United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

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 No.)

6801 Rockledge Drive, Bethesda, Maryland 20817-1877 (301/897-6000)

(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the last sales price of such stock, as of the last business day of the registrant's most recently completed second fiscal quarter, which was June 22, 2012, was approximately $27.5 billion.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. Common Stock, $1 par value, 322,583,334 shares outstanding as of January 31, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Lockheed Martin Corporation's 2013 Definitive Proxy Statement are incorporated by reference in Part III of this Form 10-K.

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LOCKHEED MARTIN CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2012

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PART I

ITEM 1. BUSINESS

General

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of management, engineering, technical, scientific, logistic, and information services. We serve both domestic and international customers with products and services that have defense, civil, and commercial applications, with our principal customers being agencies of the U.S. Government. In 2012, 82% of our $47.2 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 61% from the Department of Defense (DoD)), 17% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government), and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security, and information technology, including cyber security.

We are operating in an environment that is characterized by both increasing complexity in global security, as well as continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of our products and services, and placing more security capability quickly into the hands of both our domestic and international customers at affordable prices. Recognizing that our customers are resource constrained, we are endeavoring to develop and extend our portfolio in a disciplined manner with a focus on adjacent markets close to our core capabilities. Despite the challenges we face, we expect to continue to invest in technologies to fulfill new mission requirements for our customers, and invest in our people so that we have the technical skills necessary to be successful in this environment, and return cash to investors in the form of dividends and share repurchases.

We are a Maryland corporation and were formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. Our principal executive offices are located at 6801 Rockledge Drive, Bethesda, Maryland 20817-1877. Our telephone number is (301) 897-6000. Our website home page on the Internet is www.lockheedmartin.com. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

Throughout this Form 10-K, we incorporate by reference information from parts of other documents filed with the U.S. Securities and Exchange Commission (SEC). The SEC allows us to disclose important information by referring to it in this manner, and you should review that information.

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for our annual stockholders' meeting, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practical after we electronically file the material with, or furnish it to, the SEC. You can learn more about us by reviewing our SEC filings. Our SEC filings can be accessed through the investor relations page of our website, www.lockheedmartin.com/investor. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements, and other information regarding SEC registrants, including Lockheed Martin Corporation.

Business Segments

We organize our business segments based on the nature of the products and services offered. Effective December 31, 2012, we operate in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST), and Space Systems. This structure reflects the reorganization of our former Electronic Systems business segment into the new MFC and MST business segments in order to streamline our operations and enhance customer alignment. In connection with this reorganization, management layers at our former Electronic Systems business segment and our former Global Training and Logistics (GTL) business were eliminated, and the former GTL business was split between the two new business segments. In addition, operating results for Sandia Corporation, which manages the Sandia National Laboratories for the U.S. Department of Energy, and our equity interest in the U.K. Atomic Weapons Establishment joint venture were transferred from our former Electronic Systems business segment to our Space Systems business segment.

The amounts, discussion, and presentation of our business segments reflect this reorganization for all years presented in this Annual Report on Form 10-K. For more information concerning our segment presentation, including comparative segment net sales, operating profit, and related financial information for 2012, 2011, and 2010, see “Business Segment Results of Operations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 3 – Information on Business Segments” of our consolidated financial statements.

Aeronautics

In 2012, our Aeronautics business segment generated net sales of $15.0 billion, which represented 31% of our total consolidated net sales. Aeronautics’ customers include the military services and various other government agencies of the U.S. and allied countries. In 2012, U.S. Government customers accounted for 78% and international customers accounted for 22% of Aeronautics’ net sales. Net sales from Aeronautics’ combat aircraft products and services represented 21% of our total consolidated net sales in 2012 and 20% of our total consolidated net sales in each of 2011 and 2010.

Aeronautics is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. Aeronautics’ major programs include:

- F-35 Lightning II Joint Strike Fighter – international multi-role, fifth generation stealth fighter;
- F-22 Raptor – air dominance and multi-mission fifth generation stealth fighter;
- F-16 Fighting Falcon – low-cost, combat-proven, international multi-role fighter;
- C-130 Hercules – international tactical airlifter; and
- C-5M Super Galaxy – strategic airlifter.

The F-35 program is the largest in our corporation generating 14% of our total consolidated net sales, as well as 45% of Aeronautics’ net sales in 2012. The F-35 program consists of multiple contracts. The development contract is being performed concurrently with the low-rate initial production (LRIP) contracts. Concurrent performance of development and production contracts is used for complex programs to test airplanes, shorten the time to field systems, and achieve overall cost savings. We expect the development portion of the F-35 program will be substantially complete in 2017, with less significant efforts to continue into 2019. Production of the aircraft is expected to continue for many years given the U.S. Government’s current inventory objective of 2,443 aircraft for the Air Force, Marine and Navy variants of the aircraft, commitments from our eight international partners and two international customers, as well as expressions of interest from other countries. For additional information on the F-35 program, see “Status of F-35 Program” and “Industry Considerations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Although production and deliveries of F-22 aircraft were completed in 2012, Aeronautics continues to provide on-going modernization and sustainment activities for the U.S. Air Force’s F-22 aircraft fleet. The modernization program comprises upgrading existing systems requirements, developing new systems requirements, and adding capabilities and enhancing the performance of the weapon systems. The sustainment program consists of sustaining the weapon systems of the F-22 fleet at all operational bases, including training systems, customer support, integrated support planning, supply chain management, aircraft modifications and heavy maintenance, sustained engineering, support products, and systems engineering.

Currently, Aeronautics produces F-16 aircraft for international customers. Aeronautics also provides service-life extension, modernization, and other upgrade programs for our customers’ F-16 aircraft. In 2012, we were awarded a contract to upgrade 145 of Taiwan’s F-16 aircraft.

Aeronautics produces and provides support and sustainment services for the C-130J Super Hercules, as well as upgrades and support services for the legacy C-130 Hercules worldwide fleet. We delivered 34 C-130J aircraft in 2012, including eight to international customers.

Aeronautics also provides support services for the existing U.S. Air Force C-5A/B/C/M Galaxy fleet and a modernization program to convert 49 Galaxy aircraft to the C-5M Super Galaxy configuration. The modernization effort includes avionics upgrades comprised of a new cockpit with a digital, all-weather flight control system and autopilot, a new communications suite, flat-panel displays, and enhanced navigation and safety equipment; as well as installing new engines that will produce more thrust, enabling a shorter takeoff, increased climb rate, an increased cargo load, and longer range. We delivered four C-5M aircraft in 2012.

In addition to the above aircraft programs, Aeronautics is involved in advanced development programs incorporating innovative design and rapid prototype applications. Our Advanced Development Programs (ADP) organization, also known as the Skunk Works®, is focused on future systems, including unmanned aerial systems and next generation capabilities for advanced strike, intelligence, surveillance, reconnaissance, situational awareness, and air mobility. We continue to explore technology advancement and insertion in our existing aircraft. We also are involved in numerous network-enabled activities that allow separate systems to work together to increase effectiveness, and continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design, development, and production.

Information Systems & Global Solutions

In 2012, our IS&GS business segment generated net sales of $8.8 billion, which represented 19% of our total consolidated net sales. IS&GS' customers include the various government agencies of the U.S. and allied countries around the world and military services, as well as commercial and other customers. In 2012, U.S. Government customers accounted for 95%, international customers accounted for 4%, and U.S. commercial and other customers accounted for 1% of IS&GS' net sales. IS&GS has been impacted by the continuing downturn in the federal information technology budgets and the impact of the continuing resolution that was effective on October 1, 2012, the start of the U.S. Government's fiscal year.

IS&GS provides management services, integrated information technology solutions, and advanced technology systems and expertise across a broad spectrum of applications for civil, defense, intelligence, and other government customers. IS&GS supports the needs of customers in cyber-security, health care, energy and environmental protection management, transportation, space exploration, human capital planning, financial services, data protection and sharing, and biometrics. IS&GS provides network-enabled situational awareness, delivers communications and command and control capability through complex mission solutions for defense applications, and integrates complex global systems to help our customers gather, analyze, and securely distribute critical intelligence data. IS&GS is also responsible for various classified systems and services in support of vital national security systems. While IS&GS has a portfolio of many smaller contracts as compared to our other business segments, this business segment's major programs include:

- The Command, Control, Battle Management and Communications (C2BMC) contract, a program to increase the integration of the Ballistic Missile Defense System for the U.S. Government.
- The En-Route Automation Modernization (ERAM) contract, which is a program to replace the Federal Aviation Administration's infrastructure with a modern automation environment that includes new functions and capabilities.
- The Hanford Mission Support contract, which provides infrastructure and site support services to the Department of Energy.
- The National Science Foundation's U.S. Antarctic Support program, which manages sites and equipment to enable universities, research institutions, and federal agencies to conduct scientific research in the Antarctic.

Missiles and Fire Control

In 2012, our MFC business segment generated net sales of $7.5 billion, which represented 16% of our total consolidated net sales. MFC's customers include the military services, principally the U.S. Army, and various government agencies of the U.S. and allied countries, as well as commercial and other customers. In 2012, U.S. Government customers accounted for 70% and international customers accounted for 30% of MFC's net sales.

MFC provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; fire control systems; mission operations support, readiness, engineering support, and integration services; logistics and other technical services; and manned and unmanned ground vehicles. MFC's major programs include:

- The Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD) air and missile defense programs. PAC-3 is an advanced defensive missile for the U.S. Army and international customers designed to intercept and eliminate incoming airborne threats using kinetic energy. THAAD is a transportable defensive missile system for the U.S. Government and international customers designed to engage targets both within and outside of the Earth's atmosphere.
- The Multiple Launch Rocket System (MLRS), Hellfire, Javelin, and Joint Air-to-Surface Standoff Missile (JASSM) tactical missile programs. MLRS is a highly mobile, automatic system that fires surface-to-surface rockets and missiles from the M270 and High Mobility Artillery Rocket System platforms produced for the U.S. Army and international customers. Hellfire is an air-to-ground missile used on rotary and fixed-wing aircraft, which is produced for the U.S. Army, Navy, Marine Corps, and international customers. Javelin is a shoulder-fired anti-armor rocket system, which is produced for the U.S. Army, Marine Corps, and international customers. JASSM is an air-to-ground missile launched from fixed-wing aircraft, which is produced for the U.S. Air Force and international customers.
- The Apache, Sniper®, and Low Altitude Navigation and Targeting Infrared for Night (LANTIRN®) fire control systems programs. The Apache fire control system provides weapons targeting capability for the Apache

helicopter for the U.S. Army and international customers. Sniper® is a targeting system for fixed-wing aircraft, and LANTIRN® is a combined navigation and targeting system for fixed-wing aircraft. Both Sniper® and LANTIRN® are produced for the U.S. Air Force and international customers.

- The Special Operations Forces Contractor Logistics Support Services program, which provides logistics support services to the special operations forces of the U.S. military.

Mission Systems and Training

In 2012, our MST business segment generated net sales of $7.6 billion, which represented 16% of our total consolidated net sales. MST's customers include the military services, principally the U.S. Navy, and various government agencies of the U.S. and allied countries, as well as commercial and other customers. In 2012, U.S. Government customers accounted for 75%, international customers accounted for 24%, and U.S. commercial and other customers accounted for 1% of MST's net sales.

