treatment system previously designed and built by the group in Glendale, California as part of the San Fernando Superfund site that includes Burbank. The consent decree calls for this treatment system to be operated for 12 years, one year under the direction of the parties who built the facility and thereafter by the city of Glendale. Under an agreement reached with the U.S. Government and filed with the U.S. District Court in January 2000 (the Agreement), the Corporation was reimbursed approximately $100 million in the first quarter of 2000 for past expenditures for certain remediation activities related to the Burbank and Glendale properties. Also under the Agreement, an amount equal to approximately 50 percent of future expenditures for certain remediation activities will be reimbursed by the U.S. Government as a responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and the Regional Board order related to the Burbank property, and the administrative orders related to the city of Glendale, net of the effects of the Agreement, will be approximately $50 million.

The Corporation is involved in other proceedings and potential proceedings relating to environmental matters, including disposal of hazardous wastes and soil and water contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably estimated at this time. In addition to the amounts with respect to the Redlands and Burbank properties and the city of Glendale described above, a liability of approximately $200 million for the other properties in which an estimate of financial exposure can be determined has been recorded.

Under an agreement with the U.S. Government in 1990, the Burbank groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other potentially responsible parties, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the

expenditures are being reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation. Currently, Lockheed Martin is in discussions with the U.S. Government regarding certain elements of the Corporation's accounting practices for the treatment of environmental costs; however, it is management's opinion that the treatment of these environmental costs is appropriate and consistent with the terms of such agreement and applicable regulations.

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

Waste remediation contract -- In 1994, the Corporation was awarded a $180 million fixed price contract by the U.S. Department of Energy (DOE) for the Phase II design, construction and limited test of remediation facilities, and the Phase III full remediation of waste found in Pit 9, located on the Idaho National Engineering and Environmental Laboratory reservation. The Corporation incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters which threatened the viability of the overall Pit 9 program. Based on an investigation by management to identify and quantify the overall effect of these matters, the Corporation submitted a request for equitable adjustment (REA) to the DOE in March 1997 that sought, among other things, the recovery of a portion of unanticipated costs incurred by the Corporation and the restructuring of the contract to provide for a more equitable sharing of the risks associated with the Pit 9 project. The Corporation has been unsuccessful in reaching any agreements with the DOE on cost recovery or other contract restructuring matters.

In June 1998, the DOE, through Lockheed Martin Idaho Technologies Company (LMITCO), its management contractor, terminated the Pit 9 contract for default. On the same date, the Corporation filed a lawsuit against the DOE in the U.S. Court of Federal Claims in Washington, D.C., challenging and seeking to overturn the default termination. In addition, in July 1998, the Corporation withdrew the REA previously submitted to the DOE and replaced it with a certified REA. The certified REA is similar in substance to the REA previously submitted, but its certification, based upon more detailed factual and contractual analysis, raises its status to that of a formal claim. In August 1998, LMITCO, at the DOE's direction, filed suit against the Corporation in U.S. District Court in Boise, Idaho, seeking, among other things, recovery of approximately $54 million previously paid by LMITCO to the Corporation under the Pit 9 contract. The Corporation is defending this action while continuing to pursue its certified REA. Discovery has been ongoing since August 2, 1999. In October 1999, the U.S. Court of Federal Claims stayed the DOE's motion to dismiss the Corporation's lawsuit, finding that the Court has jurisdiction. The Court ordered discovery to commence and gave leave to the DOE to convert its motion to dismiss to a motion for summary judgment if supported by discovery. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

NOTE 6 -- INFORMATION ON BUSINESS SEGMENTS

The Corporation implemented a new organizational structure, effective October 1, 1999, that realigned its core lines of business into four principal business segments. The four principal business segments include Systems Integration, Space Systems, Aeronautical Systems and Technology Services. All other activities of the Corporation, including the operations of LMGT and COMSAT, fall within the Corporate and Other segment. In 2000, the Corporation reassigned the Management & Data Systems business unit and the space applications systems line of business from the Systems Integration segment to the Space Systems segment. Prior period amounts have been adjusted to conform with the above changes in organizational structure.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (In millions) | | | |
| Selected Financial Data by Business Segment | | | | |
| Net sales | | | | |
| Systems Integration | $ 2,334 | $ 2,367 | $ 4,405 | $ 4,599 |
| Space Systems | 1,780 | 1,728 | 3,452 | 3,618 |
| Aeronautical Systems | 1,253 | 1,346 | 2,289 | 2,766 |
| Technology Services | 599 | 537 | 1,063 | 985 |
| Corporate and Other | 246 | 225 | 565 | 423 |
| | $ 6,212 | $ 6,203 | $11,774 | $12,391 |
| Operating profit (loss) | | | | |
| Systems Integration | $ 202 | $ 205 | $ 370 | $ 373 |
| Space Systems | 128 | 46 | 213 | 210 |
| Aeronautical Systems | 89 | (118) | 168 | 46 |
| Technology Services | 36 | 36 | 62 | 68 |
| Corporate and Other | (130) | (35) | (162) | 53 |
| | $ 325 | $ 134 | $ 651 | $ 750 |
| Intersegment revenue(a) | | | | |
| Systems Integration | $ 118 | $ 112 | $ 223 | $ 227 |
| Space Systems | 34 | 28 | 62 | 57 |
| Aeronautical Systems | 21 | 22 | 39 | 43 |
| Technology Services | 186 | 154 | 352 | 307 |
| Corporate and Other | 15 | 15 | 30 | 30 |
| | $ 374 | $ 331 | $ 706 | $ 664 |

| | June 30, 2000 | December 31, 1999 |
|---|---|---|
| | (In millions) | |
| Selected Financial Data by Business Segment | | |
| Customer advances and amounts in excess of costs incurred/(b)/ | | |
| Systems Integration | $ 951 | $ 1,039 |
| Space Systems | 2,245 | 2,553 |
| Aeronautical Systems | 1,753 | 899 |
| Technology Services | 21 | 31 |
| Corporate and Other | 175 | 133 |
| | $ 5,145 | $ 4,655 |

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

(b) At June 30, 2000, customer advances and amounts in excess of costs incurred in the Space Systems segment included approximately $1.2 billion for launch vehicles and related launch services (approximately $683 million of which relates to launch vehicles and services from Russian manufacturers) and approximately $730 million for the manufacture of commercial satellites (approximately $235 million of which could be refundable with interest if the related contracts are canceled by the respective customers). Customer advances and amounts in excess of costs incurred in the Aeronautical Systems segment included approximately $1.0 billion related to the F-16 fighter aircraft program (approximately $900 million of which relates to a contract with the United Arab Emirates).

NOTE 7 -- OTHER

On June 30, 2000, the Corporation was notified that Globalstar Telecommunications, L.P. (Globalstar) failed to repay borrowings of $250 million under a revolving credit agreement on which Lockheed Martin was a partial guarantor. In connection with its contractual obligation under the guarantee, on June 30, 2000, the Corporation paid $207 million to the lending institutions from which Globalstar borrowed, which included applicable interest and fees. On that same date, Loral Space & Communications, Ltd. (Loral Space), under a separate indemnification agreement between the Corporation and Loral Space, paid Lockheed Martin $57 million. The Corporation is entitled to repayment by Globalstar of the remaining $150 million paid under the guarantee, but has not as yet reached agreement with respect to the form and timing of such repayment. In light of the uncertainty of the situation regarding the amounts due from Globalstar, the Corporation recorded a nonrecurring and unusual charge in the second quarter of 2000, net of state income tax benefits, of approximately $141 million. The charge reduced net earnings by $91 million, or $.23 per diluted share.

In the fourth quarter of 1998, the Corporation recorded a nonrecurring and unusual pretax charge, net of state income tax benefits, of $233 million related to actions surrounding the decision to fund a timely non-bankruptcy shutdown of the business of CalComp Technology, Inc. (CalComp), a majority-owned subsidiary. Approximately 10 percent of the original charge was reversed in 1999. As of June 30, 2000, CalComp had, among other actions, consummated

sales of substantially all of its assets, terminated substantially all of its work force, and initiated the corporate dissolution process under the applicable state statutes and, for its foreign subsidiaries, foreign government statutes. Based on management's assessment of the remaining actions to be taken to complete initiatives contemplated in the Corporation's original plans and estimates, the Corporation reversed approximately $33 million of the original pretax charge in the second quarter of 2000, which increased net earnings by $21 million, or $.05 per diluted share. While uncertainty remains concerning the resolution of matters in dispute or litigation, management believes that the remaining amount recorded at June 30, 2000, which represents approximately 10 percent of the original charge, is adequate to provide for resolution of these matters and to complete the dissolution process.

Effective March 31, 2000, subsequent to receiving applicable regulatory approval, the Corporation exercised its right to convert its 45.9 million shares of Loral Space Series A Preferred Stock (the Preferred Stock) into an equal number of shares of Loral Space common stock. The Corporation's ownership of 45.9 million shares of Loral Space common stock represents an approximate 15 percent interest in Loral Space, or 13 percent on a diluted basis. Subsequent to conversion, the Corporation began accounting for its investment as an available-for-sale investment. Accordingly, as of June 30, 2000, the investment in Loral Space was adjusted to reflect its current market value, and an unrealized loss, net of income taxes, of approximately $33 million was included in stockholders' equity as a component of accumulated other comprehensive income (loss).

In June 1999, the Corporation recorded negative adjustments in the Aeronautical Systems segment totaling approximately $210 million which resulted from changes in estimates on the C-130J airlift aircraft program due to cost growth and a reduction in production rates, based on a current evaluation of the program's performance. These adjustments, net of state income tax benefits, negatively impacted earnings (loss) before income taxes and cumulative effect of change in accounting by $197 million, and increased the net loss by $128 million, or $.33 per diluted share. Also in June 1999, the Corporation recorded negative adjustments in the Space Systems segment totaling approximately $90 million related to the Titan IV program which included the effects of changes in estimates for award and incentive fees resulting from the Titan IV launch failure on April 30, 1999, as well as a more conservative assessment of future program performance. These adjustments, net of state income tax benefits, negatively impacted earnings (loss) before income taxes and cumulative effect of change in accounting by $84 million, and increased the net loss by $54 million, or $.14 per diluted share.

In February 1999, the Corporation sold 4.5 million of its shares in L-3 Communications Holdings, Inc. (L-3) as part of a secondary public offering by L-3. This transaction resulted in a reduction in the Corporation's ownership to approximately seven percent and the recognition of a pretax gain of $114 million which is reflected in other income and expenses. The gain increased net earnings by $74 million, or $.19 per diluted share. After this transaction was consummated, the Corporation began accounting for its remaining investment in L-3 as an available-for-sale investment. Accordingly, as of June 30, 1999, the investment in L-3 was adjusted to reflect its current market value, and an unrealized gain, net of income taxes, of approximately $45 million was included in stockholders' equity as a component of accumulated other comprehensive income. In October 1999, the Corporation sold its remaining interest in

L-3 and reclassified to net earnings $30 million of unrealized gains previously recorded as comprehensive income.

The components of comprehensive income for the three months and six months ended June 30, 2000 and 1999 consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (In millions) | | | |
| Net earnings (loss) | $ 42 | $ (41) | $ 96 | $ (128) |
| Other comprehensive income: | | | | |
| Net foreign currency translation adjustments | -- | (11) | -- | (4) |
| Net unrealized (loss) gain | (85) | 3 | (35) | 45 |
| | (85) | (8) | (35) | 41 |
| Comprehensive (loss) income | $ (43) | $ (49) | $ 61 | $ (87) |

The Corporation's total interest payments were $457 million and $383 million for the six months ended June 30, 2000 and 1999, respectively.

The Corporation's federal and foreign income tax payments, net of refunds received, were $10 million and $227 million for the six months ended June 30, 2000 and 1999, respectively.

New accounting pronouncements adopted -- Effective January 1, 1999, the Corporation adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities." This SOP requires that, at the effective date of adoption, costs of start-up activities previously capitalized be expensed and reported as a cumulative effect of a change in accounting principle, and further requires that such costs subsequent to adoption be expensed as incurred. The adoption of SOP No. 98-5 resulted in the recognition of a cumulative effect adjustment which negatively impacted net earnings (loss) for the six months ended June 30, 1999 by $355 million, or $.93 per diluted share. The cumulative effect adjustment was recorded net of income tax benefits of $227 million.

New accounting pronouncement to be adopted -- In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the Consolidated Balance Sheet, and the periodic measurement of those instruments at fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. At adoption, existing hedging relationships must be designated anew and documented pursuant to the provisions of the Statement. The Corporation does not intend to adopt SFAS No. 133, as amended, prior to the required date of January 1, 2001. The Corporation currently expects that the adoption of SFAS No. 133 will not have a material impact on its consolidated results of operations and financial position at the date of

adoption. However, adoption of the Statement could result in a greater degree of income statement volatility than current accounting practice in subsequent periods.

NOTE 8 -- SUBSEQUENT EVENT

On July 13, 2000, the Corporation made the decision to sell its aerospace electronics systems (AES) businesses to BAE SYSTEMS North America (BAE SYSTEMS), and announced that it had reached a definitive agreement to sell these businesses to BAE SYSTEMS for $1.67 billion in cash. Consummation of the transaction is conditioned upon regulatory review under the HSR Act and other antitrust laws, and by the Committee on Foreign Investment in the U.S. under the Exon Florio Amendment to the Defense Procurement Act of 1950.

As a result of its decision to sell the AES businesses to BAE SYSTEMS, the Corporation will classify the assets of these businesses as "held for disposal" under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Assets to be Disposed Of." The sum of the carrying value of the net assets of the AES businesses and estimated transaction costs exceeds the sales price per the agreement with BAE SYSTEMS. Therefore, the Corporation is expected to record an impairment loss in the third quarter of 2000 to adjust the book values of the assets to be disposed of to their fair values in accordance with SFAS No. 121. Based on preliminary calculations and analyses, the Corporation estimates that the resulting pretax loss, net of state income tax benefits, will be approximately $750 million, or approximately $1 billion on an after-tax basis. These estimates are subject to change based on future analyses and closing of the transaction. If consummated, this transaction is expected to close in the fourth quarter of 2000.

STRATEGIC AND ORGANIZATIONAL REVIEW

In September 1999, Lockheed Martin announced the results to date of its strategic and organizational review that began in June 1999. As a result of this review, the Corporation has implemented a new organizational structure (as more fully described in "Note 6 -- Information on Business Segments" of the Notes to Unaudited Condensed Consolidated Financial Statements), and announced plans to evaluate the repositioning of certain businesses to maximize their value and growth potential and the divestiture of certain non-core business units.

The Corporation is continuing to evaluate alternatives relative to maximizing the value of two business units that serve the commercial information technology markets, including Lockheed Martin's internal information technology needs. These units have been identified by management as having high growth potential, but are distinct from the Corporation's core business segments. The Corporation may seek to maximize the value of these business units through strategic partnerships or joint ventures, or by accessing public equity markets, although the outcome of those efforts cannot be predicted.

