

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, 2001                      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, 2001  
-----  
COMMON STOCK, \$1 PAR VALUE    435,985,378

LOCKHEED MARTIN CORPORATION  
 FORM 10-Q  
 FOR THE QUARTER ENDED JUNE 30, 2001

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Lockheed Martin Corporation  
Unaudited Condensed Consolidated Statement of Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
[GRAPHIC REMOVED HERE]	2001 ----	2000 ----	2001 ----	2000 ----
	(In millions, except per share data)			
Net sales	\$ 5,961	\$ 6,212	\$ 10,971	\$ 11,774
Cost of sales	5,568	5,784	10,249	11,033
	-----	-----	-----	-----
Earnings from operations	393	428	722	741
Other income and expenses, net	26	(103)	69	(90)
	-----	-----	-----	-----
	419	325	791	651
Interest expense	180	220	377	447
	-----	-----	-----	-----
Earnings before income taxes	239	105	414	204
Income tax expense	95	63	165	108
	-----	-----	-----	-----
Net earnings	\$ 144	\$ 42	\$ 249	\$ 96
	=====	=====	=====	=====
Earnings per common share:				
- - - - -				
Basic	\$ .34	\$ .11	\$ .59	\$ .25
Diluted	\$ .33	\$ .11	\$ .58	\$ .25
Cash dividends declared per common share	\$ .11	\$ .11	\$ .22	\$ .22

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation  
Unaudited Condensed Consolidated Statement of Cash Flows

	Six Months Ended June 30,	
	2001	2000
	(In millions)	
Operating Activities:		
Net earnings	\$ 249	\$ 96
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	459	480
Changes in operating assets and liabilities	489	1,022
	-----	-----
Net cash provided by operating activities	1,197	1,598
	-----	-----
Investing Activities:		
Expenditures for property, plant and equipment	(193)	(185)
Other	(88)	(43)
	-----	-----
Net cash used for investing activities	(281)	(228)
	-----	-----
Financing Activities:		
Net decrease in short-term borrowings	(12)	(467)
Net repayments related to long-term debt	(1,155)	(23)
Issuances of common stock	64	2
Common stock dividends	(96)	(88)
	-----	-----
Net cash used for financing activities	(1,199)	(576)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(283)	794
Cash and cash equivalents at beginning of period	1,505	455
	-----	-----
Cash and cash equivalents at end of period	\$1,222	\$1,249
	=====	=====

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation  
Unaudited Condensed Consolidated Balance Sheet

	June 30, 2001	December 31, 2000
	-----	-----
	(In millions)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,222	\$ 1,505
Receivables	3,818	4,195
Inventories	3,365	3,825
Deferred income taxes	1,122	1,236
Other current assets	492	498
	-----	-----
Total current assets	10,019	11,259
Property, plant and equipment	3,323	3,446
Investments in equity securities	2,306	2,433
Intangible assets related to contracts and programs acquired	997	1,088
Cost in excess of net assets acquired	8,726	8,855
Prepaid pension cost	1,928	1,794
Other assets	1,669	1,474
	-----	-----
	\$ 28,968	\$ 30,349
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,007	\$ 1,184
Customer advances and amounts in excess of costs incurred	4,852	4,780
Salaries, benefits and payroll taxes	1,008	1,038
Income taxes	207	519
Short-term borrowings	--	12
Current maturities of long-term debt	275	882
Other current liabilities	1,759	1,760
	-----	-----
Total current liabilities	9,108	10,175
Long-term debt	8,517	9,065
Post-retirement benefit liabilities	1,646	1,647
Deferred income taxes	682	736
Other liabilities	1,605	1,566
Stockholders' equity:		
Common stock, \$1 par value per share	435	431
Additional paid-in capital	1,917	1,789
Retained earnings	5,352	5,199
Unearned ESOP shares	(100)	(115)
Accumulated other comprehensive loss	(194)	(144)
	-----	-----
Total stockholders' equity	7,410	7,160
	-----	-----
	\$ 28,968	\$ 30,349
	=====	=====

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Lockheed Martin Corporation  
Notes to Unaudited Condensed Consolidated Financial Statements  
June 30, 2001

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 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission except for the adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," (as amended) effective January 1, 2001, as discussed in "Note 7 - Other" of the Notes to Unaudited Condensed Consolidated Financial Statements. 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, 2001 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 2001 presentation.

NOTE 2 -- BUSINESS COMBINATION WITH COMSAT CORPORATION

On August 3, 2000, the Corporation completed its merger with COMSAT Corporation (COMSAT) pursuant to the terms of the Agreement and Plan of Merger between COMSAT and the Corporation. 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 \$76 million in cash balances acquired. The COMSAT transaction was accounted for using the purchase method of accounting. Purchase accounting adjustments were recorded in 2000 to allocate the purchase price to assets acquired and liabilities assumed based on their fair values. These adjustments included certain amounts totaling approximately \$2.1 billion, composed of adjustments to record investments in equity securities acquired at their fair values and cost in excess of net assets acquired, which is being amortized over an estimated life of 30 years.

Since August 1, 2000, the Corporation has consolidated the operations of COMSAT with the results of operations of Lockheed Martin Global Telecommunications, Inc. (LMGT), a wholly-owned subsidiary of the Corporation.

NOTE 3 -- EARNINGS PER SHARE

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001 ----	2000 ----	2001 ----	2000 ----
	(In millions, except per share data)			
Net earnings for basic and diluted computations	\$ 144	\$ 42	\$ 249	\$ 96
-----				
Average common shares outstanding:				
-----				
Average number of common shares outstanding for basic computations	425.7	389.5	424.5	388.3
Dilutive stock options based on the treasury stock method	4.4	1.7	4.4	1.0
	-----	-----	-----	-----
Average number of common shares outstanding for diluted computations	430.1	391.2	428.9	389.3
	=====	=====	=====	=====
Earnings per common share:				
-----				
Basic	\$ .34	\$ .11	\$ .59	\$ .25
Diluted	\$ .33	\$ .11	\$ .58	\$ .25

NOTE 4 -- INVENTORIES

	June 30, 2001 ----	December 31, 2000 ----
	(In millions)	
Work in process, commercial launch vehicles	\$ 1,104	\$ 1,175
Work in process, primarily related to other long-term contracts and programs in progress	4,572	3,834
Less customer advances and progress payments	(2,911)	(1,864)
	-----	-----
	2,765	3,145
Other inventories	600	680
	-----	-----
	\$ 3,365	\$ 3,825
	=====	=====

Work in process inventories related to commercial launch vehicles include costs for launch vehicles, both under contract and not under contract, including unamortized deferred costs at June 30, 2001 and December 31, 2000 of approximately \$115 million and \$100 million, respectively, for launch vehicles not under contract related to the Corporation's Atlas programs. At June 30, 2001 and December 31, 2000, commercial launch vehicle inventories 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

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

\$622 million and \$657 million, respectively, for the manufacture of launch vehicles and related launch services.

Work in process inventories at June 30, 2001 and December 31, 2000 related to other long-term contracts and programs in progress included approximately \$55 million and \$50 million, respectively, of unamortized deferred costs for aircraft not under contract related to the Corporation's C-130J program.

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 continues to negotiate with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation estimates that expenditures required to implement work currently approved will be approximately \$90 million. The Corporation is also coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct preliminary studies of the potential health effects of perchlorate exposure in connection with several sites across the country, including the Redlands site. The results of these studies will assist state and federal regulators in setting appropriate action levels for perchlorates in groundwater, which will in turn assist the Corporation in determining its ultimate clean-up obligation, if any, with respect to perchlorates. Any reduction to the current provisional action level for perchlorates could result in increased clean-up costs for the Corporation.

Since 1990, the Corporation has been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with the Corporation's former operations in Burbank, California. Among other things, these consent decrees and orders obligate the Corporation to operate and maintain soil and groundwater treatment facilities in Burbank and Glendale, California through 2018 and 2012, respectively; however, responsibility for the long-term operation of the Burbank facilities was assumed by the city of Burbank in the first quarter of 2001, and responsibility for the Glendale operations was assumed by the city of Glendale in the second quarter of 2001. 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



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

(CERCLA). The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and orders described above, net of the effects of the Agreement, will be approximately \$45 million.

The Corporation is involved in proceedings and potential proceedings relating to environmental matters at other facilities, including disposal of hazardous wastes and soil and water contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably 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 \$190 million for certain other properties (including current operating facilities and certain facilities operated in prior years) for which an estimate of financial exposure can be determined has been recorded.

Under agreements reached with the U.S. Government in 1990 and 2000, environmental expenditures related to the Redlands and Burbank properties referenced above are being allocated to the Corporation's operations as general and administrative costs. 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.

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 recoveries 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 the Corporation sought to remedy through submission of a request for equitable adjustment (REA) to the DOE in March 1997. In 1998, the Corporation took actions to raise the status of the REA to a formal claim. To date, 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. As a result, 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 and recover its costs. 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. In January 2001, in the Court of Federal Claims, the DOE filed a motion for summary judgment seeking to dismiss the Corporation's complaint on jurisdictional grounds. The Corporation opposed the motion in

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

papers filed in April 2001. 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 operates in five principal business segments: Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities fall within the Corporate and Other segment.

The Corporation began presenting LMGT as a separate operating segment called Global Telecommunications in the third quarter of 2000. As mentioned previously, LMGT includes the operations of COMSAT from August 1, 2000, and also includes the operations of Lockheed Martin Integrated Business Solutions (IBS). LMGT and IBS were included in the Corporate and Other segment prior to the third quarter of 2000. Prior period amounts have been reclassified to conform with these organizational changes.

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2001	2000	2001	2000
----	----	----	----

(In millions)

Selected Financial Data by Business Segment

Net sales				
-----				
Systems Integration	\$ 2,165	\$ 2,334	\$ 4,045	\$ 4,405
Space Systems	1,753	1,780	3,124	3,452
Aeronautics	1,058	1,253	1,913	2,289
Technology Services	580	599	1,080	1,063
Global Telecommunications	245	111	499	284
Corporate and Other	160	135	310	281
	-----	-----	-----	-----
	\$ 5,961	\$ 6,212	\$10,971	\$11,774
	=====	=====	=====	=====
Operating profit (loss)				
-----				
Systems Integration	\$ 194	\$ 202	\$ 367	\$ 370
Space Systems	103	128	290	213
Aeronautics	89	89	168	168
Technology Services	39	36	73	62
Global Telecommunications	(29)	(25)	(159)	(58)
Corporate and Other	23	(105)	52	(104)
	-----	-----	-----	-----
	\$ 419	\$ 325	\$ 791	\$ 651
	=====	=====	=====	=====

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	----	----	----	----
	(In millions)			
Intersegment revenue(a)				
-----				
Systems Integration	\$ 55	\$ 118	\$ 110	\$ 223
Space Systems	20	34	40	62
Aeronautics	10	21	28	39
Technology Services	173	186	341	352
Global Telecommunications	21	4	40	7
Corporate and Other	19	11	38	23
	-----	-----	-----	-----
	\$ 298	\$ 374	\$ 597	\$ 706
	=====	=====	=====	=====

	June 30, 2001	December 31, 2000
	----	----
	(In millions)	
Customer advances and amounts in excess of		
-----		
costs incurred(b)		
-----		
Systems Integration	\$ 992	\$ 899
Space Systems	1,590	2,012
Aeronautics	2,063	1,636
Technology Services	14	16
Global Telecommunications	192	202
Corporate and Other	1	15
	-----	-----
	\$ 4,852	\$ 4,780
	=====	=====

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

(b) At June 30, 2001, customer advances and amounts in excess of costs incurred in the Space Systems segment included approximately \$874 million for commercial launch vehicles and related launch services (approximately \$379 million of which relates to launch vehicles and services from Russian manufacturers) and approximately \$148 million for the manufacture of commercial satellites. Customer advances and amounts in excess of costs incurred in the Aeronautics segment included approximately \$1.3 billion for the F-16 fighter aircraft program primarily related to international contracts.

NOTE 7 -- OTHER

In the first quarter of 2001, the Corporation's Space Systems segment sold certain property in California for approximately \$185 million in cash. The transaction resulted in a nonrecurring and unusual gain, net of state income taxes, of \$111 million which is recorded in other income and expenses. The gain increased net earnings for the quarter by \$72 million, or \$.17 per diluted share.

Also during the first quarter of 2001, the Corporation's Global Telecommunications segment recorded a nonrecurring and unusual charge, net of state income tax benefits, of \$100 million in other income and expenses related to impairment of its investment in Americom Asia-Pacific,

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

LLC, a joint venture in which the Corporation holds a 50 percent interest. The charge, which was recorded due to a decline in the value of the Corporation's investment, reduced net earnings by \$65 million, or \$.15 per diluted share. The satellite operated by Americom Asia-Pacific, which serves Southeast Asia, was placed in commercial operation late in the fourth quarter of 2000. The decline in value of the investment was assessed to be other than temporary as a result of lower transponder pricing, lower than expected demand manifested in the first quarter and overall market conditions.

On March 27, 2001, the Corporation announced that it had reached a definitive agreement to sell LMG's COMSAT Mobile Communications operations to Telenor of Norway for \$116.5 million in cash. Consummation of the transaction is conditioned upon approval by the Federal Communications Commission and other customary closing conditions. In May 2001, the waiting period under the Hart-Scott-Rodino Antitrust Improvement Act (HSR Act) expired. This transaction is expected to close in the second half of 2001 and, if consummated, is not expected to have a material impact on the Corporation's consolidated results of operations.

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 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.