MST provides surface ship and submarine combat systems; sea and land-based missile defense systems; radar systems; mission systems and sensors for rotary and fixed-wing aircraft; littoral combat ships; simulation and training services; unmanned technologies and platforms; ship systems integration; and military and commercial training systems. MST's major programs include:

- The Aegis Combat System, which is a fleet ballistic missile defense system for the U.S. Navy and international customers and is also a sea-based element of the U.S. missile defense system.
- The MK-41 Vertical Launching System (VLS) is a shipborne missile canister launching system that provides for rapid-fire launch capability, which is produced for the U.S. Navy and international customers.
- The TPQ-53 Radar System is a sensor that quickly locates and neutralizes mortar and rocket threats, which is produced for the U.S. Army and international customers.
- MH-60 mission systems and sensors, including the digital cockpit and weapons, which MST provides for the MH-60 maritime helicopter produced for the U.S. Navy and the Royal Australian Navy, and was selected by the Danish government in December 2012.
- The Littoral Combat Ship (LCS), which is a surface combatant for the U.S. Navy designed to operate in shallow waters. We delivered our second LCS vessel, the USS Fort Worth, to the U.S. Navy in 2012. Construction is progressing on our third and fourth LCS vessels, the Milwaukee and the Detroit, which are scheduled for completion in 2014 and 2015.
- The Persistent Threat Detection System (PTDS), which is a lighter-than-air continuous communications and persistent surveillance system produced for the U.S. Army. Deliveries on the PTDS program completed in 2012.

Space Systems

In 2012, our Space Systems business segment generated net sales of $8.3 billion, which represented 18% of our total consolidated net sales. Space Systems' customers include various government agencies of the U.S. and commercial customers. In 2012, U.S. Government customers accounted for 95%, international customers accounted for 4%, and U.S. commercial and other customers accounted for 1% of Space Systems' net sales. Net sales from Space Systems' satellite products and services represented 12% of our total consolidated net sales in 2012 and 2011, and 13% in 2010.

Space Systems is engaged in the research and development, design, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems. Space Systems is also responsible for various classified systems and services in support of vital national security systems. Space Systems' major programs include:

- The Space-Based Infrared System (SBIRS) program, which provides the U.S. Air Force with enhanced worldwide missile launch detection and tracking capabilities.
- The Advanced Extremely High Frequency (AEHF) system, which is the next generation of highly secure communications satellites for the U.S. Air Force.
- The Mobile User Objective System (MUOS), which is a next-generation narrow band satellite communication system for the U.S. Navy.
- Global Positioning System (GPS) III, which is a program to modernize the GPS satellite system for the U.S. Air Force.
- The Geostationary Operational Environmental Satellite R-Series (GOES-R), which is the National Oceanic and Atmospheric Association's next generation of meteorological satellites.
- The Trident II D5 Fleet Ballistic Missile, which is a program with the U.S. Navy for the only current submarine-launched intercontinental ballistic missile in production in the U.S.

- Ÿ The Orion Multi-Purpose Crew Vehicle (Orion) program, an advanced crew capsule for the National Aeronautics and Space Administration (NASA) utilizing new technology for human exploration beyond low earth orbit that replaces the Space Shuttle.

Operating results for our Space Systems business segment include our equity interests in United Launch Alliance, which provides expendable launch services for the U.S. Government, United Space Alliance, which provided processing activities for the Space Shuttle program and is winding down following the completion of the last Space Shuttle mission in 2011, and a joint venture that manages the U.K.'s Atomic Weapons Establishment program. Additionally, operating results for Space Systems include Sandia Corporation, which manages and operates Sandia National Laboratories for the U.S. Department of Energy.

Competition

Our broad portfolio of products and services competes against the products and services of other large aerospace, defense, and information technology companies, as well as numerous smaller competitors, particularly in the IS&GS segment. We often form teams with other companies that are competitors in other efforts to provide customers with the best mix of capabilities to address specific requirements. In some areas of our business, customer requirements are changing to encourage expanded competition, such as information technology contracts where there may be a wide range of small to large contractors bidding on procurements. Principal factors of competition include: value of our products and services to the customer; technical and management capability; the ability to develop and implement complex, integrated system architectures; financing and total cost of ownership; release of technology; our demonstrated ability to execute and perform against contract requirements; and our ability to provide timely solutions.

The competition for foreign sales is subject to additional U.S. Government stipulations (e.g., export restrictions, market access, technology transfer, industrial cooperation, and contracting practices). We may compete against domestic and foreign companies (or teams) for contract awards by other governments. International competitions also may be subject to different laws or contracting practices of other governments that may affect how we structure our bid for the procurement. In many international procurements, the purchasing government's relationship with the U.S. and its industrial cooperation programs are also important factors in determining the outcome of a competition. It is common for international customers to require contractors to comply with their industrial cooperation regulations, sometimes referred to as offset requirements, and we have undertaken foreign offset agreements as part of securing some international business. For more information concerning offset agreements, see "Contractual Commitments and Off-Balance Sheet Arrangements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Patents

We routinely apply for and own a substantial number of U.S. and international patents related to the products and services we provide. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. The U.S. Government has licenses in our patents that are developed in performance of government contracts, and it may use or authorize others to use the inventions covered by our patents for government purposes. Unpatented research, development, and engineering skills also make an important contribution to our business. Although our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license, or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole.

Raw Materials and Seasonality

Aspects of our business require relatively scarce raw materials. Historically, we have been successful in obtaining the raw materials and other supplies needed in our manufacturing processes. We seek to manage raw materials supply risk through long-term contracts and by maintaining a stock of key materials in inventory.

Aluminum and titanium are important raw materials used in certain of our Aeronautics and Space Systems programs. Long-term agreements have helped enable a continued supply of aluminum and titanium. Carbon fiber is an important ingredient in the composite material that is used in our Aeronautics programs, such as the F-35 aircraft. Aluminum lithium, which we use for F-16 aircraft structural components, is currently only available from limited sources. We have been advised by some suppliers that pricing and the timing of availability of materials in some commodities markets can fluctuate widely. These fluctuations may negatively affect price and the availability of certain materials. While we do not anticipate material problems regarding the supply of our raw materials and believe that we have taken appropriate measures to mitigate these variations, if key materials become unavailable or if pricing fluctuates widely in the future, it could result in delay of one or more of our programs, increased costs, or reduced profits.

No material portion of our business is considered to be seasonal. Various factors can affect the distribution of our sales between accounting periods, including the timing of government awards, the availability of government funding, product deliveries, and customer acceptance.

Government Contracts and Regulation

Our business is heavily regulated. We contract with numerous U.S. Government agencies and entities, including all branches of the U.S. military, the Departments of Defense, Homeland Security, Justice, Commerce, Health and Human Services, Transportation, and Energy, the U.S. Postal Service, the Social Security Administration, the Federal Aviation Administration, NASA, and the Environmental Protection Agency. Similar government authorities exist in other countries and regulate our international efforts.

We must comply with and are affected by laws and regulations relating to the formation, administration, and performance of U.S. Government and other contracts. These laws and regulations, among other things:

- require certification and disclosure of all cost or pricing data in connection with certain types of contract negotiations;
- impose specific and unique cost accounting practices that may differ from U.S. generally accepted accounting principles;
- impose acquisition regulations, which may change or be replaced over time, that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts;
- restrict the use and dissemination of information classified for national security purposes and the export of certain products, services, and technical data; and
- require the review and approval of contractor business systems, defined in the regulations as: (i) Accounting; (ii) Estimating; (iii) Earned Value Management Systems (EVMS, for managing cost and schedule performance on certain complex programs); (iv) Purchasing; (v) Material Management and Accounting System (MMAS, for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material); and (vi) Property Management systems.

For more information regarding government contracting laws and regulations, see Item 1A - Risk Factors as well as “Industry Considerations” and “Critical Accounting Policies – Contract Accounting / Sales Recognition” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

A portion of our business is classified by the U.S. Government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements. The business risks associated with classified programs historically have not differed materially from those of our other U.S. Government programs. The internal controls addressing the financial reporting of classified programs are consistent with the internal control practices for non-classified contracts.

Backlog

At December 31, 2012, our backlog was $82.3 billion compared with $80.7 billion at December 31, 2011. Backlog is converted into sales in future periods as work is performed or deliveries are made. Approximately $35.0 billion, or 43%, of our total 2012 year-end backlog is expected to be converted into sales in 2013.

Our backlog includes both funded (unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer – Congress, in the case of U.S. Government agencies) and unfunded (firm orders for which funding has not been appropriated) amounts. We do not include unexercised options or potential indefinite-delivery, indefinite-quantity orders in our backlog. If any of our contracts were to be terminated, our backlog would be reduced by the expected value of the remaining terms of such contracts. Funded backlog was $54.8 billion at December 31, 2012, as compared to $55.1 billion at December 31, 2011. For backlog related to each of our business segments, see “Business Segment Results of Operations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Research and Development

We conduct research and development activities under customer-funded contracts and with our own independent research and development funds. Our independent research and development costs include basic research, applied research, development, systems, and other concept formulation studies. Generally, these costs are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Costs we incur under customer-sponsored research and development programs pursuant to contracts are included in net sales and cost of sales. Under certain arrangements in which a customer shares in product development costs, our portion of the unreimbursed costs is expensed as incurred in cost of sales. Independent research and development costs charged to costs of sales were $616 million in 2012, $585 million in 2011, and $639 million in 2010. See “Research and development and similar costs” in “Note 1 – Significant Accounting Policies” of our consolidated financial statements.

Employees

At December 31, 2012, we had about 120,000 employees, approximately 95% of whom were located in the U.S. We have a continuing need for numerous skilled and professional personnel to meet contract schedules and obtain new and ongoing orders for our products. The majority of our employees possess a security clearance. The demand for workers with security clearances who have specialized engineering, information technology, and technical skills within the aerospace, defense, and information technology industries is likely to remain high for the foreseeable future, while growth of the pool of trained individuals with those skills has not matched demand. As a result, we are competing with other companies with similar needs in hiring skilled employees.

Approximately 15% of our employees are covered by any one of approximately 65 separate collective bargaining agreements with various unions. A number of our existing collective bargaining agreements expire in any given year. Historically, we have been successful in renegotiating expiring agreements without any material disruption of operating activities. Management considers employee relations to be good.

Forward-Looking Statements

This Form 10-K contains statements which, to the extent that they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on our current expectations and assumptions. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “scheduled,” “forecast,” and similar expressions are intended to identify forward-looking statements.

Statements and assumptions with respect to future sales, income and cash flows, program performance, the outcome of litigation, environmental remediation cost estimates, and planned acquisitions or dispositions of assets are examples of forward-looking statements. Numerous factors, including potentially the risk factors described in the following section, could affect our forward-looking statements and actual performance.

Our future financial results likely will be different from those projected due to the inherent nature of projections, and may be better or worse than expected. Given these uncertainties, you should not rely on forward-looking statements. The forward-looking statements contained in this Form 10-K speak only as of the date of this Form 10-K. We expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-K to reflect the occurrence of subsequent events, changed circumstances, changes in our expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-K are intended to be subject to the safe harbor protection provided by the federal securities laws.