In connection with its decision to evaluate the divestiture of certain non-core business units, the Corporation made the decision on July 13, 2000 to sell its aerospace electronics systems (AES) businesses to BAE SYSTEMS North America (BAE SYSTEMS), and announced that it had reached a definitive agreement to sell these businesses to BAE SYSTEMS for $1.67 billion in cash. Consummation of the transaction is conditioned upon regulatory review under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act) and other antitrust laws, and by the Committee on Foreign Investment in the U.S. under the Exon Florio Amendment to the Defense Procurement Act of 1950. Net sales for the first six months of 2000 related to the AES businesses totaled approximately $340 million excluding intercompany sales. As more fully discussed in "Note 8 - Subsequent Event" of the Notes to Unaudited Condensed Consolidated Financial Statements, the Corporation is expected to record an impairment loss in the third quarter of 2000 to adjust the book values of the assets of the AES businesses to their fair values. Based on preliminary calculations and analyses, the Corporation currently estimates that the resulting pretax loss, net of state income tax benefits, will be approximately $750 million, or approximately $1 billion on an after-tax basis. If consummated, this transaction is expected to close in the fourth quarter of 2000 and generate net cash proceeds of $1.2 billion to $1.3 billion after related transaction costs and federal and state tax payments. These estimates are subject to change based on future analyses and closing of the transaction.

In addition, the Corporation announced in April 2000 that it had reached a definitive agreement to sell Lockheed Martin Control Systems (Control Systems) to BAE SYSTEMS for $510 million in cash. Consummation of this transaction is also conditioned upon regulatory review under the HSR Act and other antitrust laws, and by the Committee on Foreign Investment in the U.S. under the Exon Florio Amendment to the Defense Procurement Act of 1950. On June 9, 2000, the Antitrust Division of the Department of Justice (DOJ) issued a request to Lockheed Martin and BAE SYSTEMS for additional information and documents. This request extends the waiting period during which the proposed transaction may not be consummated for 20 days from the date of receipt by the DOJ of the requested materials. Net sales for the first six months of 2000 related to Control Systems totaled approximately $140 million excluding intercompany sales. If consummated, this transaction is expected to close in the second half of 2000. The Corporation currently estimates

that this transaction will result in a pretax gain, net of state income taxes, of approximately $300 million, or approximately $175 million on an after tax basis, and generate net cash proceeds of $325 million to $375 million after related transaction costs and federal and state tax payments. These estimates are subject to change based on future analyses and the closing of the transaction.

The Corporation is continuing its evaluation of the divestiture, subject to appropriate valuation, negotiation and approval, of certain other business units in the environmental management and state and local government services lines of business. On a combined basis, net sales for the first six months of 2000 related to such business units being evaluated for divestiture totaled approximately $300 million. Based on preliminary data, assuming that the remaining potential divestiture transactions are approved by the Corporation's Board of Directors and ultimately consummated in the future, management estimates that the potential one-time effects, if combined, could result in a net gain on disposition. Financial effects that may result, if any, would be recorded when the transactions are consummated or when losses can be estimated. Management cannot predict the timing of these potential divestitures, the amount of proceeds that may ultimately be realized or whether any or all of the potential transactions will take place.

On an ongoing basis, the Corporation will continue to explore the sale of various investment holdings and surplus real estate, review its businesses to identify ways to improve organizational effectiveness and performance, and clarify and focus on its core business strategy.

BUSINESS COMBINATION WITH COMSAT CORPORATION

In September 1998, the Corporation and COMSAT Corporation (COMSAT) announced that they had entered into an Agreement and Plan of Merger (the Merger Agreement) to combine the companies in a two-phase transaction (the Merger). Subsequent to obtaining all regulatory approvals necessary for the first phase of the transaction and approval of the Merger by the stockholders of COMSAT, the Corporation completed a cash tender offer (the Tender Offer) on September 18, 1999. The total value of this phase of the transaction was $1.2 billion, and such amount was included in investments in equity securities in the Unaudited Condensed Consolidated Balance Sheet at June 30, 2000. The Corporation accounted for its 49 percent investment in COMSAT under the equity method of accounting.

On August 3, 2000, subsequent to the passage of federal legislation to remove existing restrictions on ownership of COMSAT voting stock and obtaining the additional required regulatory approvals, the second phase of the transaction was accomplished pursuant to the terms of the Merger Agreement, which resulted in consummation of the Merger. On that date, each share of COMSAT common stock outstanding immediately prior to the effective time of the Merger (other than shares held by the Corporation) was converted into the right to receive one share of Lockheed Martin common stock. The total amount recorded related to this phase of the transaction will be approximately $1.3 billion based on the Corporation's issuance of approximately 27.5 million shares of its common stock (in exchange for each share of COMSAT's common stock, other than shares held by the Corporation) at a price of $49 per share. This price per share represents the average of the price of Lockheed Martin's common stock a few days before and after the announcement of the transaction in September 1998. Based on the above, the total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately $2.6 billion, net of cash balances acquired.

The COMSAT transaction will be accounted for using the purchase method of accounting. Preliminary purchase accounting adjustments will be recorded in the third quarter of 2000 to allocate the purchase price to assets acquired and liabilities assumed based on their fair values. Such adjustments are expected to include certain amounts totaling approximately $2.3 billion, composed of adjustments to record equity investees acquired at their fair values and cost in excess of net assets acquired, which is expected to be amortized over a composite estimated life of 30 years. These preliminary adjustments and estimates are subject to change as a result of the completion of future analyses.

The Corporation will include the operations of COMSAT with the results of operations of Lockheed Martin Global Telecommunications, Inc. (LMGT), a wholly owned subsidiary of the Corporation, from August 1, 2000. Given the substantial investment necessary for the growth of the global telecommunications services business, support from strategic partners for LMGT may be sought and public equity markets may be accessed to raise capital, although the Corporation cannot predict the outcome of these efforts.

## RESULTS OF OPERATIONS

### Consolidated Results of Operations

The Corporation's operating cycle is long-term and involves various types of production contracts and varying production delivery schedules. Accordingly, results of a particular quarter, or quarter-to-quarter comparisons of recorded sales and profits, may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

Consolidated net sales for both of the second quarters of 2000 and 1999 were $6.2 billion. Consolidated net sales for the six months ended June 30, 2000 were $11.8 billion, a five percent decrease from the $12.4 billion reported for the same period in 1999. Quarter-to-quarter net sales decreases in the Aeronautical Systems and Systems Integration segments were offset by increases in the remaining segments. For the six months ended June 30, 2000, as compared to the respective 1999 period, net sales increases in the Technology Services and Corporate and Other segments were more than offset by decreases in the remaining segments. The Corporation's operating profit (earnings before interest and taxes) for the second quarter of 2000 was $325 million versus $134 million for the comparable 1999 period. The Corporation's operating profit for the six months ended June 30, 2000 was $651 million, a 13 percent decrease from the $750 million reported for the comparable 1999 period. Increases in operating profit in the second quarter of 2000 as compared to the second quarter of 1999 in the Aeronautical Systems and Space Systems segments more than offset the decrease in the Corporate and Other segment, while the other segments remained relatively constant. For the six months ended June 30, 2000, an operating profit increase in the Aeronautical Systems segment was more than offset by the decrease in the Corporate and Other segment, while the other segments remained relatively constant. Operating profit for the comparative quarter and year-to-date periods in the Aeronautical Systems and Space Systems segments were favorably impacted by the absence in 2000 of negative adjustments recorded during the second quarter of 1999 on the C-130J airlift aircraft and Titan IV launch vehicle programs, respectively. The reported amounts above also include the financial impacts of various nonrecurring and unusual items, the details of which are described below. Excluding the effects of these nonrecurring and unusual items for each year,

operating profit for second quarter of 2000 would have been $433 million, an increase from the $154 million reported for the second quarter 1999. Similarly, excluding the effects of these nonrecurring and unusual items, operating profit for the six months ended June 30, 2000 would have been $749 million, a 14 percent increase over the $656 million reported in the comparable 1999 period. For a more detailed discussion of the operating results of the business segments, see "Discussion of Business Segments" below.

As discussed above, operating profit in the second quarter of 2000 included the effects of nonrecurring and unusual items which on a combined basis, net of state income taxes, decreased operating profit by $108 million. These items, as more fully described in "Note 7 -- Other" of the Notes to Unaudited Condensed Consolidated Financial Statements, included 1) a charge of $141 million associated with amounts due from Globalstar Telecommunications, L.P. (Globalstar) in connection with a net $150 million payment made by the Corporation related to its guarantee of Globalstar's debt, and 2) a favorable adjustment of $33 million associated with the reversal of a portion of the previously recorded charge related to the shutdown of CalComp Technology Inc.'s (CalComp) operations. Operating profit in the second quarter of 1999 included the effect of a nonrecurring and unusual item related to portfolio shaping activities which, net of state income taxes, decreased operating profit by $20 million. Operating profit for the six months ended June 30, 2000 included the effects of nonrecurring and unusual items which on a combined basis, net of state income taxes, decreased operating profit by $98 million. In addition to the previously mentioned items related to Globalstar and CalComp, these items included a net gain of $16 million associated with the sale of surplus real estate and losses of $6 million associated with other portfolio shaping actions. Operating profit for the six months ended June 30, 1999 included the effects of nonrecurring and unusual items which on a combined basis, net of state income taxes, increased operating profit by $94 million. This net gain is comprised of an increase in operating profit, net of state income taxes, of $114 million resulting from the sale of 4.5 million shares of stock in L-3 Communications Holdings, Inc. (L-3), partially offset by the previously mentioned portfolio shaping actions recorded in the second quarter of 1999.

The Corporation's reported net earnings for the quarter and six months ended June 30, 2000 were $42 million and $96 million, respectively, as compared to net losses of $41 million and $128 million reported in the comparable 1999 periods. The after-tax effects of the second quarter 2000 nonrecurring and unusual items discussed in the preceding paragraph included $91 million related to the charge for amounts due from Globalstar and $21 million related to the favorable adjustment associated with the reversal of a portion of the previously recorded CalComp charge. On a combined basis, these nonrecurring and unusual items decreased second quarter 2000 net earnings by $70 million, or $.18 per diluted share. The after-tax effects of the second quarter of 1999 nonrecurring and unusual item associated with other portfolio shaping actions discussed in the preceding paragraph reduced net earnings by $12 million, or $.03 per diluted share. In addition to the second quarter 2000 items discussed above, the after-tax effects of the nonrecurring and unusual items for the six months ended June 30, 2000 also included a net gain of $10 million associated with the sale of surplus real estate and net loss of $4 million associated with other portfolio shaping activities. On a combined basis, these nonrecurring and unusual items decreased net earnings for the six months ended June 30, 2000 by $64 million, or $.16 per diluted share. In addition to the second quarter 1999 item discussed above, the after-tax effects of the nonrecurring and unusual items for the six months ended June 30, 1999, included $74 million

related to the gain on the sale of the Corporation's remaining interest in L-3. Nonrecurring and unusual items for 1999 also included the effects of the Corporation's adoption of Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities," effective January 1, 1999, which resulted in the recognition of a cumulative effect adjustment that reduced net earnings by $355 million. On a combined basis, these nonrecurring and unusual items decreased net earnings for the six months ended June 30, 1999 by $293 million, or $.77 per diluted share.

The Corporation reported diluted earnings (loss) per share of $.11 and $.25 for the quarter and six months ended June 30, 2000, respectively, as compared to $(.11) and $(.34) for the comparable 1999 periods. If the nonrecurring and unusual items described above were excluded from the calculation of earnings per share, diluted earnings per share for the quarter and six months ended June 30, 2000 would have been $.29 and $.41 respectively, and diluted earnings (loss) per share for the quarter and six months ended June 30, 1999 would have been $(.08) and $.43, respectively.

The Corporation's backlog of undelivered orders was approximately $57.1 billion at June 30, 2000 as compared to $45.9 billion reported at December 31, 1999. The Corporation received orders for approximately $22.9 billion in new and follow-on business during the first six months of 2000 that were partially offset by sales during the period. Significant new orders received during the 2000 period principally related to $8.9 billion in F-16 fighter aircraft orders for the United Arab Emirates (UAE), Israel and Greece. Additionally, the Corporation received a total of approximately $4.0 billion in orders for the following: the THAAD Engineering, Manufacturing, and Development (EMD) contract; Integrated Weapons Systems for the Royal Norwegian Navy's New Frigate Program; and two U.S. C-130J airlift aircraft and two Italian C-130J airlift aircraft.

Discussion of Business Segments

As discussed previously, the Corporation has implemented a new organizational structure, effective October 1, 1999, that realigns its core lines of business into four principal business segments. The four principal business segments are Systems Integration, Space Systems, Aeronautical Systems, and Technology Services. All other activities of the Corporation fall within the Corporate and Other segment. In 2000, the Corporation reassigned the Management & Data Systems business unit and the space applications systems line of business from the Systems Integration segment to the Space Systems segment. The following discussion of the results of operations of the Corporation's business segments reflects these organizational changes based on information in "Note 6 -- Information on Business Segments" of the Notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q, including the financial data in the tables under the headings "Net sales" and "Operating profit (loss)."

In addition, the following table displays the pretax impact of the nonrecurring and unusual items discussed earlier and the related effects on each segment's operating profit (loss) for each of the periods presented:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (In millions) | | | |
| Nonrecurring and unusual items - profit (loss): | | | | |
| Consolidated effects | | | | |
| Charge related to Globalstar guarantee | $ (141) | $ -- | $ (141) | $ -- |
| Partial reversal of CalComp reserve | 33 | -- | 33 | -- |
| Sales of surplus real estate | -- | -- | 16 | -- |
| Divestitures and other portfolio shaping items | -- | (20) | (6) | (20) |
| Sale of remaining interest in L-3 | -- | -- | -- | 114 |
| | $ (108) | $ (20) | $ (98) | $ 94 |
| Segment effects | | | | |
| Systems Integration | $ -- | $ -- | $ -- | $ -- |
| Space Systems | -- | (20) | 17 | (20) |
| Aeronautical Systems | -- | -- | -- | -- |
| Technology Services | -- | -- | (6) | -- |
| Corporate and Other | (108) | -- | (109) | 114 |
| | $ (108) | $ (20) | $ (98) | $ 94 |

In an effort to make the following discussion of significant operating results of each business segment more understandable, the effects of these nonrecurring and unusual items discussed earlier have been excluded. The Space Systems and Aeronautical Systems segments generally include programs that are substantially larger in terms of sales and operating results than those included in the other segments. Accordingly, due to the significant number of relatively smaller programs in the Systems Integration and Technology Services segments, the impacts of performance by individual programs typically are not as material to these segments' overall results of operations.

Systems Integration

Net sales of the Systems Integration segment decreased by one percent and four percent for the quarter and six months ended June 30, 2000, respectively, from the comparable 1999 periods. For the quarter, net sales decreased by approximately $160 million related to declines in volume on aerospace electronics systems programs and the segment's Command, Control, Communications, Computers, and Intelligence (C4I) line of business. These decreases were partially offset by increases in volume of approximately $100 million in naval electronics and surveillance systems and by approximately $40 million in missiles and fire control activities over the comparable 1999 period, with the remainder of the variance due to various other systems integration activities. For the first six months of 2000 as compared to 1999, net sales decreased by approximately $235 million due to volume declines in aerospace electronics systems program activities and the segment's C4I line of business. In addition, net sales decreased approximately $85 million related to volume declines in electronic platform integration programs, which include distribution technologies (formerly known as postal systems). These decreases were partially offset by an approximate $90 million increase in missiles and fire control activities and an approximate $80 million increase in naval electronics and surveillance systems volume.