The components of comprehensive income (loss) for the three months and six months ended June 30, 2001 and 2000 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	----	----	----	----
	(In millions)			
Net earnings	\$ 144	\$ 42	\$ 249	\$ 96
Other comprehensive (loss) income:				
Net foreign currency translation adjustments	(11)	5	(9)	(2)
Net unrealized gain (loss) from available-for-sale investments	8	(90)	(46)	(33)
Net unrealized (loss) gain from hedging activities	(9)	--	5	--
	-----	-----	-----	-----
	(12)	(85)	(50)	(35)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 132	\$ (43)	\$ 199	\$ 61
	=====	=====	=====	=====

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

The Corporation's total interest payments were \$380 million and \$457 million for the six months ended June 30, 2001 and 2000, respectively.

The Corporation made net federal and foreign income tax payments, net of refunds received, of \$348 million and \$10 million for the six months ended June 30, 2001 and 2000, respectively.

New accounting pronouncements adopted - Effective January 1, 2001, the Corporation adopted SFAS No. 133, as amended, related to accounting for derivatives and hedging activities. This Statement requires the recognition of all derivative financial instruments as either assets or liabilities in the consolidated balance sheet, and the periodic adjustment of those instruments to 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. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings. The effect of adopting SFAS No. 133 at January 1, 2001, and amounts recorded related to derivative financial instruments as of and for the three month and six month periods ended June 30, 2001, were not material to the Corporation's consolidated results of operations, cash flows, or financial position.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets." The Statement eliminates the requirement to amortize costs in excess of net assets acquired (goodwill) under the purchase method of accounting, and sets forth a new methodology for periodically assessing and, if warranted, recording impairment of goodwill. The Corporation will be required to adopt the new rules effective January 1, 2002. The elimination of amortization of goodwill is expected to increase 2002 net earnings by approximately \$270 million, or \$.60 per diluted share. The Corporation will analyze and assess the impairment provisions of the new Statement, but has not yet determined the impact, if any, of the adoption of those provisions.

NOTE 8 -- SUBSEQUENT EVENTS

On July 19, 2001, the Corporation announced that it had reached a definitive agreement to sell Lockheed Martin IMS Corporation to Affiliated Computer Services, Inc. for \$825 million in cash. Consummation of the transaction is conditioned upon satisfaction of customary closing conditions. In August 2001, the waiting period under the HSR Act expired. This transaction is expected to close in the third quarter of 2001 and, if consummated, result in a gain, net of state income taxes, of \$400 million to \$450 million, or \$250 million to \$300 million on an after-tax basis.

On June 29, 2001, COMSAT, a wholly-owned subsidiary of the Corporation, called for the redemption of \$200 million in principal amount of the 8.125 percent Cumulative Monthly Income Preferred Securities (MIPS) previously issued by a wholly-owned subsidiary of COMSAT. At June 30, 2001, the MIPS were included in current maturities of long-term debt in the Corporation's Unaudited Condensed Consolidated Balance Sheet. On July 31, 2001, the MIPS were redeemed at par value of \$25 per share plus accrued and unpaid dividends to the redemption date.

Lockheed Martin Corporation  
Management's Discussion and Analysis of Financial Condition  
and Results of Operations  
June 30, 2001

STRATEGIC AND ORGANIZATIONAL REVIEW

The Corporation's strategic and organizational review begun in 1999, among other things, included the decision to evaluate the divestiture of certain non-core business units. In connection with this review and as described more fully in "Note 8 - Subsequent Events" of the Notes to Unaudited Condensed Consolidated Financial Statements, the Corporation announced on July 19, 2001 that it had reached a definitive agreement to sell Lockheed Martin IMS Corporation for \$825 million in cash. Net sales for the first six months of 2001 related to the IMS businesses totaled approximately \$300 million, excluding intercompany sales. This transaction is expected to close in the third quarter of 2001 and, if consummated, generate net cash proceeds of \$500 million to \$550 million after related transaction costs and federal and state income tax payments.

IMS is the final business unit specifically identified for divestiture as part of the strategic and organizational review; however, on an ongoing basis, the Corporation will continue to explore the sale of various non-core businesses, passive equity investments and surplus real estate. If the Corporation were to decide to sell any such holdings or real estate, the resulting gains, if any, would be recorded when the transactions are consummated and losses, if any, would be recorded when they are estimable. The Corporation also continues to review its businesses on an ongoing basis to identify ways to improve organizational effectiveness and performance, and to clarify and focus on its core business strategy.

RESULTS OF OPERATIONS

Consolidated Results of Operations

The Corporation's operating cycle is long-term and involves many types of production contracts with 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.

The Corporation's consolidated net sales for the second quarter of 2001 were \$6.0 billion, a decrease of four percent from the \$6.2 billion recorded for the comparable period in 2000. Net sales for the six months ended June 30, 2001 were \$11.0 billion versus \$11.8 billion for the same period of 2000, a decrease of seven percent. Adjusting for acquisitions and divestitures, net sales declined two percent and five percent for the three month and six month periods ended June 30, 2001, respectively, from the comparable 2000 periods. Quarter-to-quarter net sales increases in the Global Telecommunications and Corporate and Other segments were more than offset by decreases in the remaining segments. For the six months ended June 30, 2001, as compared to the respective 2000 period, net sales increases in the Technology Services, Global Telecommunications, 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 2001 was \$419 million, an increase of 29 percent from the \$325 million recorded in the comparable 2000 period. The Corporation's operating profit for the six months ended June 30, 2001 was \$791 million, an increase of 22 percent from the \$651 million recorded in the comparable 2000 period. The reported amounts for the quarter ended June 30, 2000 and the six months ended June 30, 2001 and 2000 include the financial impacts of certain nonrecurring and unusual items (there were no such items recorded in the quarter ended June 30, 2001). The

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impact of these items on operating profit, net earnings and earnings per diluted share is as follows:

	Operating profit (loss)	Net earnings (loss)	Earnings (loss) per diluted share
	(In millions, except per share data)		
Quarter ended June 30, 2000			
Charge related to Globalstar guarantee (Note 7)	\$ (141)	\$ (91)	\$ (.23)
Partial reversal of CalComp reserve	33	21	.05
	\$ (108)	\$ (70)	\$ (.18)
	=====	=====	=====
Six months ended June 30, 2001			
Sale of surplus real estate (Note 7)	\$ 111	\$ 72	\$ .17
Impairment charge related to Americom Asia-Pacific (Note 7)	(100)	(65)	(.15)
	\$ 11	\$ 7	\$ .02
	=====	=====	=====
Six months ended June 30, 2000			
Charge related to Globalstar guarantee (Note 7)	\$ (141)	\$ (91)	\$ (.23)
Partial reversal of CalComp reserve	33	21	.05
Sales of surplus real estate	16	10	.03
Divestitures and other portfolio shaping activities	(6)	(4)	(.01)
	\$ (98)	\$ (64)	\$ (.16)
	=====	=====	=====

Excluding the effects of these nonrecurring and unusual items, quarter-to-quarter operating profit would have increased in the Technology Services and Corporate and Other segments, while the operating loss for the Global Telecommunications segment would have increased in the second quarter of 2001 as compared to the second quarter of 2000. During the same comparative periods, operating profit would have decreased in the Systems Integration and Space Systems segment. Operating profit for the Aeronautics segment remained consistent for the two periods presented. Excluding the effects of these nonrecurring and unusual items, for the six months ended June 30, 2001, changes in the segments' operating profit and losses from the comparable 2000 period were consistent with those in the quarter-to-quarter comparison. For a more detailed discussion of the operating results of the business segments, see "Discussion of Business Segments" below.

The Corporation reported diluted earnings per share of \$.33 and \$.58 for the quarter and six months ended June 30, 2001, respectively, as compared to \$.11 and \$.25 for the comparable 2000 periods. Excluding the nonrecurring and unusual items presented above, diluted earnings per share for the quarter and six months ended June 30, 2001, would have been \$.33 and \$.56, respectively, and diluted earnings per share for the quarter and six months ended June 30, 2000, would have been \$.29 and \$.41, respectively.

The Corporation's backlog of undelivered orders was approximately \$53.8 billion at June 30, 2001 as compared to the \$56.4 billion reported at December 31, 2000. The Corporation received orders for approximately \$8.8 billion in new and follow-on business during the first six months of 2001. These new orders were more than offset by sales during the period and by a reduction in

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backlog in the Global Telecommunications segment of approximately \$450 million primarily to reflect the indefinite deferral of a contract for in-orbit delivery of the ACeS 2 satellite. Significant new orders received during the six month period primarily related to the CVN 77 Aircraft Carrier systems integration contract, classified activities, bridge funding for the F-22 program, Aegis production, the A-10 Precision Engagement weapon systems upgrade, the National Airspace System Implementation Support Contract, the FAA Advanced Technology and Oceanic Procedures contract, six new launch services orders and three new commercial satellite orders.

Discussion of Business Segments

The Corporation operates in five principal business segments: Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities fall within the Corporate and Other segment. The following table of financial information and related discussions of the results of operations of the Corporation's business segments correspond to the presentation of segment 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)."

The following table displays the impact of the nonrecurring and unusual items presented earlier on each segment's operating (loss) profit for each of the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	----	----	----	----
	(In millions)			
Nonrecurring and unusual items - profit (loss):				
Systems Integration	\$ --	\$ --	\$ --	\$ --
Space Systems	--	--	111	17
Aeronautics	--	--	--	--
Technology Services	--	--	--	(6)
Global Telecommunications	--	--	(100)	--
Corporate and Other	--	(108)	--	(109)
	-----	-----	-----	-----
	\$ --	\$ (108)	\$ 11	\$ (98)
	=====	=====	=====	=====

In an effort to make the following discussion of significant operating results of each business segment more understandable, the effects of the nonrecurring and unusual items in the preceding table have been excluded. The Space Systems and Aeronautics 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 large number of relatively smaller programs in the Systems Integration, Technology Services and Global Telecommunications segments, the performance of individual programs typically is not as significant to the results of operations of these segments.

Systems Integration

Net sales for the Systems Integration segment declined by seven percent and eight percent for the quarter and six months ended June 30, 2001, respectively, from the comparable 2000 periods.



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However, excluding the sales attributable to the segment's Aerospace Electronic Systems and Controls Systems businesses, which were divested in the second half of 2000, and the transfer of the Payload Launch Vehicle (PLV) contract to the Space Systems segment at the start of 2001, sales for both the second quarter and the six months ended June 30, 2001 would have increased five percent from the respective year-ago periods. For the quarter, approximately \$150 million of the increase in net sales over the comparable 2000 period is attributable to the segment's Missiles & Air Defense product line as a result of higher volume on certain tactical missile programs and the Theater High Altitude Area Defense (THAAD) missile program. This increase was partially offset by an approximate \$95 million decrease in the segment's Systems Integration-Owego line of business, which includes electronic platform integration businesses. The remainder of the quarter-to-quarter increase is primarily attributable to increased net sales of approximately \$50 million in the segment's Naval Electronic and Surveillance Systems product line, mainly due to higher volume on ground-based air surveillance radar programs and undersea systems activities. For the first six months of 2001 as compared to the respective 2000 period, approximately \$205 million of the increase in net sales is attributable to the segment's Missiles & Air Defense product line as a result of higher volume on the same programs mentioned above. This increase was partially offset by an approximate \$120 million decrease in the segment's Systems Integration-Owego line of business. Increased net sales of approximately \$85 million in the segment's Naval Electronic and Surveillance Systems product line, primarily due to higher volume on ground-based air surveillance radar programs, undersea systems activities, and vertical launching system contracts, accounted for the majority of the remainder of the increase between the six month periods.

Operating profit for the segment decreased by four percent and one percent for the quarter and six months ended June 30, 2001, respectively, from the comparable 2000 periods. Adjusting for the operating profit attributable to the divested Aerospace Electronic Systems and Controls Systems businesses, as well as the PLV transfer, operating profit for the quarter and six months ended June 30, 2001, would have increased seven percent and eight percent, respectively, from the year-ago periods. The fluctuation in operating profit is due primarily to the changes in the volume mentioned in the discussion of net sales and, relative to the comparative six month periods, the impact of increases attributable to certain other System Integration activities.

#### Space Systems

Net sales for the Space Systems segment declined by two percent and ten percent for the quarter and six months ended June 30, 2001, respectively, from the comparable 2000 periods. The majority of the second quarter decrease from the comparable 2000 period is attributable to an approximate \$80 million decline in volume on commercial space activities and the absence in 2001 of approximately \$50 million in favorable adjustments recorded on the Titan IV program discussed in more detail below. These declines more than offset increases in volume on ground systems and military and government satellite programs which on a combined basis accounted for an approximate \$105 million increase in sales. Net sales for the six months ended June 30, 2001 declined approximately \$475 million due to volume reductions in commercial space activities and as a result of the absence in 2001 of the favorable adjustments recorded on the Titan IV program in 2000. These decreases were partially offset by increases in volume on ground systems and military and government satellite programs totaling approximately \$155 million.

Operating profit declined twenty percent and nine percent for the quarter and six months ended June 30, 2001, respectively, from the comparable 2000 periods. The majority of the second quarter decrease from the comparable 2000 period is attributable to launch vehicle activities.

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Notably, operating profit declined due to the absence in 2001 of favorable adjustments recorded in the second quarter of 2000 as a result of improved performance and contract modifications on the Titan IV program, which increased sales and operating profit by approximately \$50 million. 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 a 1999 Titan IV launch failure. Further contributing to the 2001 decline in operating profit was an approximate \$40 million loss provision associated with continued market and pricing pressures in the commercial launch vehicle industry. The majority of the loss provision was recorded in connection with the future sale of earlier-generation commercial Atlas launch vehicles. The declines mentioned above were partially offset by an approximate \$45 million increase in operating profit on certain other commercial space programs. The majority of the remaining change in quarter-to-quarter operating profit is attributable to the operating profit impact of the previously mentioned increases in volume on military and government satellite programs.