ITEM 1A. RISK FACTORS

An investment in our common stock or debt securities involves risks and uncertainties. We seek to identify, manage, and mitigate risks to our business, but risk and uncertainty cannot be eliminated or necessarily predicted. You should consider the following factors carefully, in addition to the other information contained in this Form 10-K, before deciding to purchase our securities.

We depend heavily on U.S. Government contracts. Our programs could be materially reduced, extended, or terminated as a result of the government’s continuing assessment of priorities, changes in government priorities, the implementation of sequestration, or other budget cuts intended to avoid sequestration. These matters and/or delays in the budget process, including a continuing resolution, could adversely affect our ability to grow or maintain our sales, earnings, and cash flow.

We derived 82% of our consolidated net sales from U.S. Government customers in 2012, including 61% from the Department of Defense (DoD). We expect to continue to derive most of our sales from work performed under U.S. Government contracts. Those contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal-year basis even though contract performance may extend over many years.

The programs in which we participate must compete with other programs and policy imperatives for consideration during the budget and appropriation process. Concerns about increased deficit spending, along with continued economic challenges, continue to place pressure on U.S. and international customer budgets. While we believe that our programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense, and intelligence priorities, the affordability of our products and services, general economic conditions and developments, and other factors may affect a decision to fund or the level of funding for existing or proposed programs.

Should Congress and the Administration fail to change or further delay the pending sequestration of appropriations in government fiscal year (GFY) 2013 imposed by the Budget Control Act of 2011 (Budget Act) now scheduled to take effect on March 1, 2013, our customers' budgets would be reduced significantly and there would be a direct and significant reduction in our customers' contract awards. While we understand customers have started to plan for sequestration, the specific effects of sequestration are not yet available and cannot be determined by us. The automatic across-the-board cuts from sequestration would approximately double the amount of the ten-year $487 billion reduction in defense spending that began in GFY 2012 already required by the Budget Act, including the budget for Overseas Contingencies Operations and any unobligated balances from prior years, and would have significant consequences to our business and industry. Non-DoD agencies would also have significantly reduced budgets. There would be disruption of ongoing programs, impacts to our supply chain, contractual actions (including partial or complete terminations), potential facilities closures, and thousands of personnel reductions across the industry that would severely impact advanced manufacturing operations and engineering expertise, and accelerate the loss of skills and knowledge. Consequently, we expect that sequestration, or other budgetary cuts in lieu of sequestration, would have a material effect on our corporation. For more information regarding sequestration, see "Industry Considerations" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Under such conditions, large or complex programs, which consist of multiple contracts and phases, are potentially subject to increased scrutiny. Our largest program, the F-35, represented 14% of our total consolidated net sales in 2012, and is expected to represent a higher percentage of our sales in future years. For more information regarding the F-35 program, see "Status of F-35 Program" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Based upon our diverse range of defense, homeland security, and information technology products and services, we believe that this makes it less likely that cuts in any specific contract or program will have a long-term effect on our business. However, termination of multiple or large programs or contracts could adversely affect our business and future financial performance. We could incur expenses beyond those that would be reimbursed if one or more of our existing contracts were terminated for convenience due to lack of funding or other reasons. Potential changes in funding priorities may afford new or additional opportunities for our businesses in terms of existing, follow-on, or replacement programs. While we would expect to compete, and be well positioned as the incumbent on existing programs, we may not be successful, or the replacement programs may be funded at lower levels.

In years when the U.S. Government does not complete its budget process before the end of its fiscal year (September 30), government operations typically are funded through a continuing resolution that authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in contract awards due to lack of funding. The U.S. Government is currently operating under a continuing resolution that is effective through March 27, 2013, and its budget for GFY 2013 has not been finalized. Historically, this has not had a material effect on our business, although we did experience a decrease in contract awards and sales at our IS&GS business segment during the fourth quarter of 2012 due to the continued downturn in federal information technology budgets impacted by the continuing resolution. Should the continuing resolution be prolonged further or extended through the entire government fiscal year or decisions regarding sequestration remain pending, it may cause additional government contract awards to shift and cause our results of operations to vary between periods. In limited circumstances, we may continue to work without funding, and use our funds, in order to meet our customer's desired delivery dates for products or services. Such funds could be at risk if the U.S. Government does not provide authorization and additional funding to our programs.

We are subject to a number of procurement laws and regulations. Our business and our reputation could be adversely affected if we fail to comply with these laws.

We must comply with and are affected by laws and regulations relating to the award, administration, and performance of U.S. Government contracts. Government contract laws and regulations affect how we do business with our customers and impose certain risks and costs on our business. A violation of specific laws and regulations could harm our reputation and result in the imposition of fines and penalties, the termination of our contracts, debarment from bidding on contracts, loss of our ability to export products or services, and civil or criminal investigations or proceedings.

In some instances, these laws and regulations impose terms or rights that are different than those typically found in commercial transactions. For example, the U.S. Government may terminate any of our government contracts and subcontracts either at its convenience or for default based on performance. Upon termination for convenience of a fixed-price type contract, we normally are entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process, and an allowance for profit on the contract or adjustment for loss if completion of performance would have resulted in a loss.

Upon termination for convenience of a cost-reimbursable contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. Allowable costs would include our cost to terminate agreements with our suppliers and subcontractors. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination and is determined by negotiation. We attempt to ensure that adequate funds are available by notifying the customer when its estimated costs, including those associated with a possible termination for convenience, approach levels specified as being allotted to its programs. As funds are typically appropriated on a fiscal-year basis and as the costs of a termination for convenience may exceed the costs of continuing a program in a given fiscal year, occasionally programs do not have sufficient funds appropriated to cover the termination costs were the government to terminate them for convenience. Under such circumstances, the U.S. Government could assert that it is not required to appropriate additional funding.

A termination arising out of our default may expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, on those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, notwithstanding the quality of our services as a subcontractor. In the case of termination for default, the U.S. Government could make claims to reduce the contract value or recover its procurement costs and could assess other special penalties. However, under such circumstances we have rights and remedial actions under laws and Federal Acquisition Regulations (FAR).

In addition, certain of our U.S. Government contracts span one or more base years and multiple option years. The U.S. Government generally has the right not to exercise option periods and may not exercise an option period for various reasons. However, the U.S. Government may exercise option periods, even for contracts for which it is expected that our costs may exceed the contract price or ceiling.

U.S. Government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency (DCMA), and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, its cost structure, its business systems, and compliance with applicable laws, regulations, and standards. Any costs found to be misclassified may be subject to repayment. We have unaudited and/or unsettled incurred cost claims related to past years, which places risk on our ability to issue final billings on contracts for which authorized and appropriated funds may be expiring.

Certain deficiencies identified during government audits of contractor business systems may result in the government withholding payments on receivables for certain contract types such as cost-reimbursable contracts and fixed-price incentive-fee contracts. Withholds are capped at 5% of billings when deficiencies impact a single business system and 10% when deficiencies impact multiple systems, and are typically reduced to 2% after the contractor's corrective action plan has been accepted and progress to implement the corrective actions has been demonstrated. Such deficiencies have not impacted our internal control over financial reporting. For example, the U.S. Government is currently withholding certain funds on receivables for the F-35 program due to the DCMA's prior withdrawal of its validation and determination of compliance of the Earned Value Management Systems at our Fort Worth, Texas location. In 2012, the DCMA conducted a compliance review and concluded that although we have made notable progress toward compliance, additional corrective actions are necessary to achieve full compliance.

If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us. Similar government oversight exists in most other countries where we conduct business.

Increased competition and bid protests in a budget-constrained environment may make it more difficult to maintain our financial performance.

As a leader in defense and global security, we have a large number of programs for which we are the incumbent contractor. A substantial portion of our business is awarded through competitive bidding. The U.S. Government increasingly has relied upon competitive contract award types, including indefinite-delivery, indefinite-quantity, GSA Schedule, and other multi-award contracts, which has the potential to create pricing pressure and increase our cost by requiring that we submit multiple bids and proposals. The competitive bidding process entails substantial costs and managerial time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors. Following award, we may encounter significant expenses, delays, contract modifications, or even loss of the contract if our competitors protest or challenge contracts that are awarded to us. Multi-award contracts require that we make sustained efforts to obtain task orders under the contract. We are facing increased competition, particularly in information technology and cyber security at our Information Systems & Global Solutions business segment, from non-traditional competitors outside of the aerospace and defense industry. At the same time, our customers are facing budget constraints, trying to do more with less by cutting costs, identifying more affordable solutions, and reducing product development cycles. To remain competitive, we consistently must provide superior performance, advanced technology solutions, and service at an affordable cost and with the agility that our customers require to satisfy their mission objectives.

International sales may pose different risks.

In 2012, our sales to international customers accounted for 17% of our total consolidated net sales. As a company, we have a strategy to grow international sales over the next several years, inclusive of sales of F-35 aircraft to our international partners and other countries. International sales are subject to numerous political and economic factors, regulatory requirements, significant competition, and other risks associated with doing business in foreign countries. Our exposures to such risks may increase if our international sales grow as we anticipate.

Our international business is conducted through foreign military sales (FMS) contracted through the U.S. Government or direct commercial sales (DCS) with international customers. In 2012, approximately half of our sales to international customers were FMS while the other half were DCS. These transaction types differ as FMS transactions represent sales by the U.S. Government to other governments and our contract with the U.S. Government is subject to FAR. By contrast, DCS transactions represent sales by us directly to another government or international customer. All sales to international customers are subject to U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, taxation, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act, and certain other anti-corruption laws, and the anti-boycott provisions of the U.S. Export Administration Act. We frequently team with international subcontractors and suppliers who are also exposed to similar risks. While we have stringent policies in place to comply with such laws and regulations, failure by us, our employees, or others working on our behalf to comply with these laws and regulations could result in administrative, civil, or criminal liabilities, including suspension or debarment from government contracts or suspension of our export privileges, which could have a material adverse effect on us.

While international sales, whether contracted as FMS or DCS, present risks that are different, and potentially greater, than those encountered in our domestic business, DCS may impose even greater risks as such transactions involve commercial relationships with parties with whom we have less familiarity and where there may be significant cultural differences. Additionally, international procurement rules and regulations, contract laws and regulations, and contractual terms differ from those in the U.S., are less familiar to us, may be interpreted differently by foreign courts, are officially documented in the local language and, therefore, potentially subject to errors in translation, and frequently have terms less favorable to us than the FAR. Export and import, tax, and currency risk may also be increased for DCS transactions.

Our international business is highly sensitive to changes in regulations, political environments, or security risks may affect our ability to conduct business in foreign markets, including those regarding investment, procurement, taxation, and repatriation of earnings. Our international business may also be impacted by changes in foreign national priorities and government budgets and may be further impacted by global economic conditions and fluctuations in foreign currency exchange rates. Sales of military products are also affected by defense budgets (both in the U.S. and abroad) and U.S. foreign policy.

In international sales, we face substantial competition from both domestic manufacturers and foreign manufacturers whose governments sometimes provide research and development assistance, marketing subsidies, and other assistance for their products. Additionally, the timing of orders from our international customers can be less predictable than for our domestic customers and may lead to fluctuations in the amount reported each year for our international sales.