Operating profit for the segment decreased by one percent for both the quarter and six months ended June 30, 2000, as compared to the respective 1999 periods. The relationship of quarter-to-quarter operating profit is due to the same factors that impacted quarter-to-quarter net sales as discussed above. For the first six months of 2000 compared to the respective 1999 period, operating profit decreased approximately $30 million related to aerospace electronics systems program activities, the C4I line of business and electronic platform integration programs, including distribution technologies, as a result of the volume declines discussed in the preceding paragraph. The operating profit impact of volume declines on certain tactical missile programs contributed another approximate $15 million to the year-to-year decrease. These decreases were partially offset by an approximate $15 million increase in operating profit on naval electronics and surveillance systems activities related to the volume increases during this period as discussed above. Further mitigating the year-to-year decrease was the absence in 2000 of $35 million in charges related to the Theater High Altitude Area Defense (THAAD) missile program recorded in the first quarter of 1999. These charges included a performance penalty for the failure to intercept the target during a test firing as well as a provision for further potential exposure related to this program. The remainder of the year-to-year fluctuation is due to the operating profit impact of volume declines on certain other systems integration programs.

Space Systems

Net sales of the Space Systems segment increased by three percent for the second quarter 2000 as compared to the second quarter 1999 and decreased five percent for the six months ended June 30, 2000 from the comparable 1999 period. Net sales increased by approximately $120 million due to higher Atlas launch vehicle volume in the second quarter of 2000 as compared to the respective 1999 period. Quarter-to-quarter net sales also increased due to the absence in 2000 of approximately $90 million in negative adjustments recorded during the second quarter of 1999 related to the Titan IV program. These adjustments included the effects of changes in estimates for award and incentive fees resulting from the Titan IV launch failure on April 30, 1999, as well as a more conservative assessment of future program performance. These increases in quarter-to-quarter net sales were partially offset by an approximate $95 million decrease in volume related to Titan and other government launch vehicle activities, partially offset an approximate $50 million adjustment recorded on the Titan IV program as a result of contract modifications and improved performance on the program as discussed in more detail below. The remainder of the variance in net sales for the second quarter of 2000 related primarily to declines in volume of approximately $70 million on military satellites and classified programs as well as approximately $40 million on commercial satellites.

Net sales for the six months ended June 30, 2000 decreased from the comparable 1999 period due to volume declines of approximately $215 million in military satellites and classified programs, approximately $170 million in Titan and other government launch vehicle activities, excluding the Titan program adjustments discussed above, and approximately $135 million in Proton launch vehicle activities. Lower volume on ground reconnaissance systems activities contributed another approximately $55 million to the year-to-year decline. These decreases were partially offset by increased volume of approximately $180 million on Atlas launch vehicles, the aforementioned adjustments related to the Titan IV program, and approximately $90 million related to increased commercial satellite activities.

Operating profit for the segment increased by approximately $62 million in the second quarter of 2000 and decreased by approximately $34 million for the six months ended June 30, 2000 from the comparable 1999 periods. Consistent with the change in net sales, the absence in 2000 of the approximately $90 million in negative adjustments recorded during the second quarter of 1999 on the Titan IV program had a corresponding and equivalent positive impact on the increase in quarter-to-quarter operating profit. In addition, operating profit during the second quarter of 2000 was favorably impacted by the approximate $50 million adjustment recorded on the Titan IV program as a result of contract modifications and improved performance on the program. The contract modifications, which resulted primarily from the U.S. Government's Broad Area Review team recommendations, provide for a more balanced sharing of risk in the future. The improved performance on the program resulted from the successful implementation of corrective actions and initiatives taken since the previously mentioned 1999 Titan IV launch failure. The absence in 2000 of an approximate $20 million assessment on the performance on a military satellite program recorded in 1999 accounted for an additional increase in quarter-to-quarter net profit. Partially offsetting these increases was an approximate $50 million decrease in operating profit related to commercial satellite performance and ground reconnaissance systems activities. The operating profit impact of the reduced volume of Proton, Titan, and other government launch vehicle activities discussed above also offset the quarter-to-quarter increase in operating profit by approximately $45 million. The remainder of the quarter-to-quarter variance is primarily attributable to the operating profit impact of the increase in Atlas sales volume discussed in the preceding paragraph, partially offset by the expensing of higher levels of start-up costs associated with the EELV program and decreases in volume on certain other space systems programs.

For the six months ended June 30, 2000 as compared to the same 1999 period, operating profit decreased approximately $55 million due to performance on commercial satellites, and by approximately $50 million associated with the decline in volume on Proton, Titan, and government launch vehicle activities discussed in the preceding paragraph. Additionally, the operating profit impact of the year-to-year declines in volume on military and classified satellites as well as ground reconnaissance systems activities accounted for approximately $35 million of the decrease. Increases in operating profit on Atlas launch vehicle activities related to the higher year-to-year volume discussed above were offset by the expensing of start-up costs associated with the EELV program and by an approximate $35 million charge due to market and pricing pressures related to the Atlas program recorded during the first quarter of 2000. The accumulated total of the previously mentioned decreases in year-to-year operating profit more than offset the favorable impact of the Titan IV adjustments discussed above.

Aeronautical Systems

Net sales of the Aeronautical Systems segment decreased by 7 percent and 17 percent for the quarter and six months ended June 30, 2000, respectively, from the comparable 1999 periods. Volume declines in F-16 fighter aircraft programs, primarily due to a 60 percent reduction in deliveries, accounted for approximately $130 million of the decrease in quarter-to-quarter net sales. This decrease was partially offset by an approximate $30 million increase in net sales related to an increase in C-130J airlift aircraft deliveries during the second quarter of 2000 over

the comparable 1999 period. Increases in the volume of aircraft modification programs accounted for the remainder of the quarter-to-quarter variance. The decrease in net sales for the six months ended June 30, 2000 from the comparable 1999 period is attributable to lower volume on tactical aircraft and air mobility programs, primarily related to an approximate 55 percent reduction in deliveries of F-16 fighter aircraft.

Operating profit for the segment increased by approximately $207 million and approximately $122 million for the quarter and six months ended June 30, 2000, respectively, from the comparable 1999 periods. The quarter-to-quarter increase in operating profit is due to the absence in 2000 of an approximate $210 million negative adjustment recorded during the second quarter of 1999 that resulted from changes in estimates on the C-130J program due to cost growth and a reduction in production rates. This adjustment included the reversal of previously recorded profit on the program. This increase in quarter-to-quarter operating profit was partially offset by lower operating profit associated with the decline in aircraft deliveries discussed in the preceding paragraph. Consistent with the quarter-to-quarter increase, the aforementioned $210 million charge related to the C-130J program, net of profit recorded on the program in the first quarter of 1999, accounted for the majority of the increase in operating profit for the six months ended June 30, 2000 over the respective 1999 period. The Corporation decided in the fourth quarter 1999 not to record profit on C-130J airlift aircraft deliveries, as a result of changes in estimates due to cost growth and reduced production rates, until further favorable progress occurs in terms of orders and cost. The increase resulting from the absence in 2000 of the charge on the C-130J program was partially offset by an approximate $50 million reduction in year-to-year operating profit resulting from the decrease in aircraft programs discussed in the preceding paragraph.

Technology Services

Net sales of the Technology Services segment increased by 12 percent and 8 percent for the quarter and six months ended June 30, 2000, respectively, over the comparable 1999 periods. Approximately $60 million of the increase in second quarter 2000 net sales resulted from increased volume on various federal technology services programs, primarily the Consolidated Space Operations Contract. The remainder of the quarter-to-quarter variance resulted from increased net sales in the segment's aircraft maintenance and logistics lines of business, which were offset by declines in volume on certain energy related contracts due to program maturity and the effects of the fourth quarter of 1999 divestiture of Lockheed Martin Hanford Company. The increase in net sales for the six months ended June 30, 2000 was primarily attributable to an approximate $90 million increase over the comparable 1999 period in volume on various federal technology services programs, primarily the Consolidated Space Operations Contract. The remainder of the year-to-year variances was comprised of an approximate $35 million decline in volume on certain energy related contracts due to program maturity partially offset by an approximate $20 million increase in the segment's aircraft maintenance and logistics lines of business.

Operating profit for the segment remained consistent for both the quarter and six months ended June 30, 2000 as compared to the respective 1999 periods. The quarter-to-quarter and year-to-year operating profit impact of the increased volume on various federal technology

services programs and the segment's aircraft maintenance and logistics lines of business discussed above were entirely offset by lower profit on certain energy-related contracts.

Corporate and Other

Net sales of the Corporate and Other segment increased by 9 percent and 34 percent for the quarter and six months ended June 30, 2000, respectively, over the comparable 1999 periods. Quarter-to-quarter net sales increased by approximately $20 million as the result of higher volume on state and municipal services programs and by approximately $15 million due to the operations of LMGT. These quarter-to-quarter increases were partially offset by a second quarter 2000 decline in volume from the comparable 1999 period on certain international services activities. Approximately 70 percent of the increase in year-to-year net sales was attributable to the operations of LMGT and was primarily associated with the recognition of revenue on a Proton launch vehicle, which successfully launched the ACeS 1 satellite in the first quarter of 2000. Increased volume related to state and municipal services contributed another approximately $40 million to the increase in net sales. Year-to-year increases in information technology outsourcing programs were offset by the absence in 2000 of sales attributable to the Corporation's commercial graphics company, Real 3D, which was divested in the fourth quarter of 1999.

Operating profit for the segment increased by approximately $13 million and approximately $8 million for the quarter and six months ended June 30, 2000 over the respective 1999 periods. Quarter-to-quarter operating profit increased approximately $25 million due to improved performance on state and municipal services programs, the absence in 2000 of a second quarter 1999 negative adjustment related to performance on an information outsourcing contract, as well as the absence in 2000 of losses associated with the segment's Real 3D operating unit. These increases were partially offset by the operating profit impact of the volume declines on certain international services activities discussed in the preceding paragraph. The majority of the increase in operating profit for the six months ended June 30, 2000 over the comparable 1999 period is due to the absence in 2000 of approximately $30 million in operating losses associated with the segment's Real 3D operating unit. This increase was partially offset by negative adjustments recorded in the first quarter of 2000 related to performance on an information technology-outsourcing contract as well as the absence in 2000 of a favorable adjustment recorded by the segment's Communications Industry Services line of business in the first quarter of 1999.

LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 2000, $1.6 billion of cash was provided by operating activities, compared to $176 million used for operating activities during the first six months of 1999. This fluctuation was primarily attributable to an advance received in the second quarter of 2000 from the United Arab Emirates (UAE) for the purchase of 80 F-16 fighter aircraft which increased cash from operating activities by approximately $900 million, and reimbursements of approximately $100 million in connection with the remediation agreement related to the Burbank and Glendale properties discussed in "Note 5-- Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements. These increases were partially offset by the $150 million net payment related to the Corporation's guarantee of

Globalstar's indebtedness as described more fully in "Note 7 -- Other" of the Notes to Unaudited Condensed Consolidated Financial Statements. The remainder of the variance was primarily due to accelerated payments received in the first six months of 2000 on certain aircraft and space systems programs as a result of exceeding performance expectations. Net cash used for investing activities during the six months of 2000 was $228 million as compared to $91 million used during the comparable 1999 period. The 2000 amount included approximately $185 million in cash used for additions to property, plant and equipment, and approximately $43 million of net cash used for additional investments in Astrolink International, LLC, a joint venture in which Lockheed Martin holds an approximate 31 percent interest, and other acquisition and divestiture activities. The 1999 amount included the receipt of $182 million of proceeds from the sale of L-3 common stock mentioned previously, which was more than offset by approximately $276 million used for additions to property, plant and equipment. Net cash used for financing activities in the first six months of 2000 was $576 million as compared to $18 million used during the comparable 1999 period. The variance between periods was primarily due to an approximate $490 million decrease in the Corporation's total debt position during the first six months of 2000 versus an increase in total debt of $138 million, net of acquired debt, during the first six months of 1999. This increase in cash used for financing activities was partially offset by an approximate $83 million decrease in dividend payments during the first six month of 2000 versus the respective 1999 period.

As discussed above, total debt, including short-term borrowings, decreased by approximately $490 million during the first six months of 2000 from approximately $12 billion at December 31, 1999. This decrease was primarily attributable to net repayments of short-term debt of approximately $467 million. The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures. At the end of the first six months of 2000, the Corporation held cash and cash equivalents of $1.2 billion, approximately $900 million of which represents the cash advance received on the UAE F-16 fighter aircraft contract. The majority of this advance will be used for subcontractor payments and other disbursements related to the contract. The remainder of the cash and cash equivalents held by the Corporation as of June 30, 2000 is expected to be used to pay down debt in future periods. Total stockholders' equity was approximately $6.4 billion at June 30, 2000, an increase of approximately $78 million from the December 31, 1999 balance. This increase resulted from 2000 net earnings of $96 million, employee stock option and ESOP activities of $105 million, partially offset by the payment of dividends of $88 million and other comprehensive losses of $35 million. As a result of the above factors, the Corporation's debt to total capitalization ratio decreased from 65 percent at December 31, 1999 to 64 percent at June 30, 2000.

Commercial paper borrowings outstanding at June 30, 2000 were approximately $8 million and are supported by a revolving credit facility in the amount of $3.5 billion which expires on December 20, 2001. No borrowings were outstanding under this credit facility at June 30, 2000.

In March 2000, the Corporation filed a shelf registration with the Securities and Exchange Commission to provide for the issuance of up to $1 billion in debt securities. The registration statement was declared effective on April 14, 2000. Were the Corporation to issue debt securities under this shelf registration, it would expect to use the net proceeds for general

corporate purposes. These purposes may include repayment of debt, working capital needs, capital expenditures, acquisitions and any other general corporate purpose.

The Corporation actively seeks to finance its business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. The Corporation's management continually reviews the changing financial, market and economic conditions to manage the types, amounts and maturities of the Corporation's indebtedness. Periodically, the Corporation may refinance existing indebtedness, vary its mix of variable rate and fixed rate debt, or seek alternative financing sources for its cash and operational needs.

Cash and cash equivalents including temporary investments, internally generated cash flow from operations and other available financing resources are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements and discretionary investment needs during the next twelve months. Consistent with the Corporation's desire to generate cash to reduce debt and invest in its core businesses, management anticipates that, subject to prevailing financial, market and economic conditions, the Corporation may continue to divest certain non-core businesses, passive equity investments and surplus properties.

In connection with the UAE's order for F-16 fighter aircraft discussed previously, in June 2000, the Corporation issued a letter of credit in the amount of $2 billion related to advance payments to be received under the contract. At June 30, 2000, in accordance with the terms of the agreement with the UAE, the amount of the letter of credit available for draw down in the event of the Corporation's nonperformance under the contract was limited to the amount of advance payments received to date, or approximately $900 million. These advance payments were recorded in customer advances and amounts in excess of costs incurred in the Unaudited Condensed Consolidated Balance Sheet at that date.

As discussed previously, the Corporation satisfied its contractual obligation with respect to its guarantee of certain indebtedness of Globalstar with a net payment of $150 million on June 30, 2000 to repay a portion of Globalstar's borrowings under a revolving credit agreement. The Corporation has no remaining guarantees in place related to Globalstar. The Corporation continues to guarantee up to $150 million of the borrowings of Space Imaging LLC, a joint venture in which the Corporation holds a 46 percent investment, under its line of credit. The amount of borrowings outstanding as of June 30, 2000 for which Lockheed Martin was guarantor was $145 million. There were no other significant guarantees outstanding at that date.