For the six months ended June 30, 2001, the majority of the decrease in operating profit is attributable to the combined effects of the absence in 2001 of the aforementioned \$50 million favorable adjustment recorded on the Titan IV program in 2000 and the approximate \$40 million loss provision recorded in the first quarter of 2001 on certain commercial satellite contracts related to schedule and technical issues. Further contributing to the decline in 2001 was the net impact of the approximate \$40 million second quarter loss provision described above partially offset by the absence in 2001 of a similar \$35 million adjustment recorded during the first quarter of 2000. The majority of the remaining change in operating profit is attributable to the combined operating profit impact of the volume increases on ground systems and military and government satellite programs discussed above, as well as improved performance on the Titan IV program during the first six months of 2001 as compared to the respective 2000 period.

#### Aeronautics

Net sales of the Aeronautics segment decreased by 16 percent for both the three and six month periods ended June 30, 2001, respectively, from the comparable periods of 2000. For the quarter, reduced deliveries of F-16 fighter aircraft and C-130J airlift aircraft accounted for approximately \$420 million of the decrease in net sales. These decreases were partially offset by net sales increases related to development activities on the F-16 contract with the United Arab Emirates (UAE) as well as F-16 and C-130J support activities, which on a combined basis increased net sales by approximately \$230 million. Consistent with the quarter, the majority of the decrease in net sales for the six months ended June 30, 2001, from the comparable 2000 period is attributable to an approximate \$620 million decline in net sales as a result of reduced deliveries of F-16 fighter aircraft and C-130J airlift aircraft. These decreases were partially offset by increases in net sales during 2001 related to development activities on the UAE F-16 contract and F-16 support activities, which on a combined basis increased net sales by approximately \$345 million. The remainder of the decrease in net sales for the six months ended June 30, 2001, from the comparable 2000 period is primarily the result of lower volume on certain other Aeronautics programs.

Operating profit for the quarter and year-to-date periods in 2001 remained consistent with the respective periods of the prior year mainly as a result of the decline in F-16 deliveries offset by continued favorable performance on other combat aircraft programs. The reduction in C-130J

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deliveries did not impact operating profit for the comparative periods due to the previously reported suspension of earnings recognition on the program.

#### Technology Services

Net sales of the Technology Services segment decreased by three percent for the second quarter 2001 and increased by two percent for the six months ended June 30, 2001 from the comparable 2000 periods. However, excluding the sales attributable to Lockheed Martin Energy Technologies and Retech, two business units which were divested in January 2001, net sales for the second quarter 2001 would have remained consistent with the year-ago period while net sales for the six months ended June 30, 2001 would have increased by five percent from the respective 2000 period. For the quarter, increases in net sales resulting from increased volume on various federal technology services programs, primarily related to government information technology programs, were offset by volume decreases in the segment's aircraft maintenance and logistics line of business and certain energy-related contracts due to lower operation and maintenance contract activity. The year-to-date net sales increase is mainly the result of an approximate \$60 million increase in volume on various federal technology services programs, primarily related to government information technology programs, and in the segment's aircraft maintenance and logistics line of business, primarily the Kelly Aviation Center PBA Contract. These increases were partially offset by decreased volume on energy-related contracts of approximately \$10 million due to lower operation and maintenance contract activity.

Operating profit for the segment increased by eight percent and seven percent for the quarter and six months ended June 30, 2001, respectively, from the comparable 2000 periods. Adjusting for the operating profit attributable to the segment's divested businesses, operating profit for the quarter and six months ended June 30, 2001, would have increased three percent and five percent, respectively, from the year-ago periods. The operating profit impact of the volume fluctuations mentioned previously accounted for the majority of the quarterly and year-to-date increases.

#### Global Telecommunications

Net sales of Global Telecommunications increased by \$134 million and \$215 million for the three and six months ended June 30, 2001, respectively, from the comparable 2000 periods. The increase for both periods was primarily due to the inclusion of the net sales of COMSAT Corporation (COMSAT) in the Global Telecommunications segment beginning August 1, 2000. The segment's enterprise solutions and satellite services businesses, which are primarily composed of operations acquired in the COMSAT transaction, together accounted for approximately \$120 million and \$260 million of the quarter and six month period increases, respectively. The increase in net sales for the six month period was partially offset by the absence in 2001 of \$65 million in net sales associated with the recognition of revenue on a Proton launch vehicle, which successfully launched the ACeS 1 satellite in the first quarter of 2000.

Global Telecommunications' operating loss was slightly higher for the quarter and six month periods ended June 30, 2001 when compared to the same 2000 periods due to goodwill amortization expense from the COMSAT acquisition that more than offset increases in operating profit.

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Corporate and Other

Net sales of the Corporate and Other segment increased by 19 percent and 10 percent, respectively, for the quarter and six months ended June 30, 2001, from the comparable 2000 periods. In both periods this increase was mainly due to higher volume on state and municipal services programs.

Operating profit of the Corporate and Other segment increased by \$20 million as compared to the second quarter of 2000 and by \$47 million for the six months ended June 30, 2001, versus the respective 2000 period. In addition to the operating profit impact of the volume increases on state and municipal services programs, these increases are also the result of increased interest income associated with the Corporation's higher cash balances during the first half of 2001 as compared to the same period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 2001, \$1.2 billion of cash was provided by operating activities, compared to \$1.6 billion during the first six months of 2000. This decrease was primarily attributable to higher income tax payments in 2001 related to the divestiture activities in 2000, the absence in 2001 of approximately \$100 million in reimbursements received in the first quarter of 2000 in connection with the environmental remediation agreement related to the Burbank and Glendale properties, and a decrease of approximately \$400 million between the periods in advances received on certain international F-16 fighter aircraft contracts (net of payments to subcontractors and other disbursements in each period). These decreases more than offset the combined increases resulting from the following: the absence in 2001 of a \$150 million net payment related to the Corporation's guarantee of Globalstar's indebtedness which was paid in the second quarter of 2000; the receipt of an approximate \$100 million cash distribution from INTELSAT in the second quarter of 2001; the impact of increased earnings in 2001; and the increase in pretax proceeds from sales of surplus real estate.

Net cash used for investing activities during the first six months of 2001 was \$281 million as compared to \$228 million used during the comparable 2000 period. In addition to \$193 million used for additions to property, plant and equipment, the 2001 amount includes approximately \$130 million and \$30 million for additional equity investments in Astrolink International, LLC and INTELSAT, respectively. These outflows were partially offset by approximately \$70 million received from property dispositions. The 2000 amount included \$185 million for additions to property, plant and equipment and \$43 million primarily related to additional equity investment in Astrolink International, LLC.

Net cash used for financing activities in the first six months of 2001 was \$1.2 billion as compared to \$576 million used during the comparable 2000 period. The variance between periods was primarily due to an approximate \$1.2 billion decrease in the Corporation's total debt position during the first six months of 2001 versus a decrease in total debt of \$490 million during the first six months of 2000. The impact of the cash used to repay debt was partially offset by an approximate \$60 million increase in common stock proceeds, primarily from the exercise of employee stock options, during the first six months of 2001 versus the respective 2000 period.

Total debt, including short-term borrowings, decreased by approximately \$1.2 billion during the first six months of 2001 from approximately \$10 billion at December 31, 2000. This decrease was primarily attributable to the payment of \$825 million in debt maturities, and a pre-payment of

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\$300 million in private placement debt which matures in 2002. The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures. At June 30, 2001, the Corporation held cash and cash equivalents of \$1.2 billion, a portion of which was used to redeem the \$200 million in Cumulative Monthly Income Preferred Securities in July 2001 as discussed in "Note 8 - Subsequent Events" of the Notes to Unaudited Condensed Consolidated Financial Statements, and to pay subcontractors and fund other expenditures associated with various long-term contracts. Total stockholders' equity was \$7.4 billion at June 30, 2001, an increase of approximately \$250 million from the December 31, 2000 balance. This increase resulted from net earnings of \$249 million and employee stock option and ESOP activities of \$147 million, partially offset by dividend payments of \$96 million and other comprehensive losses of \$50 million. The Corporation's ratio of debt to total capitalization decreased from the 58 percent reported at December 31, 2000 to 54 percent at June 30, 2001.

At June 30, 2001, the Corporation had in place 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, 2001.

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 changes in 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 will continue to explore the sale of various non-core businesses, passive equity investments and surplus real estate.

In connection with an order for F-16 fighter aircraft from the UAE valued at approximately \$6.4 billion, 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, 2001, 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 \$1.5 billion.

In March 2001, Space Imaging LLC (Space Imaging), a joint venture in which the Corporation holds a 46 percent ownership interest, closed on a new loan facility under which Lockheed Martin provided debt guarantees of up to \$150 million. The amount of borrowings outstanding as of June 30, 2001 for which Lockheed Martin was guarantor was approximately \$135 million. The Corporation's investment in Space Imaging is accounted for under the equity method of accounting. At June 30, 2001, the Corporation's investment in and receivables from Space Imaging amounted to approximately \$110 million.

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The Corporation completed its \$400 million investment commitment for Astrolink International, LLC (Astrolink), a joint venture in which it holds a 31% interest, in July 2001. The Corporation accounts for its investment in Astrolink under the equity method of accounting. To date, Astrolink has received a total of \$1.325 billion in equity funding from its partners which, in addition to the Corporation, include TRW, Telespazio, and Liberty Media. The Astrolink business plan contemplates obtaining further funding from a combination of strategic equity, public equity and various debt funding sources. Astrolink is currently in discussions with additional equity partners to raise the necessary funding for the second half of 2001. Concurrently, Astrolink is discussing alternatives for additional funding from the current shareholders, including the Corporation. Lockheed Martin is under contract to build the satellites which will comprise the Astrolink constellation, and to provide related launch vehicles and services. At June 30, 2001, the Corporation's investment in and receivables from Astrolink totaled approximately \$400 million.

Effective March 31, 2000, the Corporation converted its 45.9 million shares of Loral Space & Communications Ltd. (Loral Space) Series A Preferred Stock into an equal number of shares of Loral Space common stock in preparation for divestiture of the shares. The timing of the planned divestiture and the related amount of cash received will depend upon market conditions and other factors. Investments in equity securities in the June 30, 2001 Unaudited Condensed Consolidated Balance Sheet includes approximately \$128 million related to the Corporation's investment in Loral Space. In addition, accumulated other comprehensive loss includes an unrealized loss, net of income tax benefits, of approximately \$162 million related to this investment. The Corporation is continuing to monitor and assess Loral Space's ability to resolve liquidity concerns and to execute its current business plans in light of underlying market and industry conditions.

Realization of the Corporation's investments in equity securities, including those discussed above, may be affected by the investee's ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the investee's business, and/or other factors.

#### 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 cash equivalents 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, 2001.

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. Effective January 1, 2001, the Corporation began accounting for these contracts under the provisions of SFAS No. 133, as amended. At June 30, 2001, the fair value of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the quarter then ended, were not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

As described more fully in "Note 7 -- Other" of the Notes to Unaudited Condensed Consolidated Financial Statements, the Corporation will be required to adopt Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" effective January 1, 2002. The elimination of amortization of goodwill as required by the new rules is expected to increase 2002 net earnings by approximately \$270 million, or \$.60 per diluted share. The Corporation will analyze and assess the impairment provisions of the new Statement, but has not as yet determined the impact, if any, of the adoption of those provisions.

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As more fully described in "Note 2 - Business Combination With COMSAT Corporation" of the Notes to Unaudited Condensed Consolidated Financial Statements, on August 3, 2000, the Corporation completed its merger with COMSAT. The purchase accounting adjustments recorded in 2000 related to the merger included certain amounts totaling approximately \$2.1 billion, composed of adjustments to record investments in equity securities acquired at their fair values and cost in excess of net assets acquired, which is being amortized over an estimated life of 30 years.

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. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, 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 while continuing its efforts to resolve the dispute through non-litigation means.

In 1992, the Corporation entered into a joint venture with two Russian government-owned space firms to form Lockheed-Khrunichev-Energia International, Inc. (LKEI). Lockheed Martin owns 51 percent of LKEI and consolidates the operations of LKEI into its financial statements. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton rocket from a launch site in Kazakhstan. In 1995, another joint venture was formed, International Launch Services (ILS), with the Corporation and LKEI each holding a 50 percent ownership. ILS was formed to market commercial Atlas and Proton launch services worldwide. Contracts for Proton launch services typically provide for substantial advances from the customer in advance of launch, and a sizable percentage of these advances are forwarded to Khrunichev State Research and Production Space Center (Khrunichev), the manufacturer in Russia, to provide for the manufacture of the related launch vehicle. Significant portions of such advances would be required to be refunded to each customer if launch services were not successfully provided within the contracted time frames. At June 30, 2001, approximately \$379 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and approximately \$567 million of payments to Khrunichev for launches not yet provided was included in inventories. Through June 30, 2001, launch services provided through LKEI and ILS have been in accordance with contract terms.

The Corporation has entered into agreements with RD AMROSS, a joint venture of the Pratt & Whitney division of United Technologies Corporation and the Russian firm NPO Energomash, for the development and purchase, subject to certain conditions, of up to 101 RD-180 booster engines for use in two models of the Corporation's Atlas launch vehicle. 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. Approximately \$55 million of payments made under these agreements were included in the Corporation's inventories at June 30, 2001.