In conjunction with defense procurements, some international customers require contractors to provide additional incentives or to comply with industrial cooperation regulations, including entering into industrial cooperation agreements, sometimes referred to as offset agreements. Offset agreements may require in-country purchases, technology transfers, local manufacturing support, and financial support projects as an incentive, or as a condition to a contract award. In some countries, these offset agreements may require the establishment of a joint venture with a local company, which must control the venture. In these and other situations, Lockheed Martin could be liable for violations of law for actions taken by these entities such as laws related to anti-corruption, import and export, anti-boycott restrictions, or local laws with which we are not familiar. Offset agreements generally extend over several years and may provide for penalties in the event we fail to perform in accordance with the offset requirements which are typically subjective.

Our business involves significant risks and uncertainties that may not be covered by indemnity or insurance.

A significant portion of our business relates to designing, developing, and manufacturing advanced defense and technology systems and products. New technologies may be untested or unproven. Failure of some of these products and services could result in extensive loss of life or property damage. Accordingly, we also may incur liabilities that are unique to our products and services, including combat and air mobility aircraft, missile and space systems, command and control systems, air traffic control management systems, cyber security, homeland security, and training programs. In some, but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through U.S. Government indemnifications under Public Law 85-804, qualification of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, contractual provisions, or otherwise. The amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities, existing coverage may be cancelled while we remain exposed to the risk, and it is not possible to obtain insurance to protect against all operational risks and liabilities.

Substantial claims resulting from an accident, failure of our products or services, or other incident, or liability arising from our products and services in excess of any indemnity and our insurance coverage (or for which indemnity or insurance is not available or not obtained) could adversely impact our financial condition, cash flows, or operating results. Any accident, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively. It also could affect the cost and availability of adequate insurance in the future.

Our profitability and cash flow may vary based on the mix of our contracts and programs, our performance, our ability to control costs, and evolving U.S. Government procurement policies.

Our profitability and cash flow may vary materially depending on the types of long-term government contracts undertaken, the nature of the products produced or services performed under those contracts, the costs incurred in performing the work, the achievement of other performance objectives, and the stage of performance at which the right to receive fees is finally determined (particularly under award and incentive-fee contracts).

Our backlog includes a variety of contract types which are intended to address changing risk and reward profiles as a program matures. Contract types include cost-reimbursable, fixed-price incentive-fee, fixed-price, and time-and-materials contracts. Contracts for development programs with complex design and technical challenges are typically cost-reimbursable. Under cost-reimbursable contracts, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance-based. In these cases, the associated financial risks primarily relate to a reduction in fees, and the program could be cancelled if cost, schedule, or technical performance issues arise.

Other contracts in backlog are for the transition from development to production (e.g., low-rate initial production (LRIP)), which includes the challenge of starting and stabilizing a manufacturing production and test line while the final design is being validated. These generally are cost-reimbursable or fixed-price incentive-fee contracts. Under a fixed-price incentive-fee contract, the allowable costs incurred are eligible for reimbursement, but are subject to a cost-share arrangement, which affects profitability. Generally, if our costs exceed the contract target cost or are not allowable under the applicable regulations, we may not be able to obtain reimbursement for all costs and may have our fees reduced or eliminated.

There are also contracts for production as well as operations and maintenance of the delivered products that have the challenge of achieving a stable production and delivery rate, while maintaining operability of the product after delivery. These contracts are mainly fixed-price, although some operations and maintenance contracts are time and materials-type. Under fixed-price contracts, we receive a fixed price despite the actual costs we incur. We have to absorb any costs in excess of the fixed price. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses.

The failure to perform to customer expectations and contract requirements may result in reduced fees or losses and affect our financial performance in that period. Under each type of contract, if we are unable to control costs, our operating results could be adversely affected, particularly if we are unable to justify an increase in contract value to our customers. Cost overruns or the failure to perform on existing programs also may adversely affect our ability to retain existing programs and win future contract awards.

The U.S. Government is currently pursuing and implementing policies that could negatively impact our profitability. Changes in procurement policy favoring more incentive-based fee arrangements, different award fee criteria, or government contract negotiation offers that indicate what our costs should be may affect the predictability of our profit rates. Our customers are under pressures that may result in a change in contract types referenced above earlier in program maturity than is traditional. An example of this is the use of fixed-price incentive-fee contracts for the LRIP 4 and LRIP 5 contracts on the F-35 program while the development contract is running concurrently. Our customers may also pursue non-traditional contract provisions in negotiation of contracts. For example, changes resulting from the F-35 development contract may need to be implemented on the production contracts, a concept referred to as concurrency, which may require us to pay for a portion of the concurrency costs. Other examples include, but are not limited to, the government in certain circumstances requiring that bid and proposal costs be included in general and administrative costs, rather than charged directly to contracts, and potentially lowering the cap on the recoverability of executive compensation.

Other policies could negatively impact our working capital and cash flow. For example, the government has expressed a preference for requiring progress payment provisions on new fixed-price contracts, which if implemented, delays our ability to recover a significant amount of costs incurred on a contract and thus affects the timing of our cash flows.

We are the prime contractor on most of our contracts and if our subcontractors, suppliers, or teaming agreement or joint venture partners fail to perform their obligations, our performance and our ability to win future business could be harmed.

Most of our contracts involve subcontracts or teaming arrangements with other companies upon which we rely to perform a portion of the services that we must provide to our customers. We also sometimes bid on contracts through joint ventures that award work through these entities, rather than through subcontract or teaming arrangements. There is a risk that we may have disputes with our subcontractors, teammates, or venture members, including disputes regarding the quality and timeliness of work performed, the workshare provided to that party, customer concerns about the other party’s performance, our failure to extend existing task orders or issue new task orders, or our hiring of the personnel of a subcontractor, teammate, or venture member, or vice versa. In addition, the contracting parties on which we rely may be affected by changes in the economic environment and constraints on available financing to meet their performance requirements or provide needed supplies on a timely basis. A failure by one or more of those contracting parties to provide the agreed-upon supplies or perform the agreed-upon services on a timely basis may affect our ability to perform our obligations. Contracting party performance deficiencies may affect our operating results and could result in a customer terminating our contract for default. A default termination could expose us to liability and affect our ability to compete for future contracts and orders.

The funding and costs associated with our pension and postretirement medical plans are dependent on economic factors such as discount rates and long-term rates of return on our plan assets as well as other actuarial assumptions which may cause our earnings, cash flows, and stockholders’ equity to fluctuate significantly from year to year.

Many of our employees are covered by defined benefit pension plans, and we provide certain health care and life insurance benefits to eligible retirees. The impact of these plans on our U.S. generally accepted accounting principles (GAAP) earnings may be volatile in that the amount of expense we record for our postretirement benefit plans may materially change from year to year because those calculations are sensitive to funding levels as well as changes in several key economic assumptions, including interest rates, rates of return on plan assets, and other actuarial assumptions including expected rates of increase in future compensation levels, employee turnover and mortality, as well as the timing of funding. Changes in these factors also affect our plan funding, cash flow, earnings, and stockholders’ equity. In addition, the funding of our plans and recovery of costs on our contracts, as described below, may also be subject to changes caused by legislative or regulatory actions.

With regard to cash flow, in the past few years we have made substantial cash contributions to our plans in excess of the amounts required by the Employee Retirement Income Security Act of 1974 (ERISA) and Pension Protection Act (PPA). We generally are able to recover these costs related to our plans as allowable costs on our U.S. Government contracts, including FMS, but there are delays between when we contribute cash to the plans under pension funding rules and recover it under government cost accounting rules. Effective February 2012, the cost accounting rules were revised to harmonize the measurement and period assignment of the pension cost allocable to government contracts with the PPA (CAS Harmonization). The cost impact of CAS Harmonization will be phased in beginning in 2013 with the goal of better aligning the CAS cost and ERISA funding requirements being fully achieved in 2017.

For more information on how these factors could impact earnings, financial position, cash flow and stockholders' equity, see "Critical Accounting Policies – Postretirement Benefit Plans" in Management's Discussion and Analysis of Financial Conditions and Results of Operations and "Note 9 – Postretirement Plans" of our consolidated financial statements.

If we fail to manage acquisitions, divestitures, and other transactions successfully, our financial results, business, and future prospects could be harmed.

In pursuing our business strategy, we routinely conduct discussions, evaluate targets, and enter into agreements regarding possible acquisitions, divestitures, joint ventures, and equity investments. We seek to identify acquisition or investment opportunities that will expand or complement our existing products and services, or customer base, at attractive valuations. We often compete with others for the same opportunities. To be successful, we must conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete and close complex transactions, and manage post-closing matters (e.g., integrate acquired companies and employees and realize anticipated operating synergies) efficiently and effectively. Acquisition, divestiture, joint venture, and investment transactions often require substantial management resources and have the potential to divert our attention from our existing business. Unidentified pre-closing liabilities could affect our future financial results.

Joint ventures or equity investments operate under shared control with other parties. Under the equity method of accounting for nonconsolidated joint ventures and investments, we recognize our share of the operating results of these ventures in our results of operations. Our operating results may be affected by the performance of businesses over which we do not exercise control. The most significant impact of our equity investments is in our Space Systems business segment where approximately 24% of its 2012 operating profit was derived from its equity investments in three joint ventures (see "Space Systems" above). Management closely monitors the results of operations and cash flows generated by these investees.

Our business could be negatively affected by cyber or other security threats or other disruptions.

As a U.S. defense contractor, we face cyber threats, threats to the physical security of our facilities and employees, and terrorist acts, as well as the potential for business disruptions associated with information technology failures, natural disasters, or public health crises.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our company sensitive information, as do our customers, suppliers, subcontractors and joint venture partners. We may experience similar security threats at customer sites that we operate and manage as a contractual requirement.

Prior cyber attacks directed at us have not had a material impact on our financial results, and we believe our threat detection and mitigation processes and procedures are adequate. The threats we face vary from attacks common to most industries to more advanced and persistent, highly organized adversaries who target us because we protect national security information. If we are unable to protect sensitive information, our customers or governmental authorities could question the adequacy of our threat mitigation and detection processes and procedures. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers, suppliers, subcontractors, joint venture partners, and acquisitions to seek to minimize the impact of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by these entities, which may affect the security of our information. These entities have varying levels of cyber security expertise and safeguards and their relationships with government contractors, such as Lockheed Martin, may increase the likelihood that they are targeted by the same cyber threats we face.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to our customers, loss of competitive advantages derived from our research and development efforts or other intellectual property, early obsolescence of our products and services, our future financial results, our reputation or our stock price.

Environmental costs could affect our future earnings as well as the affordability of our products and services.

Our operations are subject to and affected by a variety of federal, state, local, and foreign environmental protection laws and regulations. We are involved in environmental responses at some of our facilities and former facilities, and at third-party sites not owned by us where we have been designated a potentially responsible party by the U.S. Environmental Protection Agency (EPA) or by a state agency. In addition, we could be affected by future regulations imposed in response to concerns over climate change, other aspects of the environment, or natural resources, and by other actions commonly referred to as “green initiatives.” We have an ongoing comprehensive program to reduce the effects of our operations on the environment.