Effective March 31, 2000, the Corporation converted its 45.9 million shares of Loral Space & Communications, Ltd. (Loral Space) Series A Preferred Stock (the Preferred Stock) into an equal number of shares of Loral Space common stock. In addition, the Corporation and Loral Space entered into an agreement which will facilitate the Corporation's ability to divest its interest in Loral Space. In connection with this agreement, Loral Space filed a registration statement with the Securities and Exchange Commission to register for possible sale the common shares owned by the Corporation. Such registration statement became effective in May 2000. The Corporation expects to divest its shares of Loral Space; however, the timing of such divestitures and the related amount of cash received will depend on market conditions.

OTHER MATTERS

The Corporation's primary exposure to market risk relates to interest rates and foreign currency exchange rates. The Corporation's financial instruments which are subject to interest rate risk principally include variable rate commercial paper and fixed rate long-term debt. The Corporation's long-term debt obligations are generally not callable until maturity. The Corporation may use interest rate swaps to manage its exposure to fluctuations in interest rates; however, there were no such agreements outstanding at June 30, 2000. Based on its portfolio of variable rate short-term debt and fixed rate long-term debt outstanding at June 30, 2000, the Corporation's exposure to interest rate risk is not material.

The Corporation uses forward exchange contracts to manage its exposure to fluctuations in foreign exchange rates. These contracts are designated as qualifying hedges of firm commitments or specific anticipated transactions, and related gains and losses on the contracts are recognized in income when the hedged transaction occurs. At June 30, 2000, the amounts of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the first six months of 2000, were not material. Based on the above, the Corporation's exposure to foreign currency exchange risk is not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

As more fully described in "Note 5 -- Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements, the Corporation is continuing to pursue recovery of a significant portion of the unanticipated costs incurred in connection with the $180 million fixed price contract with the U.S. Department of Energy (DOE) for the remediation of waste found in Pit 9. The Corporation has been unsuccessful to date in reaching any agreements with the DOE on cost recovery or other contract restructuring matters. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, at the DOE's direction, terminated the Pit 9 contract for default. At the same time, the Corporation filed a lawsuit seeking to overturn the default termination. Subsequently, the Corporation took actions to raise the status of its request for equitable adjustment to a formal claim. Also in 1998, the management contractor, again at the DOE's direction, filed suit against the Corporation seeking recovery of approximately $54 million previously paid to the Corporation under the Pit 9 contract. The Corporation is defending this action in which discovery has been pending since August 1999. In October 1999, the U.S. Court of Federal Claims stayed the DOE's motion to dismiss the Corporation's lawsuit, finding that the Court has jurisdiction. The Court ordered discovery to commence and gave leave to the DOE to convert its motion to dismiss to a motion for summary judgment if supported by discovery. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

As more fully described in Management's Discussion and Analysis in Lockheed Martin's 1999 Annual Report on Form 10-K, the Corporation is involved in two joint ventures with Russian government-owned space firms. The operations of these joint ventures include marketing Proton launch services, which are subject to a U.S.-imposed quota on the number of Russian launches of U.S. built satellites into certain orbits. The majority of customer advances received for Proton launch vehicle services is forwarded to a launch vehicle manufacturer in Russia. Significant portions of these advances would be required to be refunded to customers if launch

services were not provided within the contracted time frame. At June 30, 2000, approximately $683 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and approximately $829 million of payments to the Russian manufacturer for launches not yet provided was included in inventories. At June 30, 2000, less than $10 million of the customer advances were associated with launches in excess of the quota, and approximately $254 million of the $829 million of payments to the aforementioned Russian manufacturer were associated with launches in excess of the number currently allowed under the quota. Through June 30, 2000, launch services provided through these joint ventures have been in accordance with contract terms. The quota is currently scheduled to expire on December 31, 2000. Based on its current plans, the Corporation does not expect that its business objectives related to launch services, satellite manufacture or telecommunications market penetration will be materially impacted based on the current limit on the number of launches imposed by the quota. However, management is continuing to work toward achieving a favorable resolution to raise or eliminate the limitation on the number of Russian launches covered by the quota.

Also as more fully described in Management's Discussion and Analysis in its Form 10-K, the Corporation is involved in agreements with RD AMROSS, a Russian manufacturer of booster engines, for the development and purchase, subject to certain conditions, of up to 101 RD-180 booster engines for use in two models of the Corporation's Atlas launch vehicles. Terms of the agreements call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Included in inventories at June 30, 2000 and December 31, 1999 were payments made under these agreements of approximately $51 million and $55 million, respectively.

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 Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "estimate," "anticipate," "project," "intend," "expect," and similar expressions are intended to identify forward looking statements. All forward looking statements involve risks and uncertainties, including, without limitation, statements and assumptions with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. Our operations are necessarily subject to various risks and uncertainties and, therefore, actual outcomes are dependent upon many factors, including, without limitation, our successful performance of internal plans and reorganization efforts; government customers' budgetary constraints and the timing of awards and contracts; customer changes in short-range and long-range plans; domestic and international competition in the defense, space and commercial areas; continued development and acceptance of new products; timing and customer acceptance of product delivery and launches; product performance; performance issues with the U.S. Government, key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; the outcome of contingencies, including completion of acquisitions and divestitures, litigation and environmental remediation; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft

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

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward looking statements, see the Corporation's Securities and Exchange Commission filings including, but not limited to, the discussion of the "Transaction Agreement with COMSAT Corporation", the discussion of "Competition and Risk" and the discussion of "Government Contracts and Regulations" on pages 3 through 6, pages 23 through 26 and pages 26 through 28, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17 through 31 of this Form 10-Q; and "Note 2 - Business Combination with COMSAT Corporation," "Note 5 -- Contingencies," "Note 7 -- Other" and "Note 8 -- Subsequent Event" of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 6 through 7, pages 9 through 11, pages 13 through 16 and page 16, respectively, of the Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 1. Legal Proceedings

The Corporation is a party to or has property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, both as specifically described below and in the Corporation's 1999 Annual Report on Form 10-K (Form 10-K), the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (First Quarter Form 10-Q), or arising in the ordinary course of business. In the opinion of management, the probability is remote that the outcome of any such litigation or other proceedings will have a material adverse effect on the Corporation's results of operations or financial position.

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

The following describes new matters not previously disclosed as well as developments of previously reported matters that have occurred since filing of the Corporation's Form 10-K and First Quarter Form 10-Q. See the "Legal Proceedings" section of the Form 10-K and First Quarter Form 10-Q for a description of previously reported matters.

On May 10, 2000, two purported class action lawsuits alleging race discrimination were filed against the Corporation in the United States District Court for the Northern District of Georgia in Atlanta. One lawsuit, Melvin Reid et al. v. Lockheed Martin Corporation et al., was filed on behalf of salaried employees and the other, Farris Yarbrough et al. v. Lockheed Martin Corporation et al., was filed on behalf of hourly employees. The individually-named plaintiffs in the complaints are current and former employees of the Corporation's Aeronautics Company - Marietta Operations located in Marietta, Georgia.

The plaintiffs allege race discrimination in connection with promotions, training opportunities, and compensation, the existence of a hostile work environment, and retaliation, on behalf of African American employees employed by the Corporation at Marietta and elsewhere from 1996 to the present. The plaintiffs seek compensatory and punitive damages and injunctive relief.

The Corporation filed its answer to each lawsuit on June 26, 2000. The Corporation denies the allegations and will vigorously defend the lawsuits in court. The Corporation believes that the individual allegations are without merit and further that class certification is not appropriate in either case because, among many reasons, the claims of the named plaintiffs lack commonality with and are not typical of the claims of other African American employees of the Corporation at Marietta and elsewhere.

The Corporation is the principal defendant in a series of consolidated actions filed in 1997 entitled Carrillo v. Lockheed Martin Corporation involving over 800 individuals and two putative classes claiming personal injury and property damage as a result of environmental releases from historical operations at the former Lockheed Propulsion Company in Redlands, California. The Corporation denies any liability in the matter and has been defending the consolidated actions vigorously. In May 1999, the trial court certified a medical monitoring class and a punitive damages class in the consolidated actions, which were subsequently decertified by the California Court of Appeal in April 2000. On July 12, 2000, the California Supreme Court granted plaintiffs' petition for review of the class de-certification and set a briefing schedule. Although it is not possible to predict how the California Supreme Court will ultimately rule on this matter, the issue of class certification could have a significant impact on the extent of the risk to the Corporation presented by this litigation.

On July 27, 2000, the Department of Justice Antitrust Division advised the Corporation that it has closed its investigation of Lockheed Martin Technical Operations, a wholly-owned subsidiary, and certain of its current and former employees. The Antitrust Division advised the Corporation that it will not take enforcement action in connection with the previously reported investigation of the manner in which Technical Operations obtained and performed a contract with the U.S. Air Force for space operations, maintenance, and support services.

Item 4. Submission of Matters to a Vote of Security Holders

On April 27, 2000, the Corporation held its Annual Meeting of Stockholders. A description of matters voted upon by stockholders at this meeting, and the results of such votes, were disclosed in Item 4 of Lockheed Martin Corporation's Form 10-Q for the quarter ended March 31, 2000 filed with the Securities and Exchange Commission on May 5, 2000.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Exhibit 3. Bylaws of Lockheed Martin Corporation, as amended

   On June 14, 2000, the Board of Directors amended the Bylaws of the Corporation, and in particular the provisions relating to the Audit and Ethics Committee to reflect new rules and regulations resulting from the recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.

2. Exhibit 10(a). Special Agreement between Lockheed Martin Corporation and Louis R. Hughes

3. Exhibit 10(b). Covenant Not to Compete, Confidentiality and Release Agreement and Consulting Services Agreement between Lockheed Martin Corporation and Peter B. Teets

4. Exhibit 12. Computation of Ratio of Earnings to Fixed Charges for the six months ended June 30, 2000.

5. Exhibit 27. Financial Data Schedule for the six months ended June 30, 2000.

(b) Reports on Form 8-K filed in the second quarter of 2000.

1. Current report on Form 8-K filed on April 4, 2000.

   Item 5. Other Events

   The Corporation filed information contained in its press release dated March 10, 2000 regarding the passage of Congressional legislation related to the proposed merger with COMSAT Corporation.

   Item 7. Financial Statements and Exhibits

   Lockheed Martin Corporation Press Release dated March 10, 2000.

2. Current report on Form 8-K filed on April 5, 2000.

   Item 5. Other Events

The Corporation filed information contained in its press release dated April 3, 2000 which announces the selection of Louis R. Hughes as President and Chief Operating Officer, effective April 27, 2000.

Item 7. Financial Statements and Exhibits

Lockheed Martin Press Release dated April 3, 2000.

3. Current report on Form 8-K filed on April 28, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated April 25, 2000 regarding its results of operations for the quarter ended March 31, 2000.

Item 7. Financial Statements and Exhibits

Lockheed Martin Corporation Press Release dated April 25, 2000.

(c) Reports on Form 8-K filed subsequent to the second quarter of 2000.

1. Current report on Form 8-K filed on July 7, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated June 30, 2000 concerning its repayment of debt in connection with its guarantee of a revolving credit agreement for Globalstar Telecommunications.

Item 7. Financial Statements and Exhibits

Lockheed Martin Press Release dated June 30, 2000

2. Current report on Form 8-K filed on July 18, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated July 13, 2000 concerning its announcement of an agreement to sell its Aerospace Electronics Business to BAE Systems, North America.

Item 7. Financial Statements and Exhibits

Lockheed Martin Press Release dated July 13, 2000

3. Current report on Form 8-K filed on July 26, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated July 20, 2000 regarding its results of operations for the quarter ended June 30, 2000.

Item 7. Financial Statements and Exhibits

Lockheed Martin Corporation Press Release dated July 20, 2000.

4. Current report on Form 8-K filed on August 2, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated July 31, 2000 concerning its receipt of final regulatory approvals necessary to complete the transaction with COMSAT Corporation.

Item 7. Financial Statements and Exhibits

Lockheed Martin Corporation Press Release dated July 31, 2000.

5. Current report on Form 8-K filed on August 4, 2000.

Item 5. Other Events

The Corporation filed information contained in its press release dated August 3, 2000 concerning the closing of its merger with COMSAT Corporation.

Item 7. Financial Statements and Exhibits

Lockheed Martin Corporation Press Release Dated August 3, 2000.

SIGNATURES

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

LOCKHEED MARTIN CORPORATION
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(Registrant)

Date: August 11, 2000 by: /s/ Christopher E. Kubasik
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Christopher E. Kubasik
Vice President and Controller
(Chief Accounting Officer)

EXHIBIT 3

# BYLAWS OF LOCKHEED MARTIN CORPORATION

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

Sections in this document:



## 1.0 CONTENTS

2.0 BYLAWS OF LOCKHEED MARTIN CORPORATION

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

ARTICLE I: STOCKHOLDERS

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

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

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

Section 1.04. NOTICE OF MEETINGS. Not less than thirty (30) days nor more than ninety (90) days before the date of every stockholders' meeting, the Secretary shall give to each stockholder entitled to vote at such meeting and each other stockholder entitled to notice of the meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, either by mail or by presenting it to him or her personally or by leaving it at his or her residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at his or her post office address as it appears on the records of the Corporation, with postage thereon prepaid. Notwithstanding the foregoing provision for notice, a waiver of notice in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the meeting in person or by proxy, shall be deemed equivalent to the giving of such notice to such persons. Any meeting of stockholders, annual or special, may adjourn from time to time without

further notice to a date not more than one hundred twenty (120) days after the original record date at the same or some other place.

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

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

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

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

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

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

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

No such Inspector need be a stockholder of the Corporation.

Section 1.11. DIRECTOR NOMINATIONS AND STOCKHOLDER BUSINESS.

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

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) of this Section 1.11, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days nor more than one-hundred twenty (120) days prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; provided, however, that in the event that the date of mailing of the notice for the annual meeting is advanced or delayed by more than thirty (30) days from the anniversary date of mailing of the notice for the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the one-hundred twentieth (120th) day prior to the date of mailing of the notice for such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to the date of mailing of the notice for such annual meeting or the tenth (10th) day following the day on which public announcement of the date of mailing of the notice for such meeting is first made. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (A) the name, age, business address and residence address of such person, (B) the class and number of shares of capital stock of the Corporation that are beneficially owned by such person, and (C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder (including any anticipated benefit to the stockholder therefrom) and of each beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and each beneficial owner, if any, on whose behalf the nomination or proposal is made, (x) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (y) the class and

number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

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

(b) Director Nominations and Stockholder Business at Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Section 1.11, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 1.11. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a) of this Section 1.11 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the one-hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

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

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

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

## ARTICLE II: BOARD OF DIRECTORS

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

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

Section 2.03. ELECTION OF DIRECTORS. Except as set forth in the Charter of the Corporation, the members of the Board of Directors shall be elected each year at the annual meeting of stockholders, and each director shall hold office until the next annual meeting of stockholders held after his or her election and until his or her successor will have been elected and qualified. No person, other than a person granted an exemption from this provision by the Board of Directors, shall be eligible to be elected as a director for a term which expires after the first annual meeting of stockholders after he or she reaches the age of 70 years.