#### 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

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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; domestic and international telecommunications regulatory developments; market conditions and other factors affecting the value of the Corporation's equity investments; 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 "Competition and Risk," the discussion of "Government Contracts and Regulations," and the discussion of "Industry Considerations" on pages 16 through 17, pages 17 through 19 and pages 39 through 42 respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 14 through 24 of this Form 10-Q; "Note 5 -- Contingencies", "Note 7 -- Other" and "Note 8 -- Subsequent Events" of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 8 through 10, pages 11 through 13 and page 13, respectively, of the Notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q; and Part II - Item 1, "Legal Proceedings" on page 25 of this Form 10-Q.



Lockheed Martin Corporation  
Part II - Other Information

Item 1. Legal Proceedings

The Corporation is a party to or has property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in "Note 5 - Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements in this Form 10-Q and in the Corporation's 2000 Annual Report on Form 10-K (Form 10-K), or arising in the ordinary course of business. In the opinion of management, the probability is remote that the outcome of any such litigation or other proceedings will have a material adverse effect on the Corporation's results of operations or financial position.

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

See the "Legal Proceedings" section of the Form 10-K for a description of previously reported matters.

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

On April 26, 2001, 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, 2001 filed with the Securities and Exchange Commission on May 10, 2001.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Exhibit 10.1. Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, as amended June 28, 2001.
2. Exhibit 10.2. Lockheed Martin Corporation Supplemental Savings Plan, as amended June 28, 2001.
3. Exhibit 10.3. Deferred Management Incentive Compensation Plan of Lockheed Corporation and its Subsidiaries, as amended June 28, 2001.
4. Exhibit 12. Lockheed Martin Corporation Computation of Ratio of Earnings to Fixed Charges for the six months ended June 30, 2001.

Lockheed Martin Corporation  
Part II - Other Information (continued)

(b) Reports on Form 8-K filed in the second quarter of 2001.

None.

(c) Reports on Form 8-K filed subsequent to the second quarter of 2001.

None.

LOCKHEED MARTIN CORPORATION

SIGNATURES

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

LOCKHEED MARTIN CORPORATION  
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(Registrant)

Date: August 10, 2001  
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by: /s/ Christopher E. Kubasik  
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Christopher E. Kubasik  
Vice President and Chief Financial  
Officer; Acting Controller

LOCKHEED MARTIN CORPORATION  
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DEFERRED MANAGEMENT INCENTIVE  
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COMPENSATION PLAN  
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(Adopted July 27, 1995)  
As Amended August 1, 1998

As Amended June 28, 2001

ARTICLE I  
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PURPOSES OF THE PLAN  
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The purposes of the Lockheed Martin Corporation Deferred Management Incentive Compensation Plan (the "Deferral Plan") are to provide certain key management employees of Lockheed Martin Corporation and its subsidiaries (the "Company") the opportunity to defer receipt of Incentive Compensation awards under the Lockheed Martin Corporation Management Incentive Compensation Plan (the "MICP") and to encourage key employees to maintain a financial interest in the Company's performance. Except as expressly provided hereinafter, the provisions of this Deferral Plan and the MICP shall be construed and applied independently of each other.

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

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

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

2. ACCOUNT BALANCE -- The total amount credited to a Participant's Account at any point in time, including the portions of the Account allocated to each investment option.

3. AWARD YEAR -- The calendar year with respect to which an Eligible Employee is awarded Incentive Compensation.

4. BENEFICIARY -- The person or persons (including a trust or trusts) validly designated by a Participant, on the form provided by the Company, to receive distributions of the Participant's Account Balance, if any, upon the Participant's death. In the absence of a valid designation, or if the designated Beneficiary has predeceased the Participant, the Beneficiary shall be the person or persons entitled by will or the laws of descent and distribution to receive the amounts otherwise payable to the Participant under this Deferral Plan; a Participant may amend his or her Beneficiary designation at any time before the Participant's death.

5. BOARD -- The Board of Directors of Lockheed Martin Corporation.

6. COMMITTEE -- The committee described in Section 1 of Article VIII.

7. COMPANY -- Lockheed Martin Corporation and its subsidiaries.

8. COMPANY STOCK INVESTMENT OPTION -- The investment option under which the amount credited to a Participant's Account will be based on the market value and investment return of the Company's Common Stock.

9. DEFERRAL AGREEMENT -- The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Incentive Compensation for an Award Year.

10. DEFERRAL PLAN -- The Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, adopted by the Board on July 27, 1995, and as amended from time to time.

11. DEFERRED COMPENSATION -- The amount of Incentive Compensation credited to a Participant's Account under the Deferral Plan for an Award Year.

12. ELIGIBLE EMPLOYEE -- An employee of the Company who is a participant in the MICP and who has satisfied such additional requirements for participation in this Deferral Plan as the Committee may from time to time establish. In the exercise of its authority under this provision, the Committee shall limit participation in the Plan to employees whom the Committee believes to be a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.

13. EXCHANGE ACT -- The Securities Exchange Act of 1934.

14. INCENTIVE COMPENSATION -- The MICP amount granted to an employee for an Award Year.

15. INTEREST OPTION -- The investment option under which earnings will be credited to a Participant's Account based on the interest rate applicable under Cost Accounting Standard 415, Deferred Compensation.

16. MICP -- The Lockheed Martin Corporation Management Incentive Compensation Plan.

17. PARTICIPANT -- An Eligible Employee for whom Incentive Compensation has been deferred for one or more years under this Deferral Plan; the term shall include a former employee whose Deferred Compensation has not been fully distributed.

18. PAYMENT DATE -- Means, as to any Participant, the January 15 or July 15 on or about on which payment to the Participant is to begin in accordance with the Participant's election made pursuant to Section 2 of Article V.

19. SECTION 16 PERSON -- A Participant who at the relevant time is subject to the reporting and short-swing liability provisions of Section 16 of the Securities Exchange Act of 1934.

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

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

### ARTICLE III

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#### ELECTION OF DEFERRED AMOUNT

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##### 1. Timing of Deferral Elections. An Eligible Employee may

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elect to defer Incentive Compensation for an Award Year by executing and delivering to the Company a Deferral Agreement no later than October 15 of the Award Year or such other date established by the Committee for an Award Year that is not later than October 31 of that Award Year, provided that any election by a Section 16 Person shall be subject to the provisions of Section 4 of Article IV. An employee who first qualifies as an Eligible Employee after September 15 of an Award Year may elect to defer Incentive Compensation for that Award Year by entering into a Deferral Agreement up to thirty (30)

days after the date on which such employee first becomes a participant in the MICP. An Eligible Employee's Deferral Agreement shall be irrevocable when delivered to the Company. Each Deferral Agreement shall apply only to amounts deferred in that Award Year and a separate Deferral Agreement must be completed for each Award Year for which an Eligible Employee defers Incentive Compensation.

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

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

(b) the greater of \$5,000 or a designated percentage of the Eligible Employee's Incentive Compensation (adjusted to the next highest multiple of \$1,000),

(c) the excess of the Eligible Employee's Incentive Compensation over a dollar amount specified by the Eligible Employee (which must be an even multiple of \$1,000), or

(d) all of the Eligible Employee's Incentive Compensation.

An Eligible Employee's deferral election shall be effective only if the Participant is awarded at least \$10,000 of Incentive Compensation for that Award Year, and, in the case of a deferral election under paragraph (c) of this Section 2, only if the resulting excess amount is at least \$5,000.

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

ARTICLE IV  
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CREDITING OF ACCOUNTS  
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1. Crediting of Deferred Compensation. Incentive  
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Compensation that has been deferred hereunder shall be credited to a Participant's Account as of the day on which the Incentive Compensation would have been paid to the Participant if no Deferral Agreement had been made.

2. Crediting of Earnings. Earnings shall be credited to a  
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Participant's Account based on the investment option or options to which the Account has been allocated, beginning with the day as of which Deferred Compensation (or any reallocation under Section 4, 5, or 6 of Article IV) is

credited to the Participant's Account. Any amount distributed from a Participant's Account shall be credited with earnings through the last day of the month preceding the month in which a distribution is to be made pursuant to the Participant's election as set forth in Article V. The earnings credited under each of the investment options shall be determined as follows:

(a) Interest Option: The portion of a Participant's  
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Account allocated to the Interest Option shall be credited with interest, compounded monthly, at a rate equivalent to the then published rate for computing the present value of future benefits at the time cost is assignable under Cost Accounting Standard 415, Deferred Compensation, as determined by the Secretary of the Treasury on a semi-annual basis pursuant to Pub. L. 92-41, 85 Stat. 97.

(b) Company Stock Investment Option: The portion of a  
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Participant's Account allocated to the Company Stock Investment Option shall be credited as if such amount had been invested in the Company's Common Stock at the published closing price of the Company's Common Stock on the last Trading Day preceding the day as of which Deferred Compensation (or any reallocation under Section 4, 5, or 6 of Article IV) is credited to the Participant's Account; this portion of the Participant's Account Balance shall reflect any subsequent appreciation or depreciation in the market value of the Company's Common Stock based on the closing price of the stock on the New York Stock Exchange on the last Trading Day of each month and shall reflect dividends on the Company's Common Stock as if such dividends had been reinvested in the Company's Common Stock.

(c) Interest Crediting For Late Payments:  
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Notwithstanding the investment option to which a Participant's Account has been allocated, in the event payment does not commence by the last day of the month in which the Payment Date occurs, earnings shall be credited on the Participant's entire Account from the last day of the month preceding the Payment Date to the last day of the month preceding the actual commencement of payment at the rate set forth under Section 2(a) of this Article IV. Interest credited under this Section 2(c) of this Article IV shall be paid on the date payment under the Plan first commences.

3. Selection of Investment Options. Except as otherwise  
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provided in this Deferral Plan, a Participant's investment selections shall be made as part of his or her Deferral Agreement for an Award Year and shall be irrevocable with respect to amounts deferred for that Award Year, and no subsequent reallocations shall be made. At the time of entering into a Deferral Agreement for any subsequent Award Year, a Participant shall select the investment options for the Deferred Compensation to be credited to the Participant's Account for that Award Year. A Participant's allocations



between investment options shall be subject to such minimum allocations as the Committee may establish.

4. Special Rules for Section 16 Persons. Notwithstanding the  
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foregoing, an election by a Section 16 Person to have Deferred Compensation allocated to the Company Stock Investment Option shall be given effect only if irrevocably made at least six months prior to the effective date of the allocation. If a Section 16 Person's Deferral Agreement for an Award Year is entered into less than six months prior to the date that Deferred Compensation is credited for that Award Year, and if he or she has elected to have any portion of the Deferred Compensation for that Award Year allocated to the Company Stock Investment Option, that portion shall initially be allocated to the Interest Option and shall be reallocated and credited to the Company Stock Investment Option as of the first day of the seventh month following the month in which the Deferral Agreement was made. An Eligible Employee who first becomes a Section 16 Person after his or her Deferral Agreement has been entered into for an Award Year shall be subject to the requirements of this Section 4, except that such an Eligible Employee shall be permitted, within ten business days after becoming a Section 16 Person, to make irrevocable modified investment elections for that Award Year; any allocations to the Company Stock Investment Option on behalf of such a Section 16 Person shall be deferred until the first day of the seventh month following the month in which the Eligible Employee's modified election is made (or, if later, the first day of the seventh month following the month in which the election period expires without a modified election having been made).

5. Reallocations to Company Stock Investment Option. Each  
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Eligible Employee for whom an account is maintained under the Deferred Management Incentive Compensation Plan of Lockheed Corporation and its Subsidiaries (the "Lockheed Plan") will be given a one-time opportunity during calendar year 1996 to make an irrevocable election to have all or a portion of that account balance credited to the Eligible Employee's Account under this Deferral Plan and reallocated to the Company Stock Investment Option. That reallocation shall be credited to the Participant's Account under this Deferral Plan as of the first day of the month following the last month in which such elections are permitted, but in the case of a Section 16 Person not earlier than the first day of the seventh month after the month in which the election is delivered to the Company. If such a reallocation is made, the Eligible Employee's right to receive benefits under the Lockheed Plan will be reduced accordingly, and the Company will be released from liability under the Lockheed Plan for the amount reallocated. Although the terms of this Deferral Plan shall generally apply to any amount so reallocated, the Eligible Employee's irrevocable payment elections under the Lockheed Plan will continue to apply to the reallocated amount.

6. Reallocations to Interest Option. If benefit payments to a  
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Participant or Beneficiary are to be paid or commenced to be paid over a period that extends more than six months after the date of the Participant's termination of employment with the Company or death, the Participant or

Beneficiary, as applicable, may elect irrevocably at any time after the Participant's termination of employment or death and before the commencement of benefit payments to have the portion of the Participant's Account that is allocated to the Company Stock Investment Option reallocated to the Interest Option. A reallocation under this Section 6 shall take effect as of the first day of the month following the month in which an executed reallocation election is delivered to the Company, but in the case of a Section 16 Person not earlier than the first day of the seventh month following the month in which the reallocation election is delivered to the Company.

ARTICLE V

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PAYMENT OF BENEFITS

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1. General. The Company's liability to pay benefits to a

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Participant or Beneficiary under this Deferral Plan shall be measured by and shall in no event exceed the Participant's Account Balance. Except as otherwise provided in this Deferral Plan, a Participant's Account Balance shall be paid to him in accordance with the Participant's elections under Sections 2 and 3 of this Article, and such elections shall be continuing and irrevocable. All benefit payments shall be made in cash and, except as otherwise provided, shall reduce allocations to the Interest Option and the Company Stock Investment Option in the same proportions that the Participant's Account Balance is allocated between those investment options at the end of the month preceding the date of distribution. Notwithstanding the foregoing, no amount shall be distributed to a Section 16 Person under this Deferral Plan unless the amount was allocated to the Participant's Account at least six months prior to the date of distribution or no portion of the amount was allocated to the Company Stock Investment Option.