We manage various government-owned facilities on behalf of the government. At such facilities, environmental compliance and remediation costs historically have been the responsibility of the government, and we have relied, and continue to rely with respect to past practices, upon government funding to pay such costs. Although the government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance typically are borne by either the government or the contractor, depending on the contract and the relevant facts. Some environmental laws include criminal provisions. An environmental law conviction could affect our ability to be awarded future, or perform existing, U.S. Government contracts.

We have incurred and will continue to incur liabilities under various federal, state, local, and foreign statutes for environmental protection and remediation. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. Among the variables management must assess in evaluating costs associated with these cases and remediation sites generally are the status of site assessment, extent of the contamination, impacts on natural resources, changing cost estimates, evolution of technologies used to remediate the site, and continually evolving governmental environmental standards and cost allowability issues. Both the EPA and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking processes are lengthy and may take years to complete. If substantially lower standards are adopted, we would expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent probable and estimable, see “Critical Accounting Policies – Environmental Matters” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 12 – Legal Proceedings, Commitments, and Contingencies” of our consolidated financial statements.

We are involved in a number of legal proceedings. We cannot predict the outcome of litigation and other contingencies with certainty.

Our business may be adversely affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As required by GAAP, we estimate loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements. For a description of our current legal proceedings, see Item 3 – Legal Proceedings and “Note 12 – Legal Proceedings, Commitments, and Contingencies” of our consolidated financial statements.

In order to be successful, we must attract and retain key employees and manage leadership transitions effectively.

Our business has a continuing need to attract large numbers of skilled personnel, including personnel holding security clearances, to support the growth of the enterprise and to replace individuals who have terminated employment due to retirement or other reasons. To the extent that the demand for qualified personnel exceeds supply, we could experience higher labor, recruiting, or training costs in order to attract and retain such employees, or could experience difficulties in performing under our contracts if our needs for such employees were unmet. We increasingly compete with commercial technology companies outside of the aerospace and defense industry for qualified technical and scientific positions as the number of qualified domestic engineers is decreasing. To the extent that these companies grow faster than our industry, or face fewer cost and product pricing constraints, they may be able to offer higher compensation to job candidates or our existing employees. To the extent that we lose experienced personnel through wage competition, normal attrition, or specific actions such as workforce reductions, we must successfully manage the transfer of critical knowledge from those individuals.

We also must manage leadership development and succession planning throughout our business and have processes in place for management transition, which was critical during our recent executive management changes. To the extent that we are unable to attract, develop, retain, and protect leadership talent successfully, we could experience business disruptions and impair our ability to achieve business objectives.

Historically, where employees are covered by collective bargaining agreements with various unions, we have been successful in negotiating renewals to expiring agreements without any material disruption of operating activities. This does not assure, however, that we will be successful in our efforts to negotiate renewals of our existing collective bargaining agreements when they expire. If we were unsuccessful in those efforts, there is the potential that we could incur unanticipated delays or expenses in the programs affected by any resulting work stoppages.

Our estimates and projections may prove to be inaccurate.

The accounting for some of our most significant activities is based on judgments and estimates, which are complex and subject to many variables. For example, accounting for sales using the percentage-of-completion method requires that we assess risks and make assumptions regarding schedule, cost, technical, and performance issues for each of our thousands of contracts, many of which are long-term in nature. Another example is the $10.4 billion of goodwill assets recorded on our Balance Sheet as of December 31, 2012 from previous acquisitions over time, which represent greater than 25% of our total assets, and are subject to annual impairment testing. If we experience changes or factors arise that negatively affect the expected cash flows of a reporting unit, we may be required to write off all or a portion of the related goodwill assets.

Changes in U.S. or foreign tax laws, including possibly with retroactive effect, and audits by tax authorities could result in unanticipated increases in our tax expense and affect profitability and cash flows. For example, recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of the related tax legislation, with a corresponding material, one-time increase to income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Actual financial results could differ from our judgments and estimates. Refer to “Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and “Note 1 – Significant Accounting Policies” of our consolidated financial statements for a complete discussion of our significant accounting policies and use of estimates.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2012, we operated in 523 locations (including offices, manufacturing plants, warehouses, service centers, laboratories, and other facilities) throughout the U.S. and internationally. Of these, we owned 45 locations aggregating approximately 29.0 million square feet, and leased space at 478 locations aggregating approximately 23.7 million square feet. Consistent with our cost reduction initiatives, we reduced our leased space by approximately 1.5 million square feet during 2012. We also manage or occupy various government-owned facilities under leases and various other arrangements. The U.S. Government also furnishes equipment that we use in some of our businesses.

At December 31, 2012, our business segments occupied facilities at the following major locations:

- **Aeronautics** – Palmdale, California; Marietta, Georgia; Greenville, South Carolina; and Fort Worth and San Antonio, Texas.
- **Information Systems & Global Solutions** – Goodyear, Arizona; Sunnyvale, California; Colorado Springs and Denver, Colorado; Gaithersburg and Rockville, Maryland and other locations within the Washington, D.C. metropolitan area; Valley Forge, Pennsylvania; and Houston, Texas.
- **Missiles and Fire Control** – Camden, Arkansas; Orlando, Florida; Lexington, Kentucky; and Grand Prairie, Texas.
- **Mission Systems and Training** – Orlando, Florida; Baltimore, Maryland; Moorestown/Mt. Laurel, New Jersey; Owego and Syracuse, New York; Akron, Ohio; and Manassas, Virginia.
- **Space Systems** – Huntsville, Alabama; Sunnyvale, California; Denver, Colorado; Albuquerque, New Mexico; and Newtown, Pennsylvania.
- **Corporate activities** – Lakeland, Florida and Bethesda, Maryland.

The following is a summary of our square feet of floor space by business segment at December 31, 2012 (in millions):

	Owned	Leased	Government-Owned	Total
Aeronautics	5.2	3.5	14.7	23.4
Information Systems & Global Solutions	2.5	6.3	—	8.8
Missiles and Fire Control	3.9	5.3	1.3	10.5
Mission Systems and Training	5.7	5.9	0.4	12.0
Space Systems	8.7	1.7	7.9	18.3
Corporate activities	3.0	1.0	—	4.0
Total	29.0	23.7	24.3	77.0

Some of our owned properties are leased to third parties. In the area of manufacturing, most of the operations are of a job-order nature, rather than an assembly line process, and productive equipment has multiple uses for multiple products. Management believes that all of our major physical facilities are in good condition and are adequate for their intended use.

ITEM 3. LEGAL PROCEEDINGS

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, and are subject to contingencies related to certain businesses we previously owned. We believe the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter. We cannot predict the outcome of legal proceedings with certainty. These matters include the proceedings summarized in “Note 12 – Legal Proceedings, Commitments, and Contingencies” of our consolidated financial statements.

From time-to-time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with applicable regulatory requirements. U.S. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines, or penalties being imposed upon us, or could lead to suspension, proposed debarment, or debarment from eligibility for future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us.

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have our property subject to various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims, and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see “Critical Accounting Policies – Environmental Matters” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and “Note 12 – Legal Proceedings, Commitments, and Contingencies” of our consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4(a). EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers as of February 28, 2013 are listed below, as well as their age at December 31, 2012, positions and offices currently held, and principal occupation and business experience over at least the past five years. There were no family relationships among any of our executive officers and directors. All officers serve at the pleasure of the Board of Directors.

Dale P. Bennett (56), Executive Vice President – Mission Systems and Training

Mr. Bennett has served as Executive Vice President – Mission Systems and Training since December 31, 2012. He previously served as President, Electronic Systems Mission Systems & Sensors from August 2011 to December 30, 2012, and President, Global Training and Logistics from July 2005 to July 2011.

Richard H. Edwards (56), Executive Vice President – Missiles and Fire Control

Mr. Edwards has served as Executive Vice President – Missiles and Fire Control since December 31, 2012. He previously served as Executive Vice President, Program and Technology Integration, Electronic Systems Missiles and Fire Control from June 2012 to December 30, 2012, and Vice President Tactical Missiles and Combat Maneuver Systems, Electronic Systems Missiles and Fire Control from July 2005 to June 2012.

Linda R. Gooden (59), Executive Vice President – Information Systems & Global Solutions

Ms. Gooden has served as Executive Vice President – Information Systems & Global Solutions (IS&GS) since January 2007. Effective April 1, 2013, Ms. Gooden will step down as Executive Vice President – IS&GS, but will remain employed with the Corporation through May 1, 2013 when she will retire. Sondra L. Barbour, Senior Vice President and Chief Information Officer, will succeed Ms. Gooden as the new Executive Vice President – IS&GS effective April 1, 2013.

Christopher J. Gregoire (44), Vice President and Controller (Chief Accounting Officer)

Mr. Gregoire has served as Vice President, Controller, and Chief Accounting Officer since March 2010. He previously was employed by Sprint Nextel Corporation from August 2006 to May 2009, most recently as Principal Accounting Officer and Assistant Controller, and was a partner at Deloitte & Touche LLP from September 2003 to July 2006.

Marillyn A. Hewson (59), Chief Executive Officer and President

Ms. Hewson has served as Chief Executive Officer and President since January 2013. She previously served as President and Chief Operating Officer from November 2012 to December 2012 and Executive Vice President – Electronic Systems from January 2010 to December 2012; President, Systems Integration – Owego from September 2008 to December 2009; Executive Vice President – Global Sustainment for Aeronautics from February 2007 to August 2008; President, Lockheed Martin Logistics Services Company from January 2007 to February 2007; and President and General Manager, Kelly Aviation Center, L.P. from August 2004 to December 2007.

Maryanne R. Lavan (53), Senior Vice President, General Counsel and Corporate Secretary

Ms. Lavan has served as Senior Vice President and General Counsel since June 2010 and Corporate Secretary since September 2010. She previously served as Vice President – Internal Audit from February 2007 to June 2010, and Vice President – Ethics and Business Conduct from October 2003 to February 2007.

Larry A. Lawson (54), Executive Vice President – Aeronautics

Mr. Lawson has served as Executive Vice President – Aeronautics since April 2012. He previously served as Vice President and General Manager, F-35 Program, from June 2010 to March 2012, and Vice President and General Manager, F-22 Program, from September 2004 to June 2010.

Joanne M. Maguire (58), Executive Vice President – Space Systems

Ms. Maguire has served as Executive Vice President – Space Systems since July 2006. Effective April 1, 2013, Ms. Maguire will step down as Executive Vice President – Space Systems, but will remain employed with the Corporation through May 1, 2013 when she will retire. Richard F. Ambrose, Vice President and Deputy, Space Systems, will succeed Ms. Maguire as the new Executive Vice President – Space Systems effective April 1, 2013.

Kenneth R. Possenriede (52), Vice President and Treasurer

Mr. Possenriede has served as Vice President and Treasurer since July 2011. He previously served as Vice President of Finance and Business Operations for Electronic Systems from July 2008 to June 2011, and as Vice President of Finance and Business Operations for Space Systems from September 2007 to June 2008.

Robert J. Stevens (61), Executive Chairman and Strategic Advisor to the Chief Executive Officer

Mr. Stevens has served as Executive Chairman and Strategic Advisor to the Chief Executive Officer since January 2013. He previously served as Chairman of the Board and Chief Executive Officer from January 2010 to December 2012, and Chairman of the Board, President and Chief Executive Officer from April 2005 to January 2010.