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

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

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

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

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

Section 2.09. NOTICE OF MEETINGS. Notice of the place, day, and hour of every regular and special meeting of the Board of Directors shall be given to each director twenty-four (24) hours (or more) before the meeting, by telephoning the notice to such director, or by delivering the notice to him or her personally, or by sending the notice to him or her by telegraph, or by facsimile, or by leaving the notice at his or her residence or usual place of business, or, in the alternative, by mailing such notice three (3) days (or more) before the meeting, postage prepaid, and addressed to him or her at his or her last known post office address, according to the records of the Corporation. If mailed, such notice shall be deemed to be given when deposited in the United States mail, properly addressed, with postage thereon prepaid. If notice be given by telegram or by facsimile, such notice shall be deemed to be given when the telegram is delivered to the telegraph company or when the facsimile is transmitted. If the notice be given by telephone or by personal delivery, such notice shall be deemed to be given at the time of the communication or delivery. Unless required by these Bylaws or by resolution of the Board of Directors, no notice of any meeting of the Board of Directors need state the business to be transacted thereat. No notice of any meeting of the Board of Directors need be given to any director who attends or to any director who, in a writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no further notice need be given of any such adjourned meeting.

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

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

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

Section 2.13. COMPENSATION. Directors shall not receive any stated salary for their services as Directors but, by resolution of the Board of Directors, annual retainers, fees and expenses of attendance, if any, may be provided to Directors for attendance at each annual, regular or special

meeting of the Board of Directors or of any committee thereof; but nothing contained herein shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

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

## ARTICLE III: COMMITTEES

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

Section 3.02. FINANCE COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for a Finance Committee of three (3) or more directors. If provision is made for a Finance Committee, the members of the Finance Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Finance Committee a chairman. During the intervals between the meetings of the Board of Directors, the Finance Committee shall, except when such powers are by statute or the Charter or the Bylaws either reserved to the full Board of Directors or delegated to another committee of the Board of Directors, possess and may exercise all of the powers of the Board of Directors in the management of the financial affairs of the Corporation, including but not limited to establishing bank lines of credit or other short-term borrowing arrangements and investing excess working capital funds on a short-term basis. The Finance Committee will review the financial condition of the Corporation, the financial impact of all benefit plans and all proposed changes to the capital structure of the Corporation, including the incurrence of long-term indebtedness and the issuance of additional equity securities, and will make suitable recommendations to the Board of Directors. It will likewise review on an annual basis the proposed capital expenditure and contributions budgets of the Corporation and make recommendations to the Board of Directors for their adoption. It will monitor the financial impact of all trusteed benefit plans sponsored by the Corporation and of any amendments or modifications thereto and will monitor the performance of the assets and administration of the Corporation's trusteed benefit plans. All action by the Finance Committee shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Finance Committee shall be filled by the Board of Directors.

Section 3.03. AUDIT AND ETHICS COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors shall provide for an Audit and Ethics Committee

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

- recommend to the Board of Directors the selection, retention or termination of the independent auditors, who will be ultimately accountable to the Board of Directors and the Audit and Ethics Committee of the Corporation;

- ensure that the independent auditors submit on a periodic basis to the Audit and Ethics Committee a formal written statement delineating all relationships between the independent auditor and the Corporation, be responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors, and be responsible for recommending that the Board of Directors take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence;

- prior to the end of the Corporation's fiscal year shall review the scope and timing of the work to be performed and the compensation to be paid to the independent auditors selected by the Board;

- review with the Corporation's management and the independent auditors the financial accounting and reporting principles appropriate for the Corporation, the policies and procedures concerning audits, accounting and financial controls, and any recommendations to improve existing practices, and the qualifications and work of the Corporation's internal audit staff;

- require that the independent auditors advise the Audit and Ethics Committee through its Chair and the Corporation's management of any matters identified during reviews of interim quarterly financial statements which are required to be communicated to the Audit and Ethics Committee by the independent auditors under auditing standards generally accepted in the United States, and that the independent auditors provide such communication prior to the related quarterly press release or, if not practicable, prior to filing the related Form 10-Q;

- review with management and the independent auditors the financial statements to be included in the Corporation's Annual Report on Form 10-K, including the independent auditors' judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements; and

- review with the independent auditors the results of their annual audit, their report and any other matters required to be communicated to the Audit and Ethics Committee by the independent auditors under auditing standards generally accepted in the United States.

The Audit and Ethics Committee shall also:

- review the scope of the internal audit staff's work plan for the year and, as appropriate, review significant findings and management's actions to address these findings;

- monitor compliance with the Code of Ethics and Standards of Conduct, and review and resolve all matters of concern presented to it by the Corporate Ethics Committee or the Corporate Ethics Office;

- review and monitor on a periodic basis the adequacy of the Corporation's policies and procedures with respect to environmental, health and safety laws and regulations, including the Corporation's record of compliance with such laws and regulations; and

- review with the General Counsel the status of pending claims, litigation and other legal matters on a periodic basis.

The Audit and Ethics Committee shall have the power to investigate any matter falling within its jurisdiction, and it shall also perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors. The Audit and Ethics Committee shall hold four meetings each year, and shall separately meet in executive session with the Corporation's

independent auditors and internal audit department representative. The Audit and Ethics Committee shall review and reassess the Audit and Ethics Committee charter at least annually and make recommendations to the Board of Directors, as appropriate. All action by the Audit and Ethics Committee shall be reported to the Board of Directors at its next meeting succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Audit and Ethics Committee shall be filled by the Board of Directors. While the Audit and Ethics Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit and Ethics Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with accounting principles generally accepted in the United States. This is the responsibility of management and the independent auditors. Nor is it the duty of the Audit and Ethics Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditors, or to assure compliance with laws and regulations and the Corporation's Code of Ethics and Business Conduct.

Section 3.04(a). MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for a Management Development and Compensation Committee of three (3) or more directors who are not officers or employees of the Corporation. If provision is made for a Management Development and Compensation Committee, the members of the Management and Development Compensation Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Management Development and Compensation Committee a chairman. The Management Development and Compensation Committee shall consider 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 of Directors from time to time. The Management Development and Compensation Committee shall appraise the performance of management and have the power to fix the compensation of all other elected officers and to approve the benefits provided by any bonus, supplemental, and special compensation plans, including pension, insurance, and health plans, but excluding performance-based executive compensation plans, and such powers as are by statute or the Charter or the Bylaws reserved to the full Board of Directors. The Management Development and Compensation Committee shall also perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors. All action by the Management Development and Compensation Committee shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Management Development and Compensation Committee shall be filled by the Board of Directors.

Section 3.04(b). STOCK OPTION SUBCOMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for a Stock Option Subcommittee of three (3) or more directors of the Compensation Committee who meet the qualifications of an independent director under Section 162(m) of the Internal Revenue Code. If provision is made for a Stock Option Subcommittee, the members of the Stock Option Subcommittee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Stock Option Subcommittee a chairman. The Stock Option Subcommittee shall serve as the Stock Option Subcommittee of the Board and shall administer any performance-based executive compensation plan and approve awards granted thereunder. The Stock Option Subcommittee shall also perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board of Directors. All action by the Stock Option Subcommittee shall be reported to the Board

of Directors at its meeting next succeeding such action and shall be subject to revision and alteration by the Board of Directors. Vacancies in the Stock Option Subcommittee shall be filled by the Board of Directors.

Section 3.05. NOMINATING AND CORPORATE GOVERNANCE COMMITTEE. The Board of Directors by resolution adopted by a majority of the Board of Directors may provide for a Nominating and Corporate Governance Committee of three (3) or more Directors who are not officers or employees of the Corporation. If provision is made for a Nominating and Corporate Governance Committee, the members of the Nominating and Corporate Governance Committee shall be elected by the Board of Directors to serve at the pleasure of the Board of Directors. The Board of Directors shall designate from among the membership of the Nominating and Corporate Governance Committee a committee chairman. The Nominating and Corporate Governance Committee shall make recommendations to the Board of Directors concerning the fees and compensation for directors, the composition of the Board including its size and the qualifications for membership, and chairpersons and members for appointment to the Board Committees. The Nominating and Corporate Governance Committee will recommend to the Board the role of the Board in the corporate governance process. The Nominating and Corporate Governance Committee shall recommend to the Board of Directors nominees for election to fill any vacancy occurring in the Board and to fill new positions created by an increase in the authorized number of directors of the Corporation. Annually the Nominating and Corporate Governance Committee shall recommend to the Board of Directors a slate of directors to serve as management's nominees for election by the stockholders at the annual meeting. Vacancies in the Nominating and Corporate Governance Committee shall be filled by the Board of Directors.

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

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

## ARTICLE IV: OFFICERS

Section 4.01. EXECUTIVE OFFICERS - ELECTION AND TERM OF OFFICE. The Executive Officers of the Corporation shall be a Chairman of the Board, who shall also be the Chief Executive Officer, a President, such number of Vice Presidents as the Board of Directors may determine, a Secretary and a Treasurer. The Chairman and Chief Executive Officer and the President shall be chosen from among the Directors. The Executive Officers shall be elected annually by the Board of Directors at its first meeting following each annual meeting of

stockholders and each such officer shall hold office until the corresponding meeting of the Board of Directors in the next year and until his or her successor shall have been duly chosen and qualified or until his or her death or until he or she shall have resigned, or shall have been removed from office in the manner provided in this Article IV. Any vacancy in any of the above offices may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

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

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

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

Section 4.05. SECRETARY. The Secretary shall attend all meetings of the stockholders and of the Board of Directors and record all votes and minutes or proceedings, in books provided for that purpose; shall see that all notices of such meetings are duly given in accordance with the provisions of the Bylaws of the Corporation, or as required by law; may sign certificates of stock of the Corporation with the Chairman of the Board; shall be custodian of the corporate seal; shall see that the corporate seal is affixed to all documents, the execution of which, on behalf of the Corporation, under its seal, is duly authorized, and when so affixed may attest the same; and in general, shall perform all duties incident to the office of a secretary of a corporation, and such other duties as from time to time may be assigned to the Secretary by the Chairman of the Board.

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

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

period, have such authority and perform such duties as the Chief Executive Officer or the President may prescribe.

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

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

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

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

Section 4.12. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect simultaneously with or at any time subsequent to its delivery as shall be specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

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

## ARTICLE V: STOCK

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

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

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

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

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

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

## ARTICLE VI: INDEMNIFICATION

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

in connection with an action, suit or proceeding initiated by such person unless the action, suit or proceeding was authorized by the Board of Directors of the Corporation.

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

(i) The act or omission of the individual was material to the matter giving rise to the proceeding; and

(1) Was committed in bad faith; or

(2) Was the result of active and deliberate dishonesty; or

(ii) The individual actually received an improper personal benefit in money, property, or services; or

(iii) In the case of any criminal proceeding, the individual had reasonable cause to believe that the act or omission was unlawful.

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

Section 6.04. GENERAL. The Board of Directors, by resolution, may authorize the management of the Corporation to act for and on behalf of the Corporation in all matters relating to indemnification within any such limits as may be specified from time to time by the Board of Directors, all consistent with applicable law. The rights conferred on any person by this Article VI shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Charter of the Corporation, these Bylaws, agreement, vote of the stockholders or disinterested directors or otherwise. Repeal or modification of this Article VI or the relevant law shall not affect adversely any rights or obligations then existing with respect to any facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such facts.

## ARTICLE VII: SUNDRY PROVISIONS

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

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

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

3.0 CERTIFICATE AS TO BYLAWS

I, _____, _____ Vice President and Secretary of LOCKHEED MARTIN CORPORATION hereby certify that the foregoing is a true, correct and complete copy of the Bylaws of LOCKHEED MARTIN CORPORATION and that such Bylaws are in full force and effect as of the date of this certificate.

WITNESS my hand and the seal of LOCKHEED MARTIN CORPORATION, this _____ day of _____, 19__.

_____

Vice President and Secretary

CORPORATE SEAL

4.0 AMENDMENTS

April 27, 1995. Section 3.02 revised, amending the Finance Committee Charter to include review of financial condition of the Corporation.

April 27, 1995. Section 3.03 revised, amending the Audit & Ethics Committee Charter to include compliance with health and safety laws and regulations.

September 28, 1995. Section 3.02 revised, amending the Finance Committee Charter to clarify the Committee's responsibilities relative to the Corporation's trusteed benefit plans.

January 1, 1996. Section 2.04 revised, amending Article II, Board of Directors, and Article IV, Officers, relating to the responsibilities of the Chairman of the Board and the President.

January 7, 1996. Section 2.02 revised, amending Article II, Number of Directors, increasing the total number of directors from 24 to 25.

April 25, 1996 Section 2.03 revised, amended by striking "on or before March 15, 1996."

April 25, 1996 Section 2.05 revised, adding new Section "Vice Chairmen" and renumbering the succeeding sections accordingly.

January 23, 1997 Sections 4.01, 4.02 and 4.03 revised, aligning officers and management responsibility. Section 1.02 revised, amending requirements for calling Special Meetings.

September 25, 1997 Article I, II, III and IV amended to clarify responsibilities of the Chief Executive Officer.

October 23, 1997 Section 3.02 amended to delete reference to Benefit Plan Committee.

January 22, 1998 Section 1.08 amended to authorize proxy voting by any form of electronic transmission as permitted by Maryland General Corporation Law.

June 26, 1998 Sections 3.01, 4.01 and 4.02 amended to clarify responsibilities of the Chairman of the Board and Chief Executive Officer.

July 23, 1998 Section 1.11 amended to change advance notice provisions.

April 22, 1999 Section 2.05 deleted provision for Vice Chairmen.

April 22, 1999 Section 3.04 changed name of Compensation Committee to "Management Development and Compensation Committee" and revised charter accordingly.

October 28, 1999 Section 1.11 amended to change advance notice provisions; Section 2.02 amended to conform Bylaws to Corporation's Charter regarding number of directors; Section 2.14 amended relative to Maryland's control share provision.

February 24, 2000 Section 3.05 changed name of Nominating Committee to "Nominating and Corporate Governance Committee" and revised charter accordingly.

June 14, 2000 Section 3.03 amended Audit & Ethics Committee charter.

# SPECIAL AGREEMENT

AGREEMENT entered into as of April 3, 2000 (the "Effective Date") between Lockheed Martin Corporation (the "Corporation") and Louis R. Hughes (the "Executive").

1. Employment. The Corporation hereby agrees to employ the Executive and the Executive hereby accepts employment upon the terms and conditions set forth in this Agreement (the "Agreement").

2. Term. The period of employment of the Executive by the Corporation hereunder (the "Term") shall commence as of April 27, 2000 (the "Commencement Date") and shall end on April 26, 2003, provided, however, that the Term shall automatically renew for two additional one-year periods unless no later than six months prior to a scheduled expiration of the Term, the Corporation or the Executive shall have notified the other in writing that the Term shall not renew. Notwithstanding the foregoing, the Term may be earlier terminated by either party ("Party") in accordance with the provisions of Section 5.

3. Nature of Employment.

(a) During the Term, the Corporation shall employ the Executive as President and Chief Operating Officer of the Corporation, reporting directly to the Chief Executive Officer. He shall have such powers and duties as are assigned to him by the Chief Executive Officer.

(b) The Executive's office will be in the Corporation's Bethesda, Maryland corporate headquarters.