2. Election for Commencement of Payment. At the time a

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Participant first completes a Deferral Agreement, he or she shall elect from among the following options governing the date on which the payment of benefits shall commence:

- (A) Payment to begin on or about the January 15th or July 15th next following the date of the Participant's termination of employment with the Company for any reason.
- (B) Payment to begin on or about January 15th of the year next following the year in which the Participant terminates employment with the Company for any reason.
- (C) Payment to begin on or about the January 15th or July 15th next following the date on which the Participant has both terminated employment with the Company for

any reason and attained the age designated by the Participant in the Deferral Agreement.

3. Election for Form of Payment. At the time a

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Participant first completes a Deferral Agreement, he or she shall elect the form of payment of his or her Account Balance from among the following options:

- (A) A lump sum.
- (B) Annual payments for a period of years designated by the Participant which shall not exceed fifteen (15). The amount of each annual payment shall be determined by dividing the Participant's Account Balance at the end of the month prior to such payment by the number of years remaining in the designated installment period. The installment period may be shortened, in the sole discretion of the Committee, if the Committee at any time determines that the amount of the annual payments that would be made to the Participant during the designated installment period would be too small to justify the maintenance of the Participant's Account and the processing of payments.

4. Prospective Change of Payment Elections. At the time of

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entering into a Deferral Agreement for an Award Year, a Participant may modify his payment elections under Sections 2 and 3 with respect to the portion of his or her Account allocable to the amounts to be deferred for that Award Year and subsequent Award Years. If a Participant has different payment elections in effect, the Company shall maintain sub-accounts for the Participant to determine the amounts subject to each payment election; no modification of payment elections will be accepted if it would require the Company to maintain more than five (5) sub-accounts within the Participant's Account in order to make payments in accordance with the Participant's elections.

5. Acceleration upon Early Termination. Notwithstanding a

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Participant's payment elections under Sections 2 and 3, if the Participant terminates employment with the Company other than by reason of layoff, death or disability and before the Participant is eligible to commence receiving retirement benefits under a pension plan maintained by the Company (or before the Participant has attained age 55 if the Participant does not participate in such a pension plan), the Participant's Account Balance shall be distributed to him or her in a lump sum on or about the January 15th or July 15th next following the date of the Participant's termination of employment with the Company.

6. Acceleration Upon Conflict of Interest. Notwithstanding a

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Participant's payment elections under Sections 2 and 3, if following a Participant's termination of employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency,

or instrumentality and that employer has determined or indicated that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, then the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined that the conflict of interest may exist.

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

8. Early Distributions in Special Circumstances.  
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Notwithstanding a Participant's payment elections under Sections 2 and 3 of this Article V, a Participant or Beneficiary may request an earlier distribution in the following limited circumstances:

(a) Hardship Distributions. Subject to the last sentence  
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of this Section 8(a) with respect to Section 16 Persons, the Committee shall have the power and discretion at any time to approve a payment to a Participant if the Committee determines that the Participant is suffering from a serious financial emergency caused by circumstances beyond the Participant's control which would cause a hardship to the Participant unless such payment were made. Any such hardship payment will be in a lump sum and will not exceed the lesser of (i) the amount necessary to satisfy the financial emergency (taking account of the income tax liability associated with the distribution), or (ii) the Participant's Account Balance. In the event that a Section 16 Person seeks a hardship withdrawal under this Section 8(a), the distribution will be made first out of the portion of the Participant's Account, if any, allocated to the Interest Option; if the hardship distribution cannot be satisfied in full out of amounts allocated to the Interest Option, no distribution will be made from the portion of the Participant's Account allocated to the Company Stock Investment Option until the seventh month following the month in which the Participant's application under

this Section 8(a) was made, which application shall be irrevocable when made.

(b) Withdrawal with Forfeiture. A Participant may

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elect at any time to withdraw ninety percent (90%) of the amount credited to the Participant's Account. If such a withdrawal is made, the remaining ten percent (10%) of the Participant's Account shall be permanently forfeited, and the Participant will be prohibited from deferring any amount under the Deferral Plan for the Award Year in which the withdrawal is received (or the first Award Year in which any portion of the withdrawal is received). In the event that a Section 16 Person seeks a withdrawal under this Section 8(b), any portion of the Section 16 Person's Account allocated to the Company Stock Investment Option will not be subject to distribution or forfeiture until the seventh month following the month in which the Participant's election under this Section 8(b) was made, which election shall be irrevocable when made; any portion of the Section 16 Person's Account allocated to the Interest Option will be subject to immediate distribution and forfeiture; the ten percent forfeiture shall be separately applied to each such portion of the Section 16 Person's Account at the time of distribution.

(c) Death or Disability. In the event that a

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Participant dies or becomes permanently disabled before the Participant's entire Account Balance has been distributed, the Committee, in its sole discretion, may modify the timing of distributions from the Participant's Account, including the commencement date and number of distributions, if it concludes that such modification is necessary to relieve the financial burdens of the Participant or Beneficiary.

9. Acceleration upon Change in Control.

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

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

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

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

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

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

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

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

otherwise not result in liability under Section 16(b) of the Exchange Act.

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

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

10. Deductibility of Payments. In the event that the payment

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of benefits in accordance with the Participant's elections under Sections 2 and 3 would prevent the Company from claiming an income tax deduction with respect to any portion of the benefits paid, the Committee shall have the right to modify the timing of distributions from the Participant's Account as necessary to maximize the Company's tax deductions. In the exercise of its discretion to adopt a modified distribution schedule, the Committee shall undertake to have distributions made at such times and in such amounts as most closely approximate the Participant's elections, consistent with the objective of maximum deductibility for the Company. The Committee shall have no authority to reduce a Participant's Account Balance or to pay aggregate benefits less than the Participant's Account Balance in the event that all or a portion thereof would not be deductible by the Company.

11. Change of Law. Notwithstanding anything to the contrary

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

12. Tax Withholding. To the extent required by law, the

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Company shall withhold from benefit payments hereunder, or with respect to any Incentive Compensation deferred hereunder, any Federal, state, or local income or payroll taxes required to be withheld and shall furnish the recipient and the applicable government agency or agencies with such reports, statements, or information as may be legally required.

ARTICLE VI

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EXTENT OF PARTICIPANTS' RIGHTS

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1. Unfunded Status of Plan. This Deferral Plan constitutes a

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mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this Deferral Plan. Notwithstanding the foregoing, to assist the Company in meeting its obligations under this Deferral Plan, the Company may set aside assets in a trust described in Revenue Procedure 92-64, 1964-2 C.B. 44, and the Company may direct that its obligations under this Deferral Plan be satisfied by payments out of such trust. The assets of any such trust will remain subject to the claims of the general creditors of the Company. It is the Company's intention that the Plan be unfunded for Federal income tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

2. Nonalienability of Benefits. A Participant's rights under

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this Deferral Plan shall not be assignable or transferable and any purported transfer, assignment, pledge or other encumbrance or attachment of any payments or benefits under this Deferral Plan, or any interest therein shall not be permitted or recognized, other than the designation of, or passage of payment rights to, a Beneficiary.

ARTICLE VII

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AMENDMENT OR TERMINATION

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1. Amendment. The Board may amend, modify, suspend or

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

2. Termination. The Board reserves the right to terminate this

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Plan at any time and to pay all Participants their Account Balances in a lump sum immediately following such termination or at such time thereafter as the Board may determine; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt



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

3. Transfer of Liability. The Board reserves the right to

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transfer to another entity all of the obligations of Company with respect to a Participant under this Plan if such entity agrees pursuant to a binding written agreement to assume all of the obligations of the Company under this Plan with respect to such Participant.

ARTICLE VIII

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ADMINISTRATION  
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1. The Committee. This Deferral Plan shall be administered by

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

2. Delegation and Reliance. The Committee may delegate

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

3. Exculpation and Indemnity. Neither the Company nor any

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member of the Board or of the Committee, nor any other person participating in any determination of any question under this Deferral Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this Deferral Plan or for the failure of the Deferral Plan or any

Participant's rights under the Deferral Plan to achieve intended tax consequences, to qualify for exemption or relief under Section 16 of the Exchange Act and the rules thereunder, or to comply with any other law, compliance with which is not required on the part of the Company.

4. Facility of Payment. If a minor, person declared

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

5. Proof of Claims. The Committee may require proof of the

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death, disability, incompetency, minority, or incapacity of any Participant or Beneficiary and of the right of a person to receive any benefit or make any application or election.

6. Claim Procedures. The procedures when a claim under this

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Plan is denied by the Committee are as follows:

- (A) The Committee shall:
  - (i) notify the claimant within a reasonable time of such denial, setting forth the specific reasons therefor; and
  - (ii) afford the claimant a reasonable opportunity for a review of the decision.
- (B) The notice of such denial shall set forth, in addition to the specific reasons for the denial, the following:
  - (i) identification of pertinent provisions of this Plan;
  - (ii) such additional information as may be relevant to the denial of the claim; and
  - (iii) an explanation of the claims review procedure and advice that the claimant may request an opportunity to submit a statement of issues and comments.
- (C) Within sixty days following advice of denial of a claim, upon request made by the claimant, the Committee shall take appropriate steps to review its

decision in light of any further information or comments submitted by the claimant. The Committee may hold a hearing at which the claimant may present the basis of any claim for review.

- (D) The Committee shall render a decision within a reasonable time (not to exceed 120 days) after the claimant's request for review and shall advise the claimant in writing of its decision, specifying the reasons and identifying the appropriate provisions of the Plan.

ARTICLE IX  
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GENERAL AND MISCELLANEOUS PROVISIONS  
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1. Neither this Deferral Plan nor a Participant's Deferral Agreement, either singly or collectively, shall in any way obligate the Company to continue the employment of a Participant with the Company, nor does either this Deferral Plan or a Deferral Agreement limit the right of the Company at any time and for any reason to terminate the Participant's employment. In no event shall this Plan or a Deferral Agreement, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Company and a Participant. In no event shall this Plan or a Plan Agreement, either singly or collectively, by their terms or implications in any way obligate the Company to award Incentive Compensation to any Eligible Employee for any Award Year, whether or not the Eligible Employee is a Participant in the Deferral Plan for that Award Year, nor in any other way limit the right of the Company to change an Eligible Employee's compensation or other benefits.

2. Incentive Compensation deferred under this Deferral Plan shall not be treated as compensation for purposes of calculating the amount of a Participant's benefits or contributions under any pension, retirement, or other plan maintained by the Company, except as provided in such other plan.

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

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

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

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

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

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

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

10. It is the intent of the Company that this Deferral Plan satisfy and be interpreted in a manner, that, in the case of Participants who are or may be Section 16 Persons, satisfies any applicable requirements of Rule 16b-3 of the Exchange Act or other exemptive rules under Section 16 of the Exchange Act and will not subject Section 16 Persons to short-swing profit liability thereunder. If any provision of this Deferral Plan would otherwise frustrate or conflict with the intent expressed in this Section 10, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed disregarded. Similarly, any action or election by a Section 16 Person with respect to the Deferral Plan to the extent possible shall be interpreted and deemed amended so as to avoid liability under Section 16 or, if this is not possible, to the extent necessary to avoid liability under Section 16, shall be deemed ineffective. Notwithstanding anything to the contrary in this Deferral Plan, the provisions of this Deferral Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this Deferral Plan are applicable solely to Section 16 Persons. Notwithstanding

any other provision of this Deferral Plan to the contrary, if a distribution which would otherwise occur is prohibited or proposed to be delayed because of the provisions of Section 16 of the Exchange Act or the provisions of the Deferral Plan designed to ensure compliance with Section 16, the Section 16 Person involved may affirmatively elect in writing to have the distribution occur in any event; provided that the Section 16 Person shall concurrently enter into arrangements satisfactory to the Committee in its sole discretion for the satisfaction of any and all liabilities, costs and expenses arising from this election.

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

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

ARTICLE X  
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EFFECTIVE DATE AND SHAREHOLDER APPROVAL  
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This Deferral Plan was adopted by the Board on July 27, 1995 and became effective upon adoption to awards of Incentive Compensation for the Company's fiscal year ending December 31, 1995 and subsequent fiscal years; provided, however, that with respect to Section 16 Persons, the availability of the Company Stock Investment Option is conditioned upon the approval of this Deferral Plan by the stockholders of Lockheed Martin Corporation. In the event that this Deferral Plan is not approved by the stockholders, then Section 16 Persons shall not be entitled to have Deferred Compensation allocated to the Company Stock Investment Option; any prior elections by Section 16 Persons to have allocations made to the Company Stock Investment Option shall retroactively be deemed ineffective, and the Account Balances of those Section 16 Persons shall be restated as if all of their Deferred Compensation had been allocated to the Interest Option at all times. Subsequent amendments to the Deferral Plan are effective as of the date stated in the amendment or the adopting resolution.

LOCKHEED MARTIN CORPORATION

SUPPLEMENTAL SAVINGS PLAN

(Amended and Restated as of January 1, 1997)  
(As Amended June 28, 2001)

ARTICLE I

PURPOSES OF THE PLAN

The purposes of the Lockheed Martin Corporation Supplemental Savings Plan (the "Supplemental Savings Plan") are to provide certain key management employees of Lockheed Martin Corporation and its subsidiaries (the "Company") the opportunity to defer compensation that cannot be contributed under the Lockheed Martin Salaried Savings Program (the "Qualified Savings Plan") because of the limitations of Code section 401(a)(17), 402(g), or 415(c)(1)(A), and to provide those employees with matching credits equal to the matching contributions that would have been made by the Company on their behalf under the Qualified Savings Plan if the amounts deferred had been contributed to the Qualified Savings Plan.