Bruce L. Tanner (53), Executive Vice President and Chief Financial Officer

Mr. Tanner has served as Executive Vice President and Chief Financial Officer since September 2007. He previously served as Vice President of Finance and Business Operations for Aeronautics from April 2006 to August 2007, and Vice President of Finance and Business Operations for Electronic Systems from May 2002 to March 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

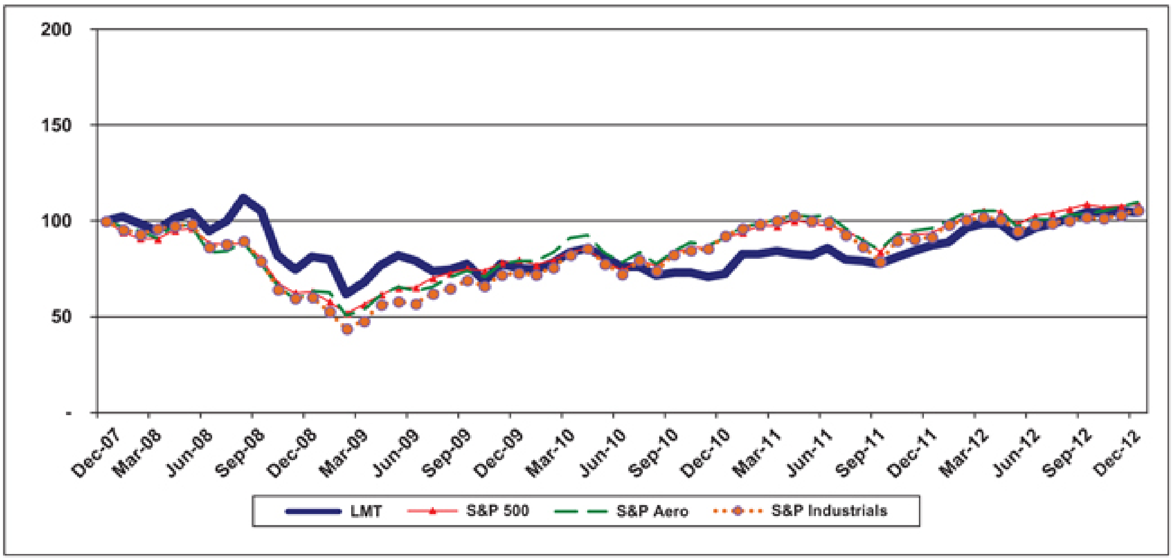
At January 31, 2013, we had 34,400 holders of record of our common stock, par value $1 per share. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol LMT. Information concerning the stock prices based on intra-day trading prices as reported on the NYSE composite transaction tape and dividends paid during the past two years is as follows:

Common Stock – Dividends Paid Per Share and Market Prices

	Dividends Paid Per Share		Market Prices (High-Low)	
Quarter	2012	2011	2012	2011
First	**$1.00**	$ .75	**$91.01 – $79.05**	$82.43 – $69.62
Second	**1.00**	.75	**92.24 – 80.14**	81.92 – 75.10
Third	**1.00**	.75	**93.99 – 83.15**	82.23 – 66.36
Fourth	**1.15**	1.00	**95.92 – 87.08**	81.86 – 70.37
Year	**$4.15**	$3.25	**$95.92 – $79.05**	$82.43 – $66.36

Stockholder Return Performance Graph

The following graph compares the total return on a cumulative basis of $100 invested in Lockheed Martin common stock on December 31, 2007 to the Standard and Poor's (S&P) 500 Index, S&P Aerospace & Defense (S&P Aero) Index, and the S&P Industrials Index.



The S&P Aero Index comprises General Dynamics Corporation, Honeywell International, Inc., L3 Communications Holdings, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, Precision Castparts Corporation, Raytheon Company, Rockwell Collins, Inc., Textron Inc., The Boeing Company, and United Technologies Corporation. The stockholder return performance indicated on the graph is not a guarantee of future performance.

The S&P Industrials Index comprises those companies included in the S&P 500 Index that are classified as members of the industrials sector as defined by the Global Industry Classification Standard.

This graph is not deemed to be "filed" with the U.S. Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933 or the Exchange Act.

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [(a)]	Amount Available for Future Share Repurchases Under the Program [(b)]
				(in millions)
October 1, 2012 – October 28, 2012	842,445	$93.38	842,445	$2,522
October 29, 2012 – November 25, 2012	872,973	90.86	872,973	2,443
November 26, 2012 – December 31, 2012	1,395,288	92.02	1,395,288	2,315
Total	3,110,706	$92.07	3,110,706	$2,315

(a) We repurchased a total of 3.1 million shares of our common stock for $286 million during the quarter ended December 31, 2012 under a share repurchase program that we announced in October 2010.

(b) Our Board of Directors has approved a share repurchase program for the repurchase of our common stock from time-to-time, authorizing an amount available for share repurchases of $6.5 billion. Under the program, management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. The program does not have an expiration date. As of December 31, 2012, we had repurchased a total of 54.3 million shares under the program for $4.2 billion.

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ITEM 6. SELECTED FINANCIAL DATA

(In millions, except per share data)	2012	2011	2010	2009	2008
OPERATING RESULTS					
Net sales	**$47,182**	$46,499	$45,671	$43,867	$41,212
Operating profit [(a)]	**4,434**	4,020	4,105	4,477	4,829
Net earnings from continuing operations [(a)(b)]	**2,745**	2,667	2,614	2,967	3,127
Net earnings [(c)]	**2,745**	2,655	2,878	2,973	3,185
EARNINGS PER COMMON SHARE					
Net earnings from continuing operations					
Basic [(a)]	**$ 8.48**	$ 7.94	$ 7.18	$ 7.71	$ 7.82
Diluted [(a)]	**8.36**	7.85	7.10	7.63	7.64
Net earnings					
Basic [(c)]	**8.48**	7.90	7.90	7.73	7.97
Diluted [(c)]	**8.36**	7.81	7.81	7.64	7.78
CASH DIVIDENDS PER COMMON SHARE	**$ 4.15**	$ 3.25	$ 2.64	$ 2.34	$ 1.83
BALANCE SHEET					
Cash, cash equivalents and short-term investments [(d)]	**$ 1,898**	$ 3,582	$ 2,777	$ 2,737	$ 2,229
Total current assets	**13,855**	14,094	12,893	12,529	10,736
Goodwill	**10,370**	10,148	9,605	9,948	9,526
Total assets [(e)]	**38,657**	37,908	35,113	35,167	33,495
Total current liabilities	**12,155**	12,130	11,401	10,910	10,702
Long-term debt, net [(d)]	**6,158**	6,460	5,019	5,052	3,563
Total liabilities [(e)]	**38,618**	36,907	31,616	31,201	30,742
Stockholders' equity [(e)]	**39**	1,001	3,497	3,966	2,753
COMMON SHARES AT YEAR-END	**321**	321	346	373	393
CASH FLOW DATA					
Net cash provided by operating activities [(f)]	**$ 1,561**	$ 4,253	$ 3,801	$ 3,487	$ 4,724
Net cash used for investing activities	**(1,222)**	(813)	(573)	(1,832)	(1,210)
Net cash used for financing activities	**(2,023)**	(2,119)	(3,358)	(1,432)	(3,994)
BACKLOG	**$82,300**	$80,700	$78,400	$77,300	$80,200

(a) Our operating profit and net earnings from continuing operations included severance charges of $48 million ($31 million or $.09 per share, after tax) in 2012 (Note 13); $136 million ($88 million or $.26 per share, after tax) in 2011 (Note 13); charges for the Voluntary Executive Separation Program and facilities consolidation totaling $220 million ($143 million or $.38 per share, after tax) in 2010 (Note 13); and non-cash FAS/CAS pension adjustment of $(830) million, $(922) million, $(454) million, $(456) million, and $128 million in 2012, 2011, 2010, 2009, and 2008. Earnings per common share benefited from the significant number of shares repurchased under our share repurchase program (Note 10).

(b) Our net earnings from continuing operations included an $89 million reduction in income tax expense in 2011 through the elimination of liabilities for unrecognized tax benefits; tax expense of $96 million in 2010 as a result of health care legislation that eliminated the tax deduction for company-paid retiree prescription drug expenses to the extent they are reimbursed under Medicare Part D; and a $69 million income tax benefit in 2009 for the resolution of certain tax matters (Note 7).

(c) Our net earnings were affected by the items in notes (a) and (b) above, as well as items related to discontinued operations such as a $184 million gain ($.50 per share) in 2010 on the sale of Enterprise Integration Group, and $73 million ($.20 per share) of benefits in 2010 for certain adjustments related to Pacific Architects and Engineers in 2010 (Note 14).

(d) The decrease in our cash from 2011 to 2012 primarily was due to an increase of $1.4 billion in contributions to our qualified defined benefit pension plans during 2012. The increase in our cash and long-term debt from 2010 to 2011 primarily was due to the issuance of $2.0 billion of long-term notes in 2011, partially offset by our redemption of $584 million in long-term notes in 2011 (Note 8). The increase in our long-term debt from 2008 to 2009 primarily was due to the issuance of $1.5 billion of long-term notes in 2009.

(e) The increase in our total assets and total liabilities and decrease in stockholders' equity from 2011 to 2012 and from 2010 to 2011 primarily was due to the annual remeasurement of the funded status of our postretirement benefit plans at December 31, 2012 and 2011 (Note 9).

(f) The decrease in our net cash provided by operating activities from 2011 to 2012 primarily was due to changes in working capital of $1.7 billion and increased pension contributions of $1.1 billion, net of CAS recoveries. See "Liquidity and Cash Flows" in Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of management, engineering, technical, scientific, logistic, and information services. We serve both domestic and international customers with products and services that have defense, civil, and commercial applications, with our principal customers being agencies of the U.S. Government. In 2012, 82% of our $47.2 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 61% from the Department of Defense (DoD)), 17% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government), and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security, and information technology, including cyber security.

We organize our business segments based on the nature of the products and services offered. Effective December 31, 2012, we operate in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST), and Space Systems. This structure reflects the reorganization of our former Electronic Systems business segment into the new MFC and MST business segments in order to streamline our operations and enhance customer alignment. In connection with this reorganization, management layers at our former Electronic Systems business segment and our former Global Training and Logistics (GTL) business were eliminated, and the former GTL business was split between the two new business segments. In addition, operating results for Sandia Corporation, which manages the Sandia National Laboratories for the U.S. Department of Energy, and our equity interest in the U.K. Atomic Weapons Establishment (AWE) joint venture were transferred from our former Electronic Systems business segment to our Space Systems business segment. The amounts, discussion, and presentation of our business segments reflect this reorganization for all years presented in this Annual Report on Form 10-K.

We are operating in an environment that is characterized by both increasing complexity in global security, as well as continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of our products and services, and placing more security capability quickly into the hands of both our domestic and international customers at affordable prices. Recognizing that our customers are resource constrained, we are endeavoring to develop and extend our portfolio in a disciplined manner with a focus on adjacent markets close to our core capabilities. Despite the challenges we face, we expect to continue to invest in technologies to fulfill new mission requirements for our customers, invest in our people so that we have the technical skills necessary to be successful in this environment, and return at least 50% of free cash flow[1] to investors in the form of dividends and share repurchases.