(c) The Executive promises to perform and discharge faithfully his duties as the Corporation's President and Chief Operating Officer. The Executive agrees to serve the Corporation for the Term. The Executive agrees to devote substantially all of his business time and attention to the business of the Corporation and shall not during the Term be engaged in any other business activity whether or not that business activity is pursued for gain, profit or other pecuniary advantage. Anything in this Section 3(c) to the contrary notwithstanding, nothing herein shall preclude the Executive from (i) serving on boards of directors of the companies listed in Exhibit A and the boards of directors of a reasonable number of other corporations with the concurrence of the Chief Executive Officer, (ii) serving on the boards of a reasonable number of trade associations and/or charitable organizations, (iii) engaging in charitable activities and community affairs, and (iv) managing his personal investments and affairs, provided that such activities set forth in this Section 3(c) do not conflict or materially interfere with the effective discharge of his duties and responsibilities under this Section 3(c).

4. Compensation and Benefits.

(a) Base Salary. The Executive shall be paid an annualized Base Salary in accordance with the letter agreement dated March 31, 2000 between the Corporation and the Executive (the "Letter Agreement").

(b) Annual Incentive Award. During the Term, commencing in 2000 the Executive shall participate in the Corporation's Management Incentive Compensation Plan ("MICP") or successor plan, in accordance with the Letter Agreement.

(c) Long-Term Incentive Awards.

(i) Stock Option Award. As of the Commencement Date, the Corporation shall grant the Executive an option to purchase 450,000 shares of Common Stock of the Corporation based on the terms set forth in Exhibit B attached hereto.

(ii) Restricted Stock Award. As of the Commencement Date, the Corporation shall grant the Executive 50,000 shares of restricted stock based on the terms set forth in Exhibit C attached hereto.

(iii) Long-Term Incentive Plan ("LTIP") Award. The Executive shall participate in the Corporation's 2000-2002 LTIP with a target award of $2,000,000, based on the terms set forth in Exhibit D attached hereto.

(iv) On-going Long-Term Incentives. In addition to the foregoing awards, the Executive shall be eligible to participate in the Corporation's on-going long-term incentive programs, including, without limitation, the stock option and other long-term incentive programs on the same basis as other senior executives.

5. Termination of Employment during Term. The Term shall be terminated upon the termination of the Executive's employment as provided in this Section 5. In such event the Executive shall have the entitlements as provided below:

(a) Termination Due to Death. In the event that the Executive's employment is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to the following:

(i) Base Salary through the end of the month in which death occurs;

(ii) pro-rata annual incentive award for the year in which the Executive's death occurs, when bonuses are paid to other officers; and

(iii) in respect of stock options as provided in Exhibit B, restricted stock as provided in Exhibit C and LTIP awards as provided in Exhibit D.

(b) Termination Due to Disability.

(i) "Disability" shall be as defined in the Corporation's long-term disability plan applicable to Corporate Headquarters employees.

(ii) In the event that the Executive's employment is terminated due to his Disability, he shall be entitled to the following:

(A) disability benefits in accordance with the long-term disability program, if purchased by the Executive through the Corporation's benefit plan;

(B) Base Salary through the end of the month in which disability benefits commence;

(C) pro-rata annual incentive award for the year in which the Executive's termination occurs, payable when bonuses are paid to other officers; and

(D) in respect of stock options as provided in Exhibit B, restricted stock as provided in Exhibit C and LTIP awards as provided in Exhibit D.

(c) Termination by the Corporation for Cause.

(i) "Substantial and Serious Cause" or "Cause" shall mean the Executive's final conviction of (x) a Federal or state felony or (y) a Federal or state offense involving fraud, corruption, or moral turpitude; the Executive's engaging in willful fraud involving material funds or other assets of the Corporation; or the debarrment of the Executive from engaging in contracting or subcontracting activities with the Federal government if such debarment is the result of a final determination by a government agency that the Executive knowingly acted in a manner justifying such debarment.

(ii) In the event the Corporation terminates the Executive's employment for Cause, he shall be entitled to the following:

(A) Base Salary through the date of the termination; and

(B) in respect of stock options as provided in Exhibit B, restricted stock as provided in Exhibit C and LTIP awards as provided in Exhibit D.

(d) Termination without Cause or Constructive Termination without Cause.

(i) In the event the Executive's employment is terminated by the Corporation without Cause, other than due to Disability or death, or in the event there is a Constructive Termination without Cause (as defined in Section 5(d)(ii) below), the Executive shall be entitled to the following:

(A) Base Salary through the date of termination;

(B) a pro-rata annual incentive award for the year in which termination occurs based on the target MICP for the year of termination;

(C) a lump sum payment in cash (less applicable withholdings) equal to the sum of two times the Executive's highest annual base rate of pay during the Executive's Term, payable within 15 days of the Executive's termination;

(D) a lump sum payment in cash (less applicable withholdings) equal to two times the target MICP for the year of termination (assuming target MICP for President and Chief Operating Officer), payable within 15 days of the Executive's termination;

(E) in respect of stock options as provided in Exhibit B, restricted stock as provided in Exhibit C and LTIP awards as provided in Exhibit D.

(F) a lump sum payment in cash equal to the COBRA premium for health insurance for a period of 18 months.

(ii) "Constructive Termination Without Cause" shall mean a termination of the Executive's employment at his initiative following the occurrence, without the Executive's written consent, of one or more of the following events:

(A) a reduction in the Executive's then current Base Salary, target award opportunity under the Corporation's MICP or successor plan or long-term opportunities as contemplated by Section 4(c)(iv) above or the termination or material reduction of any employee benefit or perquisite enjoyed by him (other than as part of an across-the-board reduction applicable to all executive officers of the Corporation);

(B) the failure to elect or reelect the Executive as a director during the Term;

(C) failure to appoint or reappoint the Executive to the positions described in Section 3 above or removal of him from any such position; or

(D) the occurrence of a Change of Control as defined in Section 7(c) of the 1995 Omnibus Performance Award Plan (adopted March 15, 1995 and amended April 23, 1998) and

(X) a material diminution in the Executive's duties or the assignment to the Executive of duties which are materially inconsistent with his duties or which materially impair the Executive's ability to function as the President and Chief Operating Officer of the Corporation; or

(Y) the failure of the Corporation to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Corporation within 15 days after a merger, consolidation, sale or similar transaction.

(e) Voluntary Termination. A termination of employment by the Executive on his own initiative, other than a termination due to death, Disability or a Constructive Termination without Cause, shall have the same consequences as provided in Section 5(c)(ii) above for a Termination for Cause. A voluntary termination under this Section 5(e) shall be effective 30 calendar days after prior written notice is received by the Corporation, unless the Corporation elects to make it effective earlier.

(f) Non-renewal by the Corporation. In the event that the Corporation notifies the Executive pursuant to Section 2 of this Agreement that the Term shall not renew, the Executive shall be entitled to the same benefits as provided in Section 5(d) above provided, however that the multiple provided in Sections 5(d)(i)(C) and (D) above shall be one rather than two.

(g) Consequences of a Change of Control. Should any payments, entitlements or benefits hereunder (or under any other agreement between the Executive and the Corporation) be subject to excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended, or comparable state or local tax laws, the Corporation shall pay to the Executive such additional compensation as is necessary (after taking into account all Federal, state and local income, excise and employment taxes payable by the Executive as a result of the receipt of such compensation) to place the Executive in the same after-tax position he would have been in had no excise tax been paid or incurred.

The determination of whether these covered payments are subject to an excise tax and the amount of additional compensation to be paid to the Executive shall be made by an independent auditor jointly selected by the Corporation and the Executive and paid by the Corporation. If the Executive and the Corporation cannot agree on the firm to serve as the auditor, the Executive and the Corporation shall each select an accounting firm and those two firms shall jointly select a third firm to act as the auditor.

(h) No Mitigation; No Offset. In the event of any termination of employment under this Section 5, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

(i) Nature of Payments. Any amounts due under this Section 5 are considered to be reasonable by the Corporation and are not in the nature of a penalty.

6. Disclosure of Information and Intellectual Property.

While serving as the Corporation's President and Chief Operating Officer, the Executive will have access to confidential information of the Corporation. The Executive recognizes and acknowledges that the Corporation's proprietary developments, trade secrets, confidential, technical and business data, and sensitive management, financial, business, planning, marketing information, and the like ("Proprietary Information"), are valuable, special and unique assets of the Corporation's business, access to and knowledge of which are essential to the performance of the Executive's duties under this Agreement. Proprietary Information means any information of the Corporation or of others which has come into the Corporation's or the Executive's possession, custody or knowledge in the course of employment 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. Proprietary Information includes(without limitation) information, whether written or otherwise, regarding the Corporation's earnings, expenses, marketing information, cost estimates, forecasts, bid and proposal data, financial data, trade secrets, products, procedures, inventions, systems or designs, manufacturing or research processes, material sources, equipment sources, customers and prospective customers, business plans, strategies, buying practices and procedures, prospective and executed contracts and other business arrangements or business prospects, except to the extent such information becomes readily available to the general public lawfully and without breach of a confidential, contractual, or fiduciary duty of the Executive. The Executive shall not, other than in the course of performing his duties hereunder, during or after the Term, in whole or in part, disclose such Proprietary Information to any person, firm, corporation, association or other entity for any reason or purpose whatsoever; nor shall the Executive make use of any such property for his own purposes or for the benefit of any person, firm, corporation or other entity except the Corporation under any circumstance; provided that the restrictions shall not apply to such Proprietary Information which is in the public domain so long as the Executive was not responsible, directly or indirectly, for such Proprietary Information entering the public domain without the Corporation's consent. Anything herein to the contrary notwithstanding, the Executive may disclose Confidential Information to the extent disclosure is or may be required by a statute, by a court of law, by any governmental agency having supervisory authority over the business of the Corporation or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order him to divulge, disclose or make accessible such information; provided, however, upon learning of any such required disclosure of Confidential Information, the Executive shall give prompt notice to the Corporation of such required disclosure in order to give the Corporation the opportunity, if it chooses, to oppose any such required disclosure and/or to seek a protective order.

7. Non-competition.

In consideration for the covenants contained in this Agreement, the Executive agrees that in the event he terminates employment with the Corporation during the Term, whether involuntarily, voluntarily and for any reason, the Executive shall not during the Non-Competition Period (as defined below) engage in any business (whether as an officer, director, owner, employee, consultant, partner, or other direct or indirect participant) competing with that of the Corporation in any area in which the Corporation is conducting any business on the date of termination. The Executive also agrees, that during the Non-Competition Period, he will not interfere with, disrupt, or attempt to disrupt the relationship, contractual or otherwise, between the Corporation and any customer, supplier or employee of the Corporation. The Executive acknowledges that the duration and area for which these restrictions are to be effective are fair and reasonable and are reasonably required for the protection of the Corporation's legitimate business interests from unfair competition as a result of the high level executive and management position he will hold within the Corporation and the attendant access and extensive knowledge of the Corporation's confidential and proprietary property and information, including trade secrets, customer and supplier relationships and good will. Anything herein to the contrary notwithstanding, the Executive may engage in activity that otherwise might be deemed to be in competition with the Corporation if the Chairman approves, in writing, such activity.

The term "Non-Competition Period" shall mean (a) in the case of termination under Section 5(c) or 5(d) above (whether for Substantial and Serious Cause or otherwise), two years, or the remaining Term, whichever is longer; and (b) in the case of voluntary termination by the Executive under Section 5(e) above, the remaining Term.

8. Dispute Resolution.

(a) Any disputes arising under or in connection with this Agreement shall, at the election of the Executive or the Corporation, be resolved by binding arbitration, to be held in Bethesda, Maryland in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Costs of the arbitrator(s) shall be borne equally by the Parties, and each Party shall otherwise bear his or its own costs of the arbitration, including, without limitation, reasonable attorneys' fees.

(b) Injunction. The parties acknowledge that the Executive's obligations as set forth in Sections 6 and 7 above are of a special, unique and extraordinary character; that the Corporation would suffer irreparable harm as a result of the Executive's breach of

such covenants; and that the Executive's breach of such covenants could not reasonably or adequately be compensated in damages in law or through the offset or withholding of any monies to which he may be entitled from the Corporation. If there is a breach or threatened breach of the provisions of Section 6 or 7 above, the Corporation shall be entitled to seek an injunction restraining the Executive from such breach. Nothing herein shall be construed as prohibiting the Corporation from pursuing any other remedies for such breach or threatened breach.

9. Indemnification.

(a) The Corporation agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Corporation to the fullest extent permitted or authorized by the Corporation's charter or bylaws or, if greater, by the laws of the State of Maryland, against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, employee or agent of the Corporation or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators.

(b) The Corporation agrees to continue and maintain a directors' and officers' liability insurance policy covering the Executive. The amount of coverage shall be reasonable in relation to the Executive's position and responsibilities during the Term.

10. Effect of Agreement on Compensation and Other Benefits.

Except as specifically provided in this Agreement, the existence of this Agreement shall not prohibit or restrict the Executive's entitlement to full participation in the compensation, employee benefit and other plans or programs in which senior executives of the Corporation are eligible to participate.

11. Assumption and Assignability of Agreement.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of the Corporation under this Agreement may be assigned or transferred by the

Corporation except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Corporation is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Corporation, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Corporation and such assignee or transferee assumes the liabilities, obligations and duties of the Corporation, as contained in this Agreement, either contractually or as a matter of law. The Corporation further agrees that, in the event of a sale of assets or liquidation as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Corporation hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 19 below.

12. Entire Agreement. This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto.

13. Amendment or Waiver of this Agreement. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Corporation. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Corporation, as the case may be.

14. Other Rights or Remedies. No actions taken by either Party under the terms and conditions of this Agreement shall be deemed to be a waiver of any of that Party's other rights or remedies available at law, in equity or otherwise.

15. Governing Law. This Agreement shall be governed in all respects by and in accordance with the laws of the State of Maryland without reference to the principles of conflict of laws.

16. Severability. The invalidity or unenforceability of any portion of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

17. Representations. The Corporation represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization or any applicable law and that all necessary corporate actions have been taken to duly authorize its entering into this Agreement. The Executive represents that he knows of no agreement between him and any other person, firm or organization that would be violated by the performance of his obligations under this Agreement.

18. Survivorship.
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The respective rights and obligations of the Parties hereunder shall survive any termination of the Term to the extent necessary to the intended preservation of such rights and obligations.

19. Beneficiaries/References. The Executive shall be entitled, to the extent
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permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Corporation written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

20. Notices. Any notice given to a Party shall be in writing and shall be
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deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, overnight courier service or facsimile with printed record of receipt by the recipient's facsimile machine, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of (and in the case of a facsimile sent to the correct facsimile number):

If to the Corporation: LOCKHEED MARTIN CORPORATION
6801 Rockledge Drive
Bethesda, Maryland 20817
Attn: Frank H. Menaker, Jr.
Senior Vice President
and General Counsel

If to the Executive: Mr. Louis R. Hughes
c/o Lockheed Martin Corporation
6801 Rockledge Drive
Bethesda, Maryland 20817

IN WITNESS WHEREOF, the parties have executed this Agreement as of April 3, 2000.

LOCKHEED MARTIN CORPORATION

By: /s/
---
April 3, 2000
Date
Name: Terry F. Powell
Title: Vice President, Human Resources

By: /s/
---
April 3, 2000
Date
Louis R. Hughes

Exhibit A

Boards of Directors

British Telecom plc

Deutsche Bank AG *

Electrolux AB *

*It is the intention of the Executive to resign from these boards at the earliest practicable date.