ARTICLE II

DEFINITIONS

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

1. ACCOUNT -- The bookkeeping account maintained by the Company for each Participant which is credited with the Participant's Deferred Compensation, Matching Credits, and earnings (or losses) attributable to the Investment Options selected by the Participant, and which is debited to reflect distributions. The portions of a Participant's Account allocated to different Investment Options will be accounted for separately.
2. ACCOUNT BALANCE -- The total amount credited to a Participant's Account at any time, including the portions of the Account allocated to each Investment Option.
3. BENEFICIARY -- The person or persons designated by the Participant as his or her beneficiary under the Qualified Savings Plan.
4. BOARD -- The Board of Directors of Lockheed Martin Corporation.
5. CODE -- The Internal Revenue Code of 1986, as amended.
6. COMMITTEE -- The committee described in Section 1 of Article IX.
7. COMPANY -- Lockheed Martin Corporation and its subsidiaries.

8. COMPANY STOCK INVESTMENT OPTION -- The Investment Option under which the Participant's Account is credited as if invested under the investment option in the Qualified Savings Plan for the common stock of the Company.

9. COMPENSATION -- An employee's base salary from the Company, as defined in the Qualified Savings Plan.

10. DEFERRAL AGREEMENT -- The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Compensation for a Year.

11. DEFERRED COMPENSATION -- The amount of Compensation deferred and credited to a Participant's Account under the Supplemental Savings Plan for a Year.

12. ELIGIBLE EMPLOYEE -- A salaried employee who is eligible to participate in the Qualified Savings Plan as of the thirtieth (30th) day preceding the last day on which a Deferral Agreement may be made for a Year, and whose annual rate of Compensation equals or exceeds \$150,000 as of November 1 of the Year preceding the Year for which a Deferral Agreement is to take effect, and who satisfies such additional requirements for participation in this Supplemental Savings Plan as the Committee may from time to time establish. In the exercise of its authority under this provision, the Committee shall limit participation in the Plan to employees whom the Committee believes to be a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.

13. EXCHANGE ACT -- The Securities Exchange Act of 1934.

14. INVESTMENT OPTION -- A measure of investment return pursuant to which Deferred Compensation credited to a Participant's Account shall be further credited with earnings (or losses). The Investment Options available under this Supplemental Savings Plan shall correspond to the investment options available under the Qualified Savings Plan.

15. MATCHING CREDIT -- Any amount credited to a Participant's Account under Article IV.

16. PARTICIPANT -- An Eligible Employee for whom Compensation has been deferred under this Supplemental Savings Plan; the term shall include a former employee whose Account Balance has not been fully distributed.

17. QUALIFIED SAVINGS PLAN -- The Lockheed Martin Salaried Savings Plan or any successor plan.

18. SECTION 16 PERSON -- A Participant who at the relevant time is subject to the reporting and short-swing liability provisions of Section 16 of the Exchange Act.

19. SUPPLEMENTAL SAVINGS PLAN -- The Lockheed Martin Corporation Supplemental Savings Plan, which was originally adopted by the Board of Directors of Lockheed Corporation, effective January 1, 1984, as the Lockheed Corporation Supplemental Savings Plan, and which has been amended and restated (and re-named) pursuant to action of the Board on July 25, 1996, and as further amended from time to time.

20. YEAR -- The calendar year.



ARTICLE III

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ELECTION OF DEFERRED AMOUNT

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1. Timing of Deferral Elections. An Eligible Employee may elect to

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defer Compensation for a Year by executing and delivering to the Company a Deferral Agreement no later than November 30 of the preceding Year. An Eligible Employee's Deferral Agreement shall be irrevocable when delivered to the Company and shall remain irrevocably in effect for all succeeding Years, except that the Deferral Agreement may be modified or revoked with respect to any succeeding year by the Eligible Employee's execution and delivery to the Company of a new or modified Deferral Agreement on or before November 30 of such succeeding Year. Notwithstanding the foregoing, deferral elections for the 1997 Year may be made as late as February 28, 1997, in recognition of the fact that the right to enter into Deferral Agreements for the 1997 Year has generally been suspended pending the distribution of prospectuses for the Plan, as amended and restated; provided, however, no Deferral Agreement for the 1997 Year shall take effect, or apply to Compensation earned, before the date that the Eligible Employee's Deferral Agreement is executed and delivered to the Company.

2. Amount of Deferred Compensation. Unless an Eligible Employee elects

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to make no deferral for a Year, the Eligible Employee's Deferred Compensation for a Year shall equal (i) his or her Compensation from the time when his or her Deferral Agreement takes effect during the Year (as elected under Section 3 of this Article III) until the last day of the Year, multiplied by (ii) the percentage of Compensation that the Eligible Employee has elected to contribute to the Qualified Savings Plan (whether in the form of pre-tax salary reduction contributions, after-tax contributions, or a combination thereof) for that Year. An Eligible Employee who has elected to make a deferral for a Year under this Supplemental Savings Plan shall be precluded from modifying his or her rate of contributions to the Qualified Savings Plan for that Year after the date on which his or her Deferral Agreement for that Year (including any continuing Deferral Agreement) has become irrevocable under Section 1 of this Article III.

3. Time when Deferral Agreement Takes Effect. The Eligible

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Employee may elect to have his or her Deferral Agreement take effect after the occurrence of either of the following triggering events:

(a) the Eligible Employee's pre-tax salary reduction contributions under the Qualified Savings Plan for the Year equal the applicable limit under Code section 402(g), or

(b) the Compensation paid to the Eligible Employee for the Year equals the applicable compensation limit under Code section 401(a)(17), or, if earlier, the annual additions (within the meaning of Code section 415(c)(2)) of the Eligible Employee for the Year under the Qualified Savings Plan and any other plan maintained by the Company equal the applicable limit under Code section 415(c)(1)(A).

An Eligible Employee's Deferral Agreement shall first take effect and apply to that portion of Compensation earned by the Eligible Employee for a particular payroll period that exceeds the amount at which, or with respect to which, the triggering event occurs.

ARTICLE IV

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MATCHING CREDITS

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The Company shall credit to the Account of a Participant as Matching Credits the same percentage of the Participant's Deferred Compensation as it would have contributed as matching contributions to the Qualified Savings Plan if the amount of the Participant's Deferred Compensation had been contributed as pre-tax salary reduction or after-tax contributions to the Qualified Savings Plan.

ARTICLE V

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CREDITING OF ACCOUNTS

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1. Crediting of Deferred Compensation. Deferred Compensation shall be

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credited to a Participant's Account as of the day on which such amount would have been credited to the Participant's account under the Qualified Savings Plan if the Participant's Deferred Compensation had been contributed as pre-tax salary reduction or after-tax contributions to the Qualified Savings Plan.

2. Crediting of Matching Credits. Matching Credits shall be

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credited to a Participant's Account as of the day on which the Deferred Compensation to which they relate are credited under Section 1.

3. Crediting of Earnings. Earnings shall be credited to a Participant's

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Account based on the Investment Option or Options to which his or her Account has been allocated, beginning with the day as of which any amounts (or any reallocation of amounts) are credited to the Participant's Account. Any amount distributed from a Participant's Account shall be credited with earnings through the day on which the distribution is processed. The manner in which earnings are credited under each of the Investment Options shall be determined in the same manner as under the Qualified Savings Plan.

4. Selection of Investment Options. The amounts credited to a

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Participant's Account under this Supplemental Savings Plan shall be allocated among the Investment Options in the same percentages as the Participant's account under the Qualified Savings Plan is allocated among those Investment Options. In the event that an Account is maintained for a Participant under this Supplemental Savings Plan at a time when an account is no longer maintained for the Participant under the Qualified Savings Plan, the Participant may allocate and reallocate his or her Account Balance among the Investment Options in accordance with the procedures and limitations on allocations and reallocations under the Qualified Savings Plan.

ARTICLE VI

PAYMENT OF BENEFITS

1. General. The Company's liability to pay benefits to a Participant or

Beneficiary under this Supplemental Savings Plan shall be measured by and shall in no event exceed the Participant's Account Balance, which shall be fully vested and nonforfeitable at all times. All benefit payments shall be made in cash and, except as otherwise provided, shall reduce allocations to the Investment Options in the same proportions that the Participant's Account Balance is allocated among those Investment Options.

2. Commencement of Payment. The payment of benefits to a

Participant shall commence as soon as administratively feasible following the Participant's termination of employment with the Company and his or her entitlement to commence receiving benefits under the Qualified Savings Plan.

3. Form of Payment. At the time an Eligible Employee first

completes a Deferral Agreement, he or she shall irrevocably elect the form of payment of his or her Account Balance from among the following options:

- (a) A lump sum.
- (b) Annual payments for a period of 5, 10, 15, or 20 years, as designated by the Participant. The amount of each annual payment shall be determined by dividing the Participant's Account Balance on the date such payment is processed by the number of years remaining in the designated installment period. The installment period may be shortened, in the sole discretion of the Committee, if the Committee at any time determines that the amount of the annual payments that would be made to the Participant during the designated installment period would be too small to justify the maintenance of the Participant's Account and the processing of payments.

4. Prospective Change of Payment Election. The Committee may, in its

discretion, permit a Participant to modify his or her payment election under Section 3 of this Article VI at the time the Participant enters into a Deferral Agreement for a Year; if accepted, any such modification shall apply to all amounts credited to the Participant's Account under this Supplemental Savings Plan. No such modification will be effective if made within one year of the date of the Participant's termination of employment.

5. Death Benefits. Upon the death of a Participant before a

complete distribution of his or her Account Balance, the Account Balance will be paid to the Participant's Beneficiary in an immediate lump sum.

6. Acceleration Upon Conflict of Interest. Notwithstanding a

Participant's form of payment election under Section 3 of this Article VI, if following a Participant's termination of employment with the Company, the

Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined or indicated that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, then the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined that the conflict of interest may exist.

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

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

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

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

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

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

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

(c) Notwithstanding the provisions of Section 7(a), if a distribution in accordance with the provisions of Section 7(a) would result in a nonexempt transaction under Section 16(b) of the Exchange Act with respect to any Section 16 Person, then the date of distribution to such Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

(d) This Section 7 shall apply only to a Change in Control of Lockheed Martin Corporation and shall not cause immediate payout of an Account Balance in any transaction involving the Company's sale, liquidation, merger, or other disposition of any subsidiary.

(e) The Committee may cancel or modify this Section 7 at any time prior to a Change in Control. In the event of a Change in Control, this Section 6 shall remain in force and effect, and shall not be subject to cancellation or modification for a period of five years, and any defined term used in Section 7 shall not, for purposes of Section 7, be subject to cancellation or modification during the five year period.

8. Deductibility of Payments. In the event that the payment of benefits  
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in accordance with the Participant's election under Section 3 of this Article VI would prevent the Company from claiming an income tax deduction with respect to any portion of the benefits paid, the Committee shall have the right to modify the timing of distributions from the Participant's Account as necessary to maximize the Company's tax deductions. In the exercise of its discretion to adopt a modified distribution schedule, the Committee shall undertake to have distributions made at such times and in such amounts as most closely approximate the Participant's election, consistent with the objective of maximum deductibility for the Company. The Committee shall have no authority to reduce a Participant's Account Balance or to pay aggregate

benefits less than the Participant's Account Balance in the event that all or a portion thereof would not be deductible by the Company.

9. Change of Law. Notwithstanding anything to the contrary herein, if

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

10. Tax Withholding. To the extent required by law, the Company

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shall withhold from benefit payments hereunder, or with respect to any amounts credited to a Participant's Account hereunder, any Federal, state, or local income or payroll taxes required to be withheld and shall furnish the recipient and the applicable government agency or agencies with such reports, statements, or information as may be legally required. However, the amount of Deferred Compensation or Matching Credits to be credited to a Participant's Account will not be reduced or adjusted by the amount of any tax that the Company is required to withhold with respect thereto.

ARTICLE VII

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EXTENT OF PARTICIPANTS' RIGHTS  
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1. Unfunded Status of Plan. This Supplemental Savings Plan constitutes

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a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this Supplemental Savings Plan. Notwithstanding the foregoing, to assist the Company in meeting its obligations under this Supplemental Savings Plan, the Company may set aside assets in a trust or trusts described in Revenue Procedure 92-64, 1992-2 C.B. 422 (generally known as a "rabbi trust"), and the Company may direct that its obligations under this Supplemental Savings Plan be satisfied by payments out of such trust or trusts. It is the Company's intention that this Supplemental Savings Plan be unfunded for federal income tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

2. Nonalienability of Benefits. A Participant's rights to benefit

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payments under this Supplemental Savings Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary.

ARTICLE VIII

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AMENDMENT OR TERMINATION

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1. Amendment. The Board may amend, modify, suspend or discontinue this

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Supplemental Savings Plan at any time subject to any shareholder approval that may be required under applicable law, provided, however, that no such amendment shall have the effect of reducing a Participant's Account Balance or postponing the time when a Participant is entitled to receive a distribution of his or her Account Balance.

2. Termination. The Board reserves the right to terminate this

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



ARTICLE IX

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ADMINISTRATION

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1. The Committee. This Supplemental Savings Plan shall be administered

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

2. Delegation and Reliance. The Committee may delegate to the officers

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

3. Exculpation and Indemnity. Neither the Company nor any member of the

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Board or of the Committee, nor any other person participating in any determination of any question under this Supplemental Savings Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this Supplemental Savings Plan or for the failure of the Supplemental Savings Plan or any Participant's rights under the Supplemental Savings Plan to achieve intended tax consequences, to qualify for exemption or relief under Section 16 of the Exchange Act and the rules thereunder, or to comply with any other law, compliance with which is not required on the part of the Company.