Our outlook for 2013 is premised on the assumption that sequestration does not occur, that the U.S. Government continues to support and fund our programs, which is consistent with the continuing resolution funding measure through March 27, 2013, and that Congress approves defense budget legislation for government fiscal year (GFY) 2013 at a level consistent with the President's proposed defense budget for the second half of the U.S. Government's fiscal year 2013. With these assumptions, we expect 2013 net sales will decline at a mid single digit percentage rate from the record 2012 net sales amount, due to an anticipated reduction in net sales at four of five of our business segments as discussed in the "Business Segment Results of Operations" section below. We expect our 2013 segment operating profit will also decrease from 2012 levels at a slightly higher percentage rate than the decline in net sales due to the factors mentioned in the "Business Segment Results of Operations" section below, and 2013 segment operating profit margin will accordingly be slightly lower than 2012 levels. If sequestration or other budgetary cuts in lieu of sequestration occur, we expect these budget reductions would have a material effect on our corporation as discussed in the "Industry Considerations" section below and Item 1A- Risk Factors.

Industry Considerations

U.S. Government Business

Budget Priorities

The U.S. Government continues to focus on discretionary spending, entitlements, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. The Administration and Congress are attempting to balance decisions

[1] We define free cash flow as cash from operations as determined under U.S. generally accepted accounting principles (GAAP), less capital expenditures as presented on our Statements of Cash Flows.

regarding defense, homeland security, and other federal spending priorities in a constrained fiscal environment imposed by the Budget Control Act of 2011 (Budget Act), which reduced defense spending by a minimum of $487 billion over a ten-year period that began in GFY 2012. In light of the Budget Act and deficit reduction pressures generally, it is likely that discretionary spending by the federal government will remain constrained for a number of years.

Notably, should Congress and the Administration fail to change or further delay the pending sequestration of appropriations in GFY 2013 imposed by the Budget Act, currently scheduled to take effect on March 1, 2013 as adjusted by the American Taxpayer Relief Act of 2012 (Taxpayer Relief Act), both our DoD and non-DoD customers' budgets would be reduced significantly and there would be a direct and significant reduction in our customers' contract awards. Although the Taxpayer Relief Act delayed sequestration two months from January 2, 2013, to March 1, 2013, and reduced the amount of the GFY 2013 budget cuts, the impacts to our customers remain significant with limited time to implement spending reductions required under sequestration.

In addition, Congress passed a continuing resolution funding measure for GFY 2013 to finance all U.S. Government activities through March 27, 2013. Under this continuing resolution, partial-year funding at amounts consistent with appropriated levels for GFY 2012 are available, subject to certain restrictions, but new spending initiatives are not authorized. Our key programs continue to be supported and funded under the continuing resolution financing mechanism. However, during periods covered by continuing resolutions (or until the regular appropriation bills are passed), and pending decisions related to sequestration we may experience delays in the receipt of orders for our products and services due to lack of funding, and those delays may affect our results of operations and cash flows.

While the specific effects of sequestration still cannot be determined, automatic across-the-board cuts would approximately double the amount of the ten-year $487 billion reduction in defense spending that began in GFY 2012 already required by the Budget Act, including the budget for Overseas Contingencies Operations (OCO) and any unobligated balances from prior years, and would have significant consequences to our business and industry. Non-DoD agencies would also have significantly reduced budgets. There would be disruption of ongoing programs, impacts to our supply chain, contractual actions (including partial or complete terminations), potential facilities closures, and thousands of personnel reductions across the industry that would severely impact advanced manufacturing operations and engineering expertise, and accelerate the loss of skills and knowledge.

Current estimates suggest that sequestration would reduce total GFY 2013 non-military personnel defense funding by 9% to approximately $500 billion. In addition, general estimates suggest that sequestration could result in an approximate 5% reduction to the total GFY 2013 non-defense budget. However, if sequestration goes into effect on March 1, 2013, government agencies will have already expended funds for several months of GFY 2013. Therefore, in order to achieve the across-the-board cuts imposed by sequestration over a shorter time period, the effective percentage reductions for the remaining months of GFY 2013 would be higher than the above percentages. While current DoD planning for the ongoing continuing resolution has focused on operating accounts in lieu of other accounts such as procurement and research, development, training, and evaluation due to the ability to quickly adjust activities and programs funded in these accounts, we understand that sequestration related cuts are likely to be applied across-the-board at the individual program, project, and activity level, thus impacting all defense programs and contractors regardless of how they align to our country's most critical national priorities and mission areas. Consequently, we expect that sequestration, or other budgetary cuts in lieu of sequestration, would have a material effect on our corporation.

Our current sales outlook for 2013 is a mid single digit percentage rate decline from our record 2012 net sales amount, presuming sequestration does not occur, the continuing resolution ends on March 27, 2013, and other factors. Based on our preliminary understanding of sequestration and noting that it is difficult to estimate how sequestration would be implemented, we believe that, should Congress and the Administration fail to change or further delay sequestration, our 2013 net sales would be lower than 2012 net sales by more than the mid single digit outlook noted above. Future years could be materially impacted. However, subject to the uncertainty described above, we expect that the impact of sequestration on our operating results may lag in certain of our businesses with longer cycles such as our Aeronautics and Space Systems business segments, and our products businesses within our MFC and MST business segments, due to our production contract backlog being funded with money from the U.S. Government's GFY 2012 and prior budgets. We expect that earnings and cash flow reductions, prior to restructuring activities, would generally follow a pattern similar to the net sales reductions. We are unable to reasonably estimate the cost and cash flow impact of any restructuring initiatives (potentially including but not limited to severance payments made to employees, facility closure expenses, and impairments of assets, including goodwill) to align our cost structure to a lower sales base.

Sequestration likely would result in significant rescheduling or termination activity with our supplier base. Such activity likely would result in claims from our suppliers, which may include both the amount established in any settlement agreements, the costs of evaluating the supplier settlement proposals, and the costs of negotiating settlement agreements. We expect that these costs would be recovered from our customers.

Lockheed Martin is committed to the fair treatment of its employees and compliance with law. Accordingly, if sequestration or other budget cuts intended to avoid sequestration occur, we will provide affected employees the notice required by the federal and applicable state Worker Adjustment and Retraining Notification (WARN) Acts when we conclude, based on the circumstances and those laws, that notice is required or otherwise appropriate. The Office of Management and Budget and DoD have issued guidance intended to assure that the costs of complying with federal and state WARN Acts are recoverable, and we expect to recover these costs.

Despite the continuing uncertainty on U.S. Government budgets, the investments and acquisitions we have made in recent years have sought to align our businesses with what we believe are the most critical national priorities and mission areas. The possibility remains, however, that our programs could be materially reduced, extended, or terminated as a result of the government's continuing assessment of priorities, changes in government priorities, the implementation of sequestration, or other budget cuts intended to avoid sequestration.

Department of Defense Business

The passage of the Budget Act imposed specific limits on security and non-security spending beginning in GFY 2013. The GFY 2013 DoD base budget is the first to reflect the reduced spending limits imposed by the Budget Act and is consistent with its limits on discretionary spending. The GFY 2014 request has been delayed as a result of the ongoing federal budgetary negotiations. The GFY 2014 request will likely reflect a continuation of the spending limits with some variation as a result of sequester negotiations.

In prior years, the Administration has requested and Congress has provided funds for U.S. military operations in Afghanistan and Iraq, and other unforeseeable contingency or peacekeeping operations, through a separate OCO funding outside of the base DoD budget. The OCO funding for GFY 2012 totaled $115 billion, and the Administration requested $88 billion for GFY 2013. We expect that the fiscal 2014 request will continue these reductions, reflecting the completion of U.S. military operations in Iraq and reduced operations in Afghanistan. Our net sales historically have not been significantly dependent on overseas contingency or supplemental funding requests and, therefore, we continue to focus our attention on the DoD's base budget for support and funding of our programs.

The GFY 2013 budget proposal reflected the Administration's new national security strategy and is consistent with the lower spending levels imposed by the Budget Act. We have no specific indications that the GFY 2014 budget will deviate significantly, other than the reduction due to the sequester delay as described above, from the estimated spending levels in the GFY 2013 request. Despite these reduced defense spending levels, we believe our broad mix of programs and capabilities continues to position us favorably to support the current and future needs of the DoD and our programs were well supported in the GFY 2013 budget request. For example, the budget supported continuation of all three variants of the F-35 and maintains the same ultimate inventory objective of 2,443 aircraft for the U.S. Government. Additionally, the DoD has specifically cited continued support for a broad spectrum of our programs.

Given the Administration's emphasis on affordability and the need to find further efficiencies in the management and operations of DoD, the need for more affordable logistics and sustainment, expansive use of information technology and knowledge-based solutions, and vastly improved levels of network and cyber security, all remain national priorities. To address these priorities, we continue to focus on growing our portfolio in these areas, diversifying our business, and expanding into adjacent businesses and programs that include surface naval vessels, unmanned aerial systems, rotary wing aviation, and land vehicles.

Non-Department of Defense Business

Our experience in the defense arena, together with our core information technology and services expertise, has enabled us to provide products and services to a number of government agencies, including the Departments of Homeland Security, Justice, Commerce, Health and Human Services, Transportation, and Energy, the U.S. Postal Service, the Social Security Administration (SSA), the Federal Aviation Administration, the National Aeronautics and Space Administration, the Veterans Administration, National Science Foundation, and the Environmental Protection Agency (EPA).

As with the DoD, all other departments and agencies were impacted by the Budget Act. The result would be that budgets for GFY 2013 and beyond will be reduced further below the GFY 2012 budget. Should sequester go into effect on March 1, 2013, our non-DoD customers will also be significantly affected as the across-the-board reductions will also be applied to their available GFY 2013 discretionary funds. Our businesses with smaller, short-term contracts that work with our non-DoD customers could be significantly impacted by the across-the-board reductions, such as our IS&GS business segment.

We have continued to expand our capabilities in critical intelligence, knowledge management, and Government information technology solutions for our customers, including the SSA and the Centers for Medicare and Medicaid Services. We also provide program management, business strategy and consulting, complex systems development and maintenance, complete life-cycle software support, information assurance, and enterprise solutions. We believe that there will be continued demand by federal and civil government agencies for upgrading and investing in new information technology systems and solutions in order to reduce costs of operations, but at a slower pace in the near term. In addition, we believe there are opportunities in the health care and energy space.

Consistent with our DoD business, a more expansive use of information technology and knowledge-based solutions, and improved levels of network and cyber security all appear to be priorities in our non-DoD business as well. Homeland security, critical infrastructure protection, and improved service levels for civil government agencies also appear to be high customer priorities.

Other Business Considerations

International Business

We remain committed to growth in our sales to international customers. We conduct business with other governments primarily through our Aeronautics, MFC, and MST business segments. Our international sales are comprised of FMS transactions contracted through the U.S. Government and direct commercial sales transactions in which we sell directly to the international customer.