Exhibit B

TERMS OF NON-STATUTORY STOCK OPTION AWARD

(The form of award, consistent with this term sheet, shall be recommended by management for approval by the Stock Option Subcommittee of the Management Development and Compensation Committee of the Board of Directors at its meeting on April 27, 2000.)

1. Grant: An option to purchase 450,000 shares of the Common Stock of the Corporation (the "Option Shares") shall be granted as of April 27, 2000 ("Grant Date")

2. Exercise Price: Closing price on the New York Stock Exchange on the Grant Date

3. Term: 10 years

4. Vesting and Exercisability:

(a) Normal vesting and exercisability schedule:

50% on the first anniversary of the Grant Date; another 50% on the second anniversary of the Grant Date.

(b) Vesting in accordance with the normal vesting schedule upon the occurrence of any of the following:

- death
- Disability
- Termination without Cause
- Constructive Termination without Cause

(c) Full vesting upon the occurrence of a Change of Control

(d) Post-termination exercisability:

A vested option shall continue to be exercisable for the remainder of its term except in the event of a forfeiture as provided in the next paragraph.

(e) Forfeiture:

All options shall be forfeited upon a Termination for Cause or a voluntary termination by the Executive (other than a Constructive Termination without Cause).

5. Registration: Option Shares shall be registered, so as to be fully tradeable, under the Securities Act of 1933.

6. Merger or Other Reorganization: The Option shall be exercisable as part of any merger or other reorganization so as to permit the Executive to participate in the merger or other reorganization on the same basis as other shareholders

Exhibit C

TERMS OF RESTRICTED STOCK AWARD

(The form of award, consistent with this term sheet, shall be recommended by management for approval by the Stock Option Subcommittee of the Management Development and Compensation Committee of the Board of Directors at its meeting on April 27, 2000.)

1. Grant: 50,000 shares of the Common Stock of the Corporation (the "Restricted Shares") shall be granted on April 27, 2000 subject to restrictions as set forth below.

2. Lapse of Restrictions: Restrictions shall lapse as follows:

(a) Normal lapsing schedule:

(i) Restrictions as to 16,667 shares shall lapse on the second anniversary of the Grant Date.

(ii) Restrictions as to 33,333 shares shall lapse on the fourth anniversary of the Grant Date.

(b) All restrictions shall lapse upon the occurrence of any of the following:

- death
- Disability
- Termination without Cause
- Constructive Termination without Cause
- Change of Control

(c) Forfeiture:

All Restricted Shares shall be forfeited upon a Termination for Cause or a Voluntary Termination by the Executive (other than a Constructive Termination without Cause).

3. Ownership Rights: The Executive shall be entitled to the rights of ownership to the Restricted Shares, subject to the terms of the grant, including but not limited to voting rights and rights to receive dividends (if and as dividends are paid).

4. Registration: Restricted Shares shall be registered under the Securities Act of 1933 so as to be fully tradeable upon lapsing of restrictions.

Exhibit D

TERM OF LONG TERM PERFORMANCE AWARD

(The form of award, consistent with this term sheet, shall be recommended by management for approval by the Stock Option Subcommittee of the Management Development and Compensation Committee of the Board of Directors at its meeting on April 27, 2000).

1. Target Award: $2,000,000

2. Performance Period: 2000-2002

3. Performance Target: Determined by the Corporation's performance as measured by its relative ranking in Total Stockholder Return to Total Stockholder Return of the companies that comprise the Standard & Poor's Index.

4. Vesting:

(a) Normal vesting:
Award shall be 100% vested as of December 31, 2002.

(b) Vesting in accordance with the plan (with pro-rata payout if event occurs prior to end of performance period):

- death
- Disability
- Termination without Cause
- Constructive Termination
- Change in Control

(c) Forfeiture:

Award is forfeited upon a Termination for Cause or Voluntary Termination by the Executive other than a Constructive Termination without Cause.

March 31, 2000

Mr. Louis R. Hughes
258 Walden Road
Glencoe, IL 60022

Dear Louis:

We are pleased to extend this offer of employment with Lockheed Martin Corporation as President and Chief Operating Officer, reporting to me. You will be recommended for election to the Board of Directors and as a Corporate Officer at the April 2000 Board meeting. Your beginning annual base salary will be $1,000,000, payable on a weekly basis, and you will participate in the Corporation's Management Incentive Compensation Plan (MICP), beginning with the current plan year, at a Target Award level of 100% of base salary. Actual payments under the MICP are subject both to the individual's and the Corporation's performance in any given year.

Effective with your employment, you will be granted 450,000 Options to purchase shares of Lockheed Martin common stock; 50,000 Lockheed Martin Restricted Stock shares (vesting in the restricted shares will be 1/3 of the grant after two years and 2/3 after four years); and a Long Term Incentive Plan (LTIP) Target Award of $2,000,000 for the 2000 through 2002 Performance Period (a summary description of the LTIP program is attached). You will additionally be granted a Special Termination Agreement.

Currently, Lockheed Martin reviews salaries, MICP and the long term components of compensation (stock options and LTIP) annually, and your total compensation components will be reviewed and adjusted accordingly, subject to recommendation by the Chief Executive Officer, approval by the Management Development and Compensation Committee and ratification by the Board.

Lockheed Martin provides an excellent offering of Employee Benefit programs, including pension, 401(k) savings plan, healthcare coverage, etc. As a Corporate Officer, you will also be eligible for other benefits and perquisites afforded to elected officers of the Corporation, and an executive relocation package (see attached).

Louis, we are pleased to have selected you for this important leadership position at Lockheed Martin, and are excited about your joining our Executive Management Team. We look forward to your acceptance of this offer of employment with the Corporation.

Sincerely,

/s/_____
Vance D. Coffman

Acceptance: /s/ March 31, 2000
---
Louis R. Hughes Date

EXHIBIT 10(b)

ADDENDUM 1

COVENANT NOT TO COMPETE, CONFIDENTIALITY and RELEASE AGREEMENT

Lockheed Martin Corporation (the "Corporation") and I, Peter B. Teets, voluntarily enter into this Covenant Not to Compete, Confidentiality and Release Agreement ("Agreement") and agree that all of these promises and obligations, along with a three year consulting arrangement described in Addendum 2, are adequately and collectively supported by good, sufficient consideration described in the Letter, dated May 26, 2000 from Terry Powell, Vice President, Human Resources to me ("Letter"), the terms of which are incorporated herein.

1. COVENANT NOT TO COMPETE. In exchange for the consideration described in the Letter, I hereby agree, among other things, to restrict my employment and business opportunities in essentially the same manner as they would have been restricted had I remained employed by the Corporation during the three year period commencing on May 1, 2000. I agree that the duty of loyalty that I owed to the Corporation by virtue of my previous employment and position with the Corporation shall continue to its fullest extent during these three years by virtue of this Agreement. I shall continue to be governed by the same principles that prohibit the Corporation's employees from engaging in personal or family business activities constituting potential conflicts of interest, including those outlined in CPS-712. Among other restrictions, I understand that during this three year time period I will not, on my own or in association with others, either (i) be directly or indirectly employed by or engage in or be associated with or tender advice or services as an employee, advisor, director, consultant or otherwise or (ii) seek or accept any financial or other personal benefit, with or from, in either case, any corporation, partnership, or other business entity competing with the Corporation in any area in which the Corporation is conducting business on the date of my retirement. To the extent that Draper Laboratory falls within the description of a "business entity competing with the Corporation", the parties agree that my membership on the Board of Directors of Draper Laboratory is excepted from this obligation. The parties further agree and understand that this covenant not to compete does not prohibit me from directly or indirectly owning up to one percent or less of the listed or publicly held securities in a company that is a competitor of the Corporation or holding investments of $100,000 or less in any such company that is not publicly held. I currently have investment positions in corporations and in mutual funds that have ownership positions in corporations which may compete with the Corporation, and the Corporation agrees that these existing personal business interests do not violate the terms of this Agreement. The parties further agree that if I were to perform public service work on behalf of the government, these services would not violate this Agreement.

I understand and agree that the duration and area for which these restrictions are to be effective are fair and reasonable in light of the consideration paid under this Agreement. I agree and acknowledge that these restrictions are reasonably required for the protection of the Corporation's legitimate business interests from unfair competition as a result of the high level executive and management positions I have held within the Corporation and my attendant access to and extensive knowledge of the Corporation's confidential and proprietary property and information, including trade secrets, customer and supplier relationships and good will.

It is the desire and intent of the parties that the provisions of this Covenant Not to Compete shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular portion of this Covenant Not to Compete is adjudicated to be invalid or unenforceable, this Covenant Not to Compete shall be deemed amended to delete therefrom the portion thus adjudicated to be invalid

or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

2. CONFIDENTIALITY. Throughout the duration of my employment with the Corporation, I have had access to and may have generated a substantial amount of information that is proprietary and confidential to the Corporation. Additionally, I may have had access to certain third-party proprietary information that had been provided in confidence to the Corporation. In consideration of my employment by the Corporation, I have undertaken an obligation, both during and following my employment, not to use or disclose to others, any Proprietary Information, except as authorized by the Corporation. "Proprietary Information" means any information of the Corporation or of others which has come into the Corporation's or my possession, custody or knowledge in the course of my employment 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. Proprietary Information includes (without limitation) information, whether written or otherwise, regarding the Corporation's earnings, expenses, marketing information, cost estimates, forecasts, bid and proposal data, financial data, trade secrets, products, procedures, inventions, systems or designs, manufacturing or research processes, material sources, equipment sources, customers and prospective customers, business plans, strategies, buying practices and procedures, prospective and executed contracts and other business arrangements or business prospects, except to the extent such information becomes readily available to the general public lawfully and without breach of a confidential, contractual, or fiduciary duty. By signing this Agreement, I acknowledge and agree that I have a continuing obligation to not use or disclose Proprietary Information. Further, all materials to which I have had access, or which were furnished or otherwise made available to me in connection with the services performed for the Corporation shall be and remain the property of the Corporation. All such materials, documents and information, including any Proprietary Information and all reproductions thereof shall be returned by me promptly to the Corporation upon request. The parties acknowledge and agree that this confidentiality provision shall not affect my obligations to cooperate with any U.S. government investigation or to respond truthfully to any lawful governmental inquiry or to give truthful testimony in court.

3. RELEASE.

Claims not Released. By this Agreement, I am not releasing any rights to benefits I may have under any of the Corporation's benefit programs (such as the pension plan or any deferred compensation plans).

Claims Released. Subject only to the exception noted in the previous paragraph, I agree to waive and fully release all claims of any nature ("Claims") that I may now have or have had against the Corporation, its affiliates, subsidiaries, fiduciaries and the directors, officers, employees, shareholders and agents of any of the foregoing ("Released Parties"). These Claims released include, but are not limited to, claims that in any way relate to my employment with the Corporation or the termination of that employment, and any claims for monetary damages or other personal remedy sought in any legal proceeding or charge filed with any court, federal, state or local agency either by me or by a person claiming to act on my behalf or in my interest. I understand that the Claims I am releasing expressly include but are not limited to any age discrimination claims under the ADEA. I warrant that I have not assigned or transferred any Claims described in this Agreement to any third parties.

4. OTHER PROVISIONS

The parties agree that this Agreement prohibits my ability to pursue any Claims or charges against the Released Parties seeking monetary relief or other remedies for myself and/or as a representative on behalf of others. This agreement does not affect my ability to cooperate with any future ethics, legal or other investigations, whether conducted by the Corporation or any governmental agencies.

A determination by a court or arbitrator that any provision of this Agreement is invalid, illegal or unenforceable shall not affect the validity, legality or enforceability of any other provision of this Agreement.

With the exception of my Consulting Agreement, this Agreement supersedes any other prior agreements or representations between me and the Corporation as to the subjects covered herein. This Agreement may be modified, supplemented or superseded only in a written document signed by both parties.

This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland, without giving effect to the choice of law or conflict of law principles thereof.

By signing below, in addition to releasing all Claims described herein, I acknowledge that:

a) I have been advised to consult with an attorney prior to signing this Agreement;

b) I have been given at least 21 days to consider the actual terms of this Agreement.

c) I understand that I may revoke this Agreement within seven (7) calendar days from the date of signing, in which case this Agreement shall be null and void and of no force and effect on the Corporation or me. I further understand and acknowledge that to be effective, the revocation must be in writing and either personally delivered to the Corporation in the care of Terry Powell, Vice President, Human Resources, whose office is located at the following address: 6801 Rockledge Drive, Bethesda, MD 20817, or sent via certified mail, return receipt requested, to Lockheed Martin Corporation, Attention: Terry Powell, Vice President, Human Resources at the same address so that it is received by the Corporation by 5:00 p.m. on or before the seventh (7th) calendar day after I sign this Agreement.

d) I have read this Agreement, and I am fully aware of the legal effects of the Agreement. I have chosen to execute the Agreement freely, without reliance upon any promises or representations made by the Corporation other than those contained in this Agreement and the Letter.

SIGNED this 27th day of May, 2000.

| | |
|---|---|
| /s/ | Peter B. Teets |
| Signature | Printed name |

- ---

ACCEPTED AND AGREED TO BY LOCKHEED MARTIN CORPORATION ON

May 27, 2000 (date)

BY: /s/ TITLE: Vice President, Human Resources

Terry F. Powell

ADDENDUM 2

CONSULTANT SERVICES AGREEMENT between LOCKHEED MARTIN CORPORATION, a Maryland corporation, (hereinafter "COMPANY"), and Peter B. Teets (hereinafter "CONSULTANT"). In consideration of the promises and mutual obligations hereafter set forth, the parties hereto agree as follows:

AGREEMENT

1. EFFECTIVITY AND CONTENT

A. AGREEMENT is entered into as of June 1, 2000 by and between COMPANY and CONSULTANT and consists of this Agreement and Exhibits A through C as listed below, and incorporated herein by reference.

B. This Agreement is entered into by COMPANY for the purpose of retaining the services of Peter B. Teets as a CONSULTANT. This Agreement is conditioned on the CONSULTANT'S assent to, and strict compliance with, all of the terms and conditions stated below.

2. ORDER OF PRECEDENCE

In the event of any conflict, the controlling document shall be determined by the following order of precedence:
A. This Agreement
B. Exhibit A: Statement of Work
C. Exhibit B: Lockheed Martin Code of Ethics and Business Conduct, "Setting the Standard"
D. Exhibit C: Consultant Activity Report (C-703-2)

3. COMPLIANCE WITH LAWS

A. By execution of this Agreement, CONSULTANT does (for each individual performing services under this Agreement) now so certify and promise full compliance with the provisions of all certifications, forms, contractual provisions, and laws and regulations pertaining to the performance of services by CONSULTANT.

B. CONSULTANT agrees to defend, indemnify and hold COMPANY harmless from any claim, suit, loss, cost, damage, expense (including attorney's fees) or liability by reason of CONSULTANT'S violation of any such law, order or regulation. Nothing in this Agreement or in any requirement under this Agreement shall be construed to mean that CONSULTANT should perform such work in violation of any law, statute, code, or ordinance.

4. PERIOD OF PERFORMANCE

The period of performance hereunder shall commence on June 1, 2000 and shall terminate on May 31, 2003. COMPANY shall not be responsible for work performed beyond the term of this Agreement.