4. Facility of Payment. If a minor, person declared incompetent, or

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

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

6. Claim Procedures. The procedures when a claim under this Plan is  
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denied by the Committee are as follows:

- (A) The Committee shall:
  - (i) notify the claimant within a reasonable time of such denial, setting forth the specific reasons therefor; and
  - (ii) afford the claimant a reasonable opportunity for a review of the decision.
- (B) The notice of such denial shall set forth, in addition to the specific reasons for the denial, the following:
  - (i) identification of pertinent provisions of this Plan;
  - (ii) such additional information as may be relevant to the denial of the claim; and
  - (iii) an explanation of the claims review procedure and advice that the claimant may request an opportunity to submit a statement of issues and comments.
- (C) Within sixty days following advice of denial of a claim, upon request made by the claimant, the Committee shall take appropriate steps to review its decision in light of any further information or comments submitted by the claimant. The Committee may hold a hearing at which the claimant may present the basis of any claim for review.
- (D) The Committee shall render a decision within a reasonable time (not to exceed 120 days) after the claimant's request for review and shall advise the claimant in writing of its decision, specifying the reasons and identifying the appropriate provisions of the Plan.

ARTICLE X

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GENERAL AND MISCELLANEOUS PROVISIONS

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1. Neither this Supplemental Savings Plan nor a Participant's Deferral Agreement, either singly or collectively, shall in any way obligate the Company to continue the employment of a Participant with the Company, nor does either this Supplemental Savings Plan or a Deferral Agreement limit the right of the Company at any time and for any reason to terminate the Participant's employment. In no event shall this Plan or a Deferral Agreement, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Company and a Participant. In no event shall this Plan or a Plan Agreement, either singly or collectively, by their terms or implications in any way limit the right of the Company to change an Eligible Employee's compensation or other benefits.

2. Any amount credited to a Participant's Account under this Supplemental Savings Plan shall not be treated as compensation for purposes of calculating the amount of a Participant's benefits or contributions under any pension, retirement, or other plan maintained by the Company, except as provided in such other plan.

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

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

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

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

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

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

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

10. This Supplemental Savings Plan is intended to constitute an "excess benefit plan" within the meaning of Rule 16b-3(b)(2) under the Securities Exchange Act of 1934, and it shall be construed and applied accordingly. It is the intent of the Company that this Supplemental Savings Plan satisfy and be interpreted in a manner, that, in the case of Participants who are or may be Section 16 Persons, satisfies any applicable requirements of Rule 16b-3 of the Exchange Act or other exemptive rules under Section 16 of the Exchange Act and will not subject Section 16 Persons to short-swing profit liability thereunder. If any provision of this Supplemental Savings Plan would otherwise frustrate or conflict with the intent expressed in this Section 10, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed disregarded. Similarly, any action or election by a Section 16 Person with respect to the Supplemental Savings Plan to the extent possible shall be interpreted and deemed amended so as to avoid liability under Section 16 or, if this is not possible, to the extent necessary to avoid liability under Section 16, shall be deemed ineffective. Notwithstanding anything to the contrary in this Supplemental Savings Plan, the provisions of this Supplemental Savings Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this Supplemental Savings Plan are applicable solely to Section 16 Persons. Notwithstanding any other provision of this Supplemental Savings Plan to the contrary, if a distribution which would otherwise occur is prohibited or proposed to be delayed because of the provisions of Section 16 of the Exchange Act or the provisions of the Supplemental Savings Plan designed to ensure compliance with Section 16, the Section 16 Person involved may affirmatively elect in writing to have the distribution occur in any event; provided that the Section 16 Person shall concurrently enter into arrangements satisfactory to the Committee in its sole discretion for the satisfaction of any and all liabilities, costs and expenses arising from this election.

ARTICLE XI

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EFFECTIVE DATE

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This amendment and restatement of the Supplemental Savings Plan shall generally become effective on January 1, 1997. Subsequent amendments to the Supplemental Savings Plan are effective as of the date stated in the amendment or the adopting resolution.

DEFERRED MANAGEMENT INCENTIVE  
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COMPENSATION PLAN  
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OF  
--  
LOCKHEED CORPORATION  
-----  
AND ITS SUBSIDIARIES  
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(Adopted September 30, 1979)

(As Amended and Restated March 15, 1995)

(As Amended January 1, 2001)

(As Amended June 28, 2001)

ARTICLE I  
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PURPOSE OF THE PLAN  
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The purpose of the Deferred Management Incentive Compensation Plan (the "Deferral Plan") is to provide certain key management employees with additional benefits upon retirement under a Lockheed Corporation Retirement Plan. The Deferral Plan amends Section 7 of Article IV of the Lockheed Management Incentive Compensation Plan (the "MICP") to permit employee Participants of the MICP an annual election to defer receipt of Incentive Compensation granted under the MICP. Except as expressly provided hereinafter, the provisions of the MICP shall be construed entirely independent of the Deferral Plan.

The Deferral Plan applies solely to MICP awards and expressly does not apply to any special awards which may be made under any other Lockheed incentive plans except and to the extent specifically provided under the terms of such other incentive plans.

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

1. DEFERRAL PLAN -- This Deferred Management Incentive Compensation Plan, adopted by the Board of Directors of Lockheed Corporation on September 30, 1979, as amended from time to time.
2. MICP -- The Management Incentive Compensation Plan of Lockheed Corporation and its subsidiaries, as amended on February 5, 1979, and from time to time thereafter.
3. COMPANY -- Lockheed Corporation and its subsidiaries.

4. BOARD OF DIRECTORS -- The Board of Directors of Lockheed Corporation.

5. COMMITTEE -- The Management Development and Compensation Committee of the Board of Directors as is, from time to time, appointed or constituted by the Board of Directors.

6. EMPLOYEE -- Any person who is employed by the Company and is paid a salary, as distinguished from an hourly wage. The term shall be deemed to include any person who was employed by the Company during all or any portion of the year, with respect to which an appropriation is made to the MICP by the Board of Directors, but shall not include any employee who, during any portion of such year, was represented by a collective bargaining unit.

7. PARTICIPANT -- Any employee who is selected to participate in the MICP and who satisfies the conditions for eligibility contained in Article III of the Deferral Plan. The term shall be deemed to include former employees who have retired under a Company Retirement Plan.

8. INCENTIVE COMPENSATION -- The MICP amount granted to an employee in a Grant Year.

9. DEFERRED COMPENSATION -- The amount of Incentive Compensation which a Participant in the Deferral Plan defers for an Award Year.

10. AWARD YEAR -- The Company fiscal year with respect to which the Participant is awarded Incentive Compensation.

11. GRANT YEAR -- The Company fiscal year, subsequent to an Award Year, during which the Participant is actually granted Incentive Compensation.

12. FISCAL YEAR -- The fiscal year of the Company.

13. CREDITING DATES -- The dates on which interest is credited under the Deferral Plan on the accumulated amount or amounts in each Participant's "account." The crediting dates are January 15th and July 15th of each calendar year.

14. ACCOUNT -- An "account" is merely a bookkeeping record of the principal sums of the Participant's Incentive Compensation, which have been deferred and credited, and the interest accretions thereon. An "account" is an unfunded liability of the Company.

15. DISABILITY -- A Participant shall be deemed to be permanently disabled when, on the basis of medical evidence satisfactory to the Committee, the Committee finds that he is wholly and continuously disabled for a consecutive period of six or more months.

ARTICLE III

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PARTICIPATION

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1. Eligibility. An employee who is selected to participate in the MICP

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may elect to defer all or a portion of his Incentive Compensation whenever it equals or exceeds the sum of \$5,000, or such other amount as may be determined, from time to time, by the Committee. Except as provided immediately below, such employee shall become a Participant in the Deferral Plan with respect to Incentive Compensation for an Award Year by electing to defer all or a portion of such compensation in accordance with the deferral election requirements on Form 23-B (the "Lockheed Deferral Election Form").

2. An employee who makes a deferral election but does not effectively defer Incentive Compensation of at least \$5,000 for an Award Year shall not be eligible to participate in the Deferral Plan.

3. In no event shall a member of the Committee be eligible to participate in the Deferral Plan.

ARTICLE IV

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ELECTION OF DEFERRED AMOUNT

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1. Election. On or before November 15th of the Award Year, an employee

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who is selected to participate in the MICP may elect to defer Incentive Compensation for such Year in accordance with the following alternatives:

(a) A specific dollar amount of Incentive Compensation not less than \$5,000;

(b) A percentage of Incentive Compensation or \$5,000 whichever is larger; or

(c) The excess of Incentive Compensation over a stated dollar amount.

In each instance, if the \$5,000 minimum deferral requirement is not satisfied, no amount will be deferred.

2. Effect of Annual Election. The annual election made by a Participant

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for an Award Year shall be irrevocable with respect to such Year. However, such election shall not be binding on him/her with respect to deferral elections to be made for any succeeding Award Year. Thus, for example, the Participant may irrevocably elect a specific dollar amount to be deferred in one Award Year and a percentage or \$5,000, whichever is larger, in the succeeding Award Year.



3. Period of Deferral. Deferred Compensation shall not become payable  
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to a Participant prior to his or her retirement under a Company Retirement Plan  
or termination of employment except as provided in Sections 4, 5 or 7 of Article  
V.

ARTICLE V  
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PAYOUT PERIOD ELECTIONS, EXCEPTIONS AND RULES  
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1. Methods of Payout. Payments under the Deferral Plan shall be made  
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in accordance with the following options:

OPTION A. A SINGLE lump sum payment of the amounts credited  
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through the first Crediting Date following the Participant's retirement  
or termination of employment with the Company, payable as of such  
Crediting Date.

OPTION B. FIVE approximately equal annual installments of the  
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amounts credited to a Participant through the first Crediting Date  
following his/her retirement or termination of employment with the  
Company, commencing as of such Crediting Date.

OPTION C. TEN approximately equal annual installments of the  
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amounts credited to a Participant through the first Crediting Date  
following his/her retirement or termination of employment with the  
Company, commencing as of such Crediting Date.

OPTION D. FIFTEEN approximately equal annual installments of  
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the amounts credited to a Participant through the first Crediting Date  
following his/her retirement or termination of employment with the  
Company, commencing as of such Crediting Date.

OPTION E. TWENTY approximately equal annual installments of  
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the amounts credited to a Participant through the first Crediting Date  
following his/her retirement or termination of employment with the  
Company, commencing as of such Crediting Date.

2. Payout Period Election. On or before November 15th of the Award  
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Year, an employee who is selected to participate in the MICP and who is a  
Participant in the Deferral Plan shall irrevocably elect one of the five methods  
of payment with respect to all Deferred Compensation for such Award Year.  
However, the payout period election made by a Participant in one Award Year  
shall not be binding on him/her with respect to Incentive Compensation for any  
succeeding Award Year. Thus, for example, a Participant may irrevocably elect a  
lump sum payment for Deferred Compensation in one Award Year and a ten-year  
installment payment method for his/her Deferred Compensation the succeeding  
Award Year.

3. Special Circumstance Exceptions. There are several exceptions to  
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the payout option rules which may be availed of upon written request by a

Participant retired under a Company Retirement Plan or, if not then living, his/her beneficiary:

(a) Death While an Active Employee. In the event that a

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Participant dies while an active employee, the Committee has the discretion to disregard any payout period elections the Participant has made and to aggregate and pay over to his/her designated beneficiary either in the year of death or in the first year following death, the total amount deferred for all Award Years plus accumulated interest credited through the first Crediting Date following death.

(b) Death, Disability or Financial Hardship During Retirement.

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In the event that a Participant, retired under a Company Retirement Plan, is permanently disabled or dies, or upon proof of his/her financial hardship, the Committee may, in its sole discretion, aggregate and vary the number of installments in which any such Deferred Compensation will be paid to such Participant or his/her designated beneficiary, as well as the amount to be paid in all or any such installments, provided such modification is made solely as necessary to meet such hardship.

4. Immediate Payout Upon Change in Control.

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(a) Notwithstanding any other provision of the Deferral Plan, all amounts accumulated and unpaid in each Participant's "account" shall be paid in a single lump sum within 15 calendar days following a Change in Control. Section 7(a) of Article VI regarding a Special Payout Period of up to five years shall not apply to payments under this Section 4.

(b) For purposes of this Deferral Plan, a Change in Control shall be deemed to have occurred if (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than a trustee or other fiduciary holding securities under an employee benefit plan of Lockheed Martin Corporation ("Lockheed Martin") or any of its subsidiaries, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Lockheed Martin representing 30% or more of the combined voting power of Lockheed Martin's then outstanding securities; or (ii) during any period of two consecutive years (not including any period prior to the adoption of this Section 4), individuals who at the beginning of such period constitute the Board of Directors of Lockheed Martin, and any new director (other than a director designated by a person who has entered into an agreement with Lockheed Martin to effect a transaction described in clause (i) or (iii) of this Section) whose election by the Board of Directors of Lockheed Martin or nomination for election by Lockheed Martin's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or (iii)

the shareholders of Lockheed Martin approve a merger or consolidation of Lockheed Martin with any other corporation, other than a merger or consolidation which would result in the voting securities of Lockheed Martin outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of Lockheed Martin or such surviving entity outstanding immediately after such merger or consolidation or (iv) the shareholders of Lockheed Martin approve a plan of complete liquidation of Lockheed Martin or an agreement for the sale or disposition by Lockheed Martin of all or substantially all of Lockheed Martin's assets.

A Change in Control shall not, however, include any transaction which has been approved by individuals who at the beginning of any period of at least two consecutive years (not including any period prior to the adoption of this Section 4) constitute the Board of Directors of Lockheed Martin and any new director (other than a director designated by a person who has entered into an agreement with Lockheed Martin to effect a transaction described in clause (i) or (iii) of this Section) whose election by the Board of Directors of Lockheed Martin or nomination for election by Lockheed Martin's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved.

(c) This Section 4 shall apply only to a Change in Control of Lockheed Martin and shall not cause immediate payout of Deferred Compensation in any transaction involving Lockheed Martin's sale, liquidation, merger, or other disposition of any subsidiary.

(d) The Committee may cancel or modify this Section 4 at any time prior to a Change in Control. In the event of a Change in Control, this Section 4 shall remain in force and effect, and shall not be subject to cancellation or modification for a period of five years, and any other provision defining a capital term used in Section 4 shall not, for purposes of Section 4, be subject to cancellation or modification during the five year period.

5. Accelerated Payout. Notwithstanding any other provision of the

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Deferral Plan, a Participant may at any time make a written election that all or any portion of the accumulated and unpaid amounts credited to his or her "account" under the Deferral Plan be paid in a lump sum as soon as practicable following the filing of such election; provided, however, that only 90% of the amount otherwise payable to the Participant upon such accelerated payout shall be paid to the Participant. The remaining 10% of the amount otherwise payable shall be permanently forfeited and shall not be paid to, or in respect of, the Participant.

6. Method of Payment On or After January 1, 2001. Notwithstanding

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anything herein to the contrary, the amount of any annual installment payment made under Options B, C, D, or E of Section 1 of this Article on or after January 1, 2001 shall be determined by dividing the amounts credited to the Participant at the end of the month prior to such payment by the number of years remaining in the designated installment period.

7. Acceleration Upon Conflict of Interest. Notwithstanding a

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Participant's payment elections under Section 1 of Article V, if following a Participant's termination of employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined or indicated that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, then the amounts credited to a Participant shall be distributed to him or her in a lump sum as soon as practical following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined that the conflict of interest may exist. Interest shall be credited through the last day of the month preceding the month in which a distribution is to be made pursuant to the Participant.

ARTICLE VI

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CREDITS AND FORFEITURES  
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1. Credits. There are two basic credits or additions which will be

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added to a Participant's "account": First, the amount of Incentive Compensation which the Participant has elected to defer for each Award Year; and second, the amount of any interest accretions or additions which have accrued on such Deferred Compensation. Accordingly, all Deferred Compensation credited and unpaid prior to such Crediting Date, shall be credited and added to each Participant's "account" balance as of January 15th and July 15th of each calendar year in accordance with the following formula:

Each Participant shall have credited and added to his/her Deferred Compensation "account" an amount which shall be calculated by multiplying such balance by one-half of the interest rate determined as is set forth in Cost Accounting Standard 415 Deferred Compensation, as the discount rate for computing the present value of the future benefits at the time the cost is assignable. Such rate is currently specified as that rate determined by the Secretary of the Treasury (semi-annually) pursuant to PL 92-41, 85 Stat. 97. The published interest rate applicable to the period January 1 through June 30 will be used in determining the interest to be accrued on the employee account balance

at January 15, and the published interest rate applicable to the period July 1 through December 31 will be applied to the employee account balance at July 15. Compounding of interest will be on an annual basis.

2. Forfeiture. There shall be no forfeiture of any rights, interests or

benefits accrued under the Deferral Plan except as hereinafter provided or as provided in Article V, Section 5. In the event that a Participant either (i) terminates his/her employment with the Company to engage in other employment prior to retirement, or (ii) has taken or permitted some action or omission resulting in damage or competitive injury to the Company, then, unless such action or omission shall have been taken or permitted in good faith without reasonable cause to believe that it was improper or illegal or harmful, then a majority of the Committee may, in its discretion, terminate all future crediting of interest on any principal amount of amounts which the Participant has accumulated in his "account" either from the date of termination of his/her employment with the Company prior to retirement or from the date on which the Committee determines that his/her action or omission resulted in damage or competitive injury to the Company.

3. Safe-Haven Forfeiture Rule. In no event, however, shall any

cessation of future interest accretions be permitted, for any reason, after the date of the Participant's retirement under a Company retirement plan. This provision is subject to Sections 6 and 7 of Article VII and Section 4 of Article V.

4. Governmental Appointments. In the discretion of the Committee, and

provided that it does not contravene any applicable federal or state law, the Participant may suspend or terminate his/her employment with the Company to accept an appointment to a governmental post, for a period not to exceed four years from the date of his/her suspension or termination, without forfeiture of any future interest accretions under this Plan.

5. Interest Crediting On or After January 1, 2001. Notwithstanding

anything herein or in any prior version of the Plan to the contrary, a Participant shall be credited with interest, compounded monthly, at a rate equivalent to the then published rate for computing the present value of future benefits at the time cost is assignable under Cost Accounting Standard 415, Deferred Compensation, as determined by the Secretary of the Treasury on a semi-annual basis pursuant to Pub. L. 92-41, 85 Stat. 97. Interest shall be credited through the last day of the month preceding the month in which a distribution is to be made pursuant to the Participant's election as set forth in Article V.

ARTICLE VII

MISCELLANEOUS

1. Plan Shall not Constitute Employment Contract. Neither the

adoption of the Deferral Plan nor its operation shall affect in any way the right of the Company to dismiss or discharge a Participant at any time, nor shall it give an employee a right to participate in the Company's MICP.

2. Rights and Interests. No rights or interests under this Deferral

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Plan shall be assignable, transferable or subject to encumbrance, pledge or charge of any nature, except that a Participant may designate a beneficiary to receive any benefits arising hereunder upon his/her death.

No Participant, or any person claiming through him/her, shall have any right or interest in the Deferral Plan or any benefits hereunder unless and until all of the terms, conditions and provisions of the Deferral Plan that affect the Participant or such other person claiming through him/her shall have been complied with as herein specified. Additionally, the Participant shall complete such forms and furnish such information as the Committee may require in the administration of the Deferral Plan.

3. To Whom Payments are to be Made. Each payment under the Plan shall

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be made to the Participant, provided he/she is living on the date of payment. In the event of the Participant's death, payments will thereafter be made to the beneficiary or beneficiaries whom the Participant has designated on his/her Lockheed Form 22-B (the "Lockheed Beneficiary Designation Form") to receive his/her Company basic group life insurance benefits, and in the same proportions. If no such beneficiary has been designated, or the designated beneficiary fails to survive the Participant, then such post-death payments shall be made in accordance with the law of the Participant's domicile at the date of his/her death.

This provision does not affect the number of payments or the amount of each payment, but only affects the determination of whom such payments are to be made to.

4. Withholding. There shall be deducted from each cash payment actually

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made under the Deferral Plan all taxes which are required to be withheld by the Company in respect to such payment. The Company shall have the right to reduce any cash payment by the amount of cash sufficient to provide the amount of said taxes.

5. Trust. Although the Plan is an unfunded plan, the Company has

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established a trust (the "Trust") pursuant to a trust agreement dated December 22, 1994 by and between the Company and J. P. Morgan California to hold assets, subject to the claims of the Company's creditors in the event of its insolvency, to pay benefits under this Plan. The Company shall no later than nine months following the close of its fiscal year make contributions to the Trust in an amount sufficient, when added to the then principal of the Trust and after consideration of benefits to be paid pursuant to other plans covered by the Trust, to equal the present value of benefits which have accrued under the Plan during the preceding fiscal year.

6. Amendment, Modification, Suspension or Termination. The

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Committee may amend, modify, suspend or terminate the Deferral Plan in whole or in part, except that no amendment, modification, suspension or termination shall reduce any Deferred Compensation, pension benefits and interest previously credited

to a Participant prior to the date of such amendment, modification, suspension or termination, or to be credited in the future, subject to Section 7 of this Article VII and Sections 4 and 5 of Article V, based on amounts previously credited to a Participant, provided that any amendment to or change in the Deferral Plan adopted by the Committee, which will either significantly increase any benefits under the Deferral Plan or will substantially alter the general principles of the Deferral Plan, shall not become effective unless ratified by a majority vote of the full Committee.

7. Special Payouts.  
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(a) In the event that the Deferral Plan is amended, modified, suspended or terminated, the Committee may, at its option, direct an immediate special lump sum payout or an immediate special payout over any period of time not in excess of five years, ("Special Payout Period") provided that it deems this to be in the best interests of the Company.

(b) In the event of a lump sum payout, each Participant's "account" shall be credited with interest additions from the most recent Crediting Date to the first day of the month in which the payment occurs. In the event a Special Payout Period is used, all amounts accumulated and unpaid in each Participant's "account" will continue to draw interest, as specified in Section 1 of Article VI, throughout the Special Payout Period.

(c) If no special payout is directed, each Participant's "account" shall continue to be credited with interest additions until paid out in full under the provisions of the Deferral Plan.

8. Governing Law. The place of administration of the Deferral Plan  
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shall be conclusively deemed to be within the State of California; and the validity, construction, interpretation and effect of the Deferral Plan and all rights of any and all persons having or claiming any interest in such Deferral Plan shall be governed by the laws of the State of California.

ARTICLE VIII  
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ADMINISTRATION  
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1. Appointment and Removal of Committee. The Deferral Plan shall be  
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administered by the Committee. The Committee shall consist of three or more Directors, none of whom shall be Participants in the Deferral Plan. The Board of Directors shall have the power to remove any member of the Committee at any time, with or without cause, and fill any vacancy in its membership.

2. Powers and Duties of Committee. The Committee shall have such  
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powers and duties as are conferred on it by the Deferral Plan and the Board of Directors. The Committee shall have the authority to take any and all actions

that it deems necessary or appropriate in the administration of the Deferral Plan. The Committee may adopt such rules and procedures for the administration of the Deferral Plan as it deems advisable to implement such rules and procedures. The Committee shall act at meetings by affirmative vote of a majority of the members of the Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee.

3. Construction and Interpretation. The Committee shall have the sole  
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responsibility for the construction and interpretation of the terms and provisions of the Deferral Plan and all determinations made by the Committee shall be final.

4. Reliance Upon Information. The Committee and the Board of Directors  
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may rely upon any information supplied to them by any officer of the Company, the Company's legal counsel or by the Company's independent public accountants in connection with the administration of the Deferral Plan, and shall not be liable for any decision or action in reliance thereon.

5. Expenses. All expenses of the administration of the Deferral Plan  
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shall be borne by the Company.

6. Annual Statement. Under procedures to be established by the  
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Committee, a Participant shall receive an annual statement with respect to his/her Deferred Compensation.

ARTICLE IX  
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EFFECTIVE DATE  
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The Deferral Plan shall be applicable to and shall be effective as to awards of Incentive Compensation made for the Company Fiscal Year ending December 30, 1979, and subsequent Fiscal Years unless specifically provided otherwise herein. This Deferral Plan shall be submitted for ratification and approval at the next Board of Directors' meeting to be held on September 30, 1979, and shall not become effective unless affirmatively approved by a majority of the Committee. Amendments to the Deferral Plan are effective as of the date stated in the amendment or the adopting resolution.



ADDENDUM 1 TO  
DEFERRED MANAGEMENT INCENTIVE COMPENSATION PLAN  
OF LOCKHEED CORPORATION AND ITS SUBSIDIARIES

Amendments to the Deferral Plan, as set forth in this Addendum 1, are applicable only to those Participants identified below:

Executive-Level Employees Attaining Age 65 During 1988.

1. Section 3 of Article IV is amended by adding at the end thereof: ", except as set forth in Section 4 of Article V with respect to the Participants who meet the definition of "Executive-Level Employees" as defined in Lockheed Corporation Human Resources Policy Statement Number 20 and who attain age 65 during calendar year 1988."

2. Section 4 of Article V is added to read as follows:

4. Special Payout. Notwithstanding the payout period elections made by

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Participants who are Executive-Level Employees and who attain age 65 during 1988, the payment which would otherwise be made to such Participants on the first Crediting Date following retirement or termination of employment with the Company shall be made to such Participants prior to January 1, 1989; provided, however, that interest shall only be credited on the accumulated amounts in each of such Participant's account to the date of payment.

ADDENDUM 2 TO  
DEFERRED MANAGEMENT INCENTIVE COMPENSATION PLAN  
OF LOCKHEED CORPORATION AND ITS SUBSIDIARIES

Amendments to the Deferral Plan, as set forth in this Addendum 2, are applicable only to those Participants identified below:

Executive-Level Employees Attaining Age 65 During 1990.

1. Section 3 of Article IV is amended by adding at the end thereof:",  
except as set forth in Section 4 of Article V with respect to  
Participants who meet the definition of "Executive-Level Employees" as  
defined in Lockheed Corporation Human Resources Policy Statement Number  
20 and who attain age 65 during calendar year 1990."

2. Section 4 of Article V is added to read as follows:

4. Special Payout. Notwithstanding the payout period elections made by  
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Participants who are Executive-Level Employees and who attain age 65  
during 1990, the payment which would otherwise be made to such  
Participants on the first Crediting Date following retirement or  
termination of employment with the Company shall be made to such  
Participants prior to January 1, 1991; provided, however, that interest  
shall only be credited on the accumulated amounts in each of such  
Participant's account to the date of payment.

Lockheed Martin Corporation  
Computation of Ratio of Earnings to Fixed Charges  
For the Six Months Ended June 30, 2001  
(In millions, except ratio)

## Earnings

Earnings from continuing operations before income taxes	\$ 414
Interest expense	377
Amortization of debt premium and discount, net	1
Portion of rents representative of an interest factor	53
Losses and undistributed earnings of 50% and less than 50% owned companies, net	63
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Adjusted earnings from continuing operations before income taxes	\$ 908
	=====

## Fixed Charges

Interest expense	\$ 377
Portion of rents representative of an interest factor	53
Amortization of debt premium and discount, net	1
Capitalized interest	--
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Total fixed charges	\$ 431
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Ratio of Earnings to Fixed Charges	2.1
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