5. DUTIES OF CONSULTANT

For the term of this Agreement, CONSULTANT shall provide consulting services on a "best efforts" basis to COMPANY as set forth in Exhibit A, "Statement of Work," at such COMPANY facilities and other locations as the performance of services hereunder may require.

6. AGREEMENT MONITOR

CONSULTANT'S primary contact with COMPANY shall be Terry Powell, referred to hereinafter as the "Agreement Monitor".

7. COMPENSATION FOR SERVICES

A. As full compensation for the services to be performed by CONSULTANT during the entire term of this Agreement, COMPANY agrees to pay CONSULTANT a lump sum fee of $950,000 per year for services to be rendered. This amount represents the collective consideration for the Covenant Not to Compete, Confidentiality and Release Agreement as well as for consulting services to be rendered under this Agreement. The parties agree that the exact number of hours to be worked per year by CONSULTANT under this Agreement is unknown, but may be as many as 1,000 hours per year.

B. With prior approval of the Agreement Monitor, COMPANY shall reimburse Consultant for:

(i) Reasonable travel expenses incurred in performance hereunder. First class air travel will be allowed. All other expenses for travel, including lodging, meals and incidental expenses shall be considered reasonable and allowable only to the extent that they do not exceed the maximum per diem rate in effect at the time of travel as set forth in the Federal Travel Regulations for the area of travel covered by this Agreement.

(ii) Entertainment expenses and any other expenses shall be reimbursed only when approved in advance by COMPANY. In connection therewith, CONSULTANT shall strictly observe:

(a) Applicable restrictions relating to the entertainment of military and government officials and employees and to the giving of any thing of value to such officials and employees; and

(b) Applicable restrictions relating to the entertainment of and to the giving of any thing of value to Members of Congress, Congressional staff, and employees of Congress.

C. CONSULTANT shall attach to submitted invoices receipts and explanations for any of the following expenditures in excess of $25.00: Travel expenses, including expenditures for hotels, meals, air or rail fare, taxis, car rental (at locations other than CONSULTANT'S office), mileage for use of personal automobile, parking and toll fees, and telephone.

D. The total expenses to be paid under this Agreement shall not exceed $40,000 per year.

8. LIMITATION OF OBLIGATION

COMPANY shall not be obligated to make payment to CONSULTANT in excess of the funding limitation set forth in paragraph 7 above and CONSULTANT shall not be obligated to continue performance under this Agreement in excess of the funding limitation set forth in paragraph 7 above, unless and until COMPANY shall have notified CONSULTANT in writing that such funding limitation has been increased and shall have specified in such notice a revised funding limitation which shall thereupon constitute the funding limitation for performance of this Agreement.

9. PAYMENT AND INVOICE

A. COMPANY shall pay CONSULTANT for reasonable expenses incurred in connection with services performed hereunder within thirty (30) days following receipt and approval of a proper invoice. With each invoice, CONSULTANT shall submit a "Consultant Activity Report," form No. C-703-2, attached hereto as Exhibit C, for the period covered by the invoice. The invoice must contain an itemized breakdown of any time spent under this Agreement, segregating any efforts to influence or attempt to influence federal actions from activities not involving efforts to influence federal actions. For invoices claiming reimbursement for expenses, CONSULTANT is required to attach receipts for any expenditures in excess of $50.00 in a form satisfactory to COMPANY.

B. Each invoice submitted shall also contain the following statement: "Submission of this invoice certifies compliance with the terms and conditions of the consulting agreement under which this invoice is submitted, and certifies compliance with all laws, regulations and Lockheed Martin policies and procedures referenced therein."

C. Invoices and required supporting documentation shall be submitted to:

LOCKHEED MARTIN CORPORATION
6801 Rockledge Drive
Bethesda, Maryland 20817
Attention: Terry Powell (Agreement Monitor)

D. Invoices not in compliance with the requirements of this section shall be returned to the CONSULTANT for correction and resubmittal.

10. INDEPENDENT CONTRACTOR

Neither this Agreement nor CONSULTANT'S performance hereunder shall constitute or create an employee/employer relationship. CONSULTANT shall not be eligible for any benefits applicable to active employees of COMPANY. CONSULTANT shall act solely as an independent contractor, not as an employee or agent of COMPANY. CONSULTANT'S authority is limited to providing consulting services, and CONSULTANT shall have no authority, without the express written consent of COMPANY, to incur any obligation or liability, or make any commitments on behalf of COMPANY.

11. PROPRIETARY AND SENSITIVE INFORMATION

COMPANY may, from time to time, furnish CONSULTANT with literature, data, or technical information which COMPANY considers necessary to the CONSULTANT for the performance

of services pursuant to this Agreement. In the event any of the furnished material is proprietary or sensitive, COMPANY shall so inform CONSULTANT and CONSULTANT agrees to disclose this information only to individuals or organizations approved by COMPANY. CONSULTANT also agrees to return all such materials as COMPANY may request upon the expiration or termination of this Agreement, whichever shall occur first.

12. ACCESS TO CLASSIFIED INFORMATION

Performance of this Agreement may require access to classified information involving National Security up to and including Top Secret. If access is required, CONSULTANT shall furnish the COMPANY Security Department with all data required to obtain or verify a personal security clearance with access to TOP SECRET. Notwithstanding any provision of this Agreement to the contrary, CONSULTANT shall not perform work involving access to classified information until CONSULTANT'S security clearance has been obtained or verified by COMPANY.

13. GOVERNMENT AND COMPETITOR DATA AND INFORMATION

CONSULTANT agrees that he shall not solicit, attempt to obtain, or receive any information that is unclassified, security classified or procurement sensitive, directly or indirectly, from the U.S. government or any other source, except in strict accordance with all laws and regulations and COMPANY policies and procedures, or where there is reason to believe that such information cannot lawfully be in COMPANY'S possession. The same prohibitions apply to information of another company that is confidential, proprietary, or competitive information. For the purpose 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 might be conveyed.

14. INTELLECTUAL PROPERTY

CONSULTANT agrees to assign, convey and transfer to COMPANY without requirement for further consideration, each and every invention, discovery, patent and improvement relating to the field of effort covered by the Statement of Work, conceived or developed by CONSULTANT during performance of the Agreement and upon request shall execute any required papers and furnish all reasonable assistance to COMPANY to vest all right, title and interest in such matters in COMPANY.

15. CERTIFICATIONS AND REPRESENTATIONS

A. By execution of this Agreement, CONSULTANT represents and certifies that he has not been convicted of or pleaded guilty to a federal offense involving fraud, corruption or moral turpitude and is not now listed by any federal agency as debarred, suspended, proposed for suspension or debarment, or otherwise ineligible for federal procurement programs. If CONSULTANT is a corporation, partnership or other form of business organization, the representations and certification shall apply not only to the individual(s) who shall be performing the consulting services, but also to the principal officers and owners of the business organization.

B. In performing this Agreement, CONSULTANT agrees to comply with applicable laws and regulations and to not make or permit to be made or knowingly allow a third party to make any improper payments, or to perform any unlawful act.

C. When requested to do so by COMPANY, CONSULTANT agrees to provide supporting information and to execute certifications as may be required to permit COMPANY to fully

comply with applicable government regulations which may become effective during the term of this Agreement.

D. Failure or refusal to furnish in a timely manner any required certificate or disclosure upon request from either COMPANY or a U.S. government procurement authority shall be the basis for immediate termination of this Agreement. CONSULTANT further agrees that with regard to all certifications contained herein or executed as part of this Agreement, CONSULTANT shall notify COMPANY promptly of any change in CONSULTANT'S status. Failure to provide prompt notice shall be cause for immediate termination of this Agreement.

E. CONSULTANT represents that he has made full disclosure of each instance where CONSULTANT has provided a supplier, customer, or competitor of COMPANY services similar to those provided for hereunder during a period of twelve (12) months prior to the date of this Agreement.

F. Compliance with Contracting Restrictions:

(i) CONSULTANT certifies that he is familiar with and shall comply with all federal laws and regulations relating to federal conflict of interest ("Revolving Door") concerns.

(ii) CONSULTANT further certifies that, to the best of his knowledge and belief, CONSULTANT is not prohibited by law from performing services contracted for under this AGREEMENT.

G. CONSULTANT represents that he shall not, in performance under this Agreement (unless modified, as noted below), have any contact with any foreign COMPANY customer or any foreign government official for the purpose of collecting marketing intelligence or providing marketing-related services for markets outside the U.S. In the event that COMPANY determines during the course of this Agreement that it needs CONSULTANT to perform services hereunder that may involve such marketing-related contact with a foreign customer or foreign government official, then prior to such contact, the parties will modify this Agreement in writing and otherwise take the necessary steps to comply with the COMPANY'S policies governing International Consultants, including CPS-704.

H. CONSULTANT acknowledges receipt of a copy of COMPANY'S Code of Ethics and Business Conduct, "Setting the Standard," attached hereto as Exhibit B. CONSULTANT represents that he shall comply with all applicable provisions thereof.

I. Compliance with Lobbying Prohibitions:

(i) CONSULTANT represents that he shall comply with 31 U.S. Code 1352 and implementing regulations contained in the Federal Acquisition Regulation (FAR) which prohibits use of federal appropriated funds to influence or attempt to influence any federal actions. CONSULTANT represents that he shall promptly inform COMPANY of any instance which may involve efforts 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). CONSULTANT represents that his invoices shall separately identify any time spent under this Agreement for such efforts in the form set forth in Section 9 of this Agreement.

(ii) CONSULTANT represents that he shall not engage in any effort on behalf of COMPANY 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 by the Agreement Monitor in writing.

16. GRATUITIES/KICKBACKS

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

17. PERSONAL PERFORMANCE REQUIREMENT

CONSULTANT shall personally perform the consulting services described and shall not assign to any third party the performance obligation or any rights to compensation or benefits accruing to CONSULTANT under this Agreement without the written consent of COMPANY.

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 (hereinafter 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 office of the CONSULTANT at all reasonable times during such retention period any of the records for inspection, audit or reproduction by any representative authorized by COMPANY. The term "records" shall also include 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 shall be assignable by the CONSULTANT. COMPANY reserves the right to assign its rights and obligations hereunder to any subsidiary, affiliate, or successor in interest.

20. TERMINATION

A. Neither party may unilaterally terminate this Agreement without cause as described further below. The parties may terminate the agreement by mutual agreement provided the termination is in writing and signed by both parties. In the event of termination, COMPANY'S obligations shall be limited to fees paid by COMPANY and expenses incurred by CONSULTANT as of the effective date of termination. Any reports in progress at the time of termination shall be submitted by CONSULTANT to COMPANY at no additional fee.

B. This Agreement shall terminate for cause immediately and all payments made or due shall be forfeited by CONSULTANT if, in rendering services hereunder, improper payments are made, unlawful conduct is engaged in, or any part of the fee or expenses payable under this Agreement is used for an illegal purpose. This Agreement shall terminate for cause immediately and all payments made or due shall be forfeited by CONSULTANT if CONSULTANT revokes the Covenant Not to Compete, Confidentiality and Release Agreement, between himself and the

COMPANY, within the 7-day revocation period following CONSULTANT'S execution of that Agreement.

21. AMENDMENTS AND NOTICES

A. Only the Agreement Monitor or the COMPANY'S Procurement Representative have the authority to make changes in or amendments to this Agreement on behalf of COMPANY and to effect deviations (by the way of addition or deletion) from the work herein specified. Changes in or amendments to this Agreement shall have no effect unless they are in writing and signed by the COMPANY'S authorized representative or designee and the CONSULTANT.

B. Except as otherwise specifically provided herein, any notices to be furnished by CONSULTANT to COMPANY or by COMPANY to CONSULTANT shall be sent by mail or FAX addressed respectively as follows:

To COMPANY:
- -----------
ATTN: Terry Powell
LOCKHEED MARTIN CORPORATION
6801 Rockledge Drive
Bethesda, Maryland 20817

To CONSULTANT:
- --------------
ATTN: Peter B. Teets
11118 Cripplegate Rd.
Potomac, MD 20854

22. ENTIRE AGREEMENT AND CHOICE OF LAW

This Agreement, together with all amendments: (a) shall be construed in accordance with the laws of the State of Maryland; excluding its choice of law rules and (b) together with the Letter dated May 26, 2000 from Terry Powell to CONSULTANT and the Covenant Not to Compete, Confidentiality and Release Agreement, constitutes the entire understanding of the parties concerning its subject matter; (c) may be altered or amended only in writing signed by both parties concurrently with or subsequent to its dae of execution; and (d) together with the Letter dated May 26, 2000 from Terry Powell to CONSULTANT and the Covenant Not to Compete, Confidentiality and Release Agreement supersedes all prior written or oral understandings of the parties (including predecessors or assigns) concerning its subject matter.

23. WAIVER

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

24. REMEDIES

The rights and remedies provided herein shall be cumulative and in addition to any other rights and remedies provided by law or equity.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the 27th day of May, 2000.

| CONSULTANT | COMPANY |
| --- | --- |
| /s/ | /s/ |
| Peter B. Teets | Terry Powell<br>Vice President, Human Resources<br>Lockheed Martin Corporation |

ADDENDUM 2

EXHIBIT A

TO CONSULTANT SERVICES AGREEMENT

STATEMENT OF WORK

CONSULTANT shall provide services on an as needed basis during the term of this Agreement as requested by the COMPANY'S CEO or the Agreement Monitor. The assignments will vary, but will include services such as providing management and technical advice and guidance, representing Lockheed Martin Corporation by participating in industry association affairs, boards, and other business events, and serving on special projects and review teams.

ADDENDUM 2

EXHIBIT B

TO CONSULTANT SERVICES AGREEMENT

SEE ATTACHED: LOCKHEED MARTIN CODE OF ETHICS AND BUSINESS CONDUCT "SETTING THE STANDARD"

ADDENDUM 2

EXHIBIT C

TO CONSULTANT SERVICES AGREEMENT

SEE ATTACHED: CONSULTANT ACTIVITY REPORT (C-703-2)

Exhibit 12

Lockheed Martin Corporation
Computation of Ratio of Earnings to Fixed Charges
For the Six Months Ended June 30, 2000
(In millions, except ratio)

| | |
|---|---|
| Earnings | |
| Earnings from continuing operations before income taxes | $ 204 |
| Interest expense | 447 |
| Amortization of debt premium and discount, net | (1) |
| Portion of rents representative of an interest factor | 34 |
| Losses and undistributed earnings of 50% and less than 50% owned companies, net | 25 |
| Adjusted earnings from continuing operations before income taxes | $ 709 |
| Fixed Charges | |
| Interest expense | $ 447 |
| Amortization of debt premium and discount, net | (1) |
| Portion of rents representative of an interest factor | 34 |
| Capitalized interest | -- |
| Total fixed charges | $ 480 |
| Ratio of Earnings to Fixed Charges | 1.5 |

5

This schedule contains summary financial information extracted from the Unaudited Condensed Consolidated Balance Sheet and Unaudited Condensed Consolidated Statement of Operations and is qualified in its entirety by reference to such financial statements.

1,000,000

6-MOS
DEC-31-2000
JAN-01-2000
JUN-30-2000
1,249
0
4,182
0
3,809
10,977
8,951
5,401
29,892
9,531
10,650
0
0
402
6,037
29,892
11,774
11,774
11,033
11,033
90
0
447
204
108
96
0
0
0
96
.25
.25