In Aeronautics, the U.S. Government and eight other government development partners are working together on the design, testing, production, and sustainment of the F-35 Lightning II, and Israel and Japan have selected the F-35 as their next generation combat aircraft. The first international deliveries of the F-35 were made in 2012, with two aircraft delivered to the United Kingdom. The number of aircraft for international customers in the more recent and future low-rate initial production (LRIP) contracts continues to increase. The F-16 Fighting Falcon has been selected by 26 customers worldwide, including recent orders from Iraq and Oman, with 54 follow-on buys from 15 countries. We continue to expand the C-130J Super Hercules air mobility aircraft’s international footprint with customers in 15 countries. In global sustainment, we are leveraging our value as the original equipment manufacturer (OEM) for our major platforms, such as our agreement to upgrade 145 F-16 aircraft for Taiwan. We have also set up new production capabilities to provide service life extension, including new wings and support for the U.S., Norway, Canada, and Taiwan’s P-3 fleet.

Our MFC business segment produces the Patriot Advanced Capability-3 (PAC-3) missile, an advanced defensive missile designed to intercept incoming airborne threats, for international customers including Japan, Germany, the Netherlands, Taiwan, and the United Arab Emirates (UAE). Additionally, the UAE entered into a FMS agreement with the U.S. Government for the first international sale of the Terminal High Altitude Area Defense (THAAD) missile defense system, with expectations for further production awards. Other countries in the Middle East as well as those in the Asia-Pacific region have also expressed interest in our air and missile defense systems.

In MST, with regard to the Aegis Combat System (Aegis), we perform activities in the development, production, ship integration and test, and lifetime support for ships of international customers such as Japan, Spain, Korea, and Australia. The system also has been selected to be used as a ground-based missile defense system in Europe, referred to as “Aegis Ashore.” This business segment has contracts with the Canadian Government for the upgrade and support of combat systems on Halifax class frigates. The Littoral Combat Ship (LCS) is another program generating interest from potential international customers. We are responsible for integrating mission systems and sensors, including the digital cockpit and weapons, for the MH-60 maritime helicopter produced for the Royal Australian Navy, and in 2012 the Danish government signed an official letter of offer and acceptance formalizing its intent to buy nine MH-60R helicopters. We continue to upgrade the United Kingdom’s Warrior fighting vehicles, an award received in 2011.

Status of F-35 Program

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

On the development contract, our flight tests and test points were ahead of our goals for the year and the aircraft also surpassed 5,000 flight hours. The development contract currently has $530 million of incentive fees remaining; however, we expect to have the opportunity to earn approximately $350 million of this amount over the remainder of the contract. This amount includes about $100 million of fees that we expect will be allocated to specific milestones with the remainder allocated to a customer assessment of performance at the end of the development contract. After updating our estimates at completion on the contract in 2012, we reduced the profit booking rate to reflect lower expected estimated fees at completion. The inception to date impact of the revised booking rate reduced profit by approximately $85 million during 2012. We will continue to record profit at the revised booking rate for the duration of the contract unless further adjustments are necessary.

We continue to make progress on our production tempo with the delivery of 30 aircraft to our domestic and international customers during the year, bringing the cumulative deliveries total to 58, which includes 20 development aircraft and 38 production aircraft. We also made significant contractual progress recently with the completion of negotiations on the LRIP 5 aircraft contract, award of an undefinitized contract for certain LRIP 6 aircraft, and received long lead funding for LRIP 7 aircraft. We have 88 production aircraft in backlog as of December 31, 2012.

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

Portfolio Shaping Activities

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our customers. We accomplish this in part by our independent research and development activities, and through acquisition, divestiture, and internal realignment activities. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services.

We selectively pursue the acquisition of businesses and investments at attractive valuations that will expand or complement our current portfolio and allow access to new customers or technologies. We have made a number of niche acquisitions of businesses and investments in affiliates during the past several years. We also may explore the divestiture of businesses. In pursuing our business strategy, we routinely conduct discussions, evaluate targets, and enter into agreements regarding possible acquisitions, divestitures, joint ventures, and equity investments.

We used $304 million and $649 million for the acquisitions of businesses in 2012 and 2011. In 2012, we acquired Chandler/May, Inc. (Chandler/May) and CDL Systems Ltd. (CDL) in the fourth quarter and Procerus Technologies, L.C. (Procerus) in the first quarter. These companies specialize in the design, development, manufacturing, control, and support of advanced unmanned systems, which expand our offerings in support of our customers' increased emphasis on advanced unmanned systems and are consistent with our strategy to maintain a portfolio of technology advanced options. These companies are part of our MST business segment where they have been integrated into our portfolio of unmanned systems and technologies to align their product and service offerings to the U.S. Army.

In 2011, we acquired QTC Holdings Inc. (QTC) and Sim-Industries B.V. (Sim Industries) in the fourth quarter. QTC provides outsourced medical evaluation services to the U.S. Government and has been included in our IS&GS business segment. Sim Industries designs, develops, and manufactures full-motion and fixed-based civil aviation flight simulators for a wide range of airline customers and independent pilot training centers worldwide and has been included in our MST business segment. These companies complement our core capabilities and align with our strategy to expand into closely related markets and expand our customer base.

In pursuing our business strategies, we have also divested certain businesses over the past three years. Recent divestitures consisted of Savi Technology, Inc. (Savi) in 2012, Pacific Architects and Engineers, Inc. (PAE) in 2011, and Enterprise Integration Group (EIG) in 2010. For additional information, see "Note 14 – Acquisitions and Divestitures" of our consolidated financial statements.

Consolidated Results of Operations

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

	2012	2011	2010
Operating results			
Net sales	**$ 47,182**	$ 46,499	$ 45,671
Cost of sales [(a)]	**(42,986)**	(42,755)	(41,827)
Other income, net	**238**	276	261
Operating profit [(a)]	**4,434**	4,020	4,105
Interest expense	**(383)**	(354)	(345)
Other non-operating income (expense), net [(a)]	**21**	(35)	18
Income tax expense	**(1,327)**	(964)	(1,164)
Net earnings from continuing operations	**2,745**	2,667	2,614
Net (loss) earnings from discontinued operations	**—**	(12)	264
Net earnings	**$ 2,745**	$ 2,655	$ 2,878
Diluted earnings (loss) per common share			
Continuing operations	**$ 8.36**	$ 7.85	$ 7.10
Discontinued operations	**—**	(.04)	.71
Total	**$ 8.36**	$ 7.81	$ 7.81

(a) In the fourth quarter of 2012, gains and losses on investments used to fund our deferred compensation plan liabilities were reclassified from other non-operating income (expense), net to other unallocated costs within cost of sales for all years presented on our Statements of Earnings in order to align the classification of changes in the market value of investments held for the plan with changes in the value of the corresponding plan liabilities. The amounts in the above table and all prior year amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations reflect, as appropriate, this reclassification. Net gains on these investments in 2012, 2011, and 2010 were $67 million, $40 million, and $56 million.

The following provides an overview of our consolidated results of operations. Product sales are predominantly generated in the Aeronautics, MFC, MST, and Space Systems business segments, and most of our services sales are generated in our IS&GS and MFC business segments. Our consolidated net sales were as follows (in millions):

Net Sales

	2012	2011	2010
Net sales			
Products	**$37,817**	$36,925	$36,380
Services	**9,365**	9,574	9,291
Total	**$47,182**	$46,499	$45,671

Substantially all of our contracts are accounted for using the percentage-of-completion (POC) method of accounting. Under the POC method, we record net sales on contracts based upon our progress towards completion on a particular contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our consolidated net sales should be read in tandem with the following discussion of changes in our consolidated cost of sales and our "Business Segment Results of Operations" section because, due to the nature of POC accounting, changes in our sales are typically accompanied by a corresponding change in our cost of sales.

Product Sales

Our product sales represent about 80% of our net sales for both 2012 and 2011. Product sales increased $892 million, or 2% in 2012 compared to 2011 due to production volume and deliveries, as well as higher risk retirements on certain programs. Product sales increased about $555 million at Aeronautics (e.g., F-35 LRIP contracts, F-16 deliveries); about $510 million at MST (e.g., ship and aviation system programs); about $225 million at Space Systems (e.g., commercial satellites, Orion Multi-Purpose Crew Vehicle (Orion) program); and about $100 million at MFC (e.g., tactical missile programs and air and missile defense programs). These increases partially were offset by lower product sales of about $495 million at IS&GS (e.g., Joint Tactical Radio System (JTRS), U.K. Census).

Our product sales represent about 80% of our net sales for both 2011 and 2010. Product sales increased $545 million, or 1%, in 2011 compared to 2010 due to production volume and deliveries, as well as higher risk retirements on certain programs. Product sales increased about $1.2 billion at Aeronautics (e.g., F-35 LRIP contracts, C-130 programs) and about $320 million at MFC (e.g., air and missile defense programs). These increases partially were offset by lower product sales of about $700 million at IS&GS (e.g., Decennial Response Integration System (DRIS) program that supported the 2010 U.S. census, JTRS); about $260 million at MST (e.g., ship and aviation system programs); and about $60 million at Space Systems (e.g., Orion program and the National Aeronautics and Space Administration (NASA) External Tank program).

Services Sales

Our services sales represent about 20% of our net sales for 2012 and 2011. Our services sales decreased $209 million, or 2%, during 2012 compared to 2011. Services sales at MFC decreased about $105 million primarily due to lower volume and risk retirements on various services programs. Services sales at MST decreased about $60 million primarily due to lower volume on various training services programs. Services sales at IS&GS decreased about $40 million primarily due to the substantial completion of the Outsourcing Desktop Initiative for NASA (ODIN) during 2011 and lower volume on the Hanford Mission Support (Hanford) contract, partially offset by higher net sales from QTC, which was acquired in the fourth quarter of 2011.

Our services sales represent about 20% of our net sales for 2011 and 2010. Our services sales increased $283 million, or 3%, during 2011 compared to 2010. The increase in services sales was attributable to higher services sales at both our MFC and IS&GS business segments. Services sales at MFC increased about $215 million primarily due to growth on the Special Operations Forces Contractor Logistics Support Services (SOF CLSS) program, partially offset by decreased volume on various services programs. Services sales at IS&GS increased about $155 million due to activities on a number of smaller contracts.

Cost of Sales

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

	2012	**2011**	**2010**
Cost of sales			
Cost of product sales	**$33,495**	$32,968	$32,539
% of product sales	**88.6%**	89.3%	89.4%
Cost of services sales	**8,383**	8,514	8,382
% of services sales	**89.5%**	88.9%	90.2%
Severance and other charges	**48**	136	220
Other unallocated costs	**1,060**	1,137	686
Total	**$42,986**	$42,755	$41,827

Due to the nature of POC accounting, changes in our cost of product and services sales are typically accompanied by changes in our net sales. The following discussion of material changes in our consolidated cost of sales should be read in tandem with the preceding discussion of changes in our consolidated net sales and with our “Business Segment Results of Operations” section. We have not identified any developing trends in cost of sales that would have a material impact on our future operations.

Cost of Product Sales

The increase of $527 million, or 2%, in cost of product sales during 2012 compared to 2011 was attributable to higher cost of product sales at our Aeronautics, MST, and Space Systems business segments, partially offset by lower cost of product sales at our IS&GS and MFC business segments. Cost of product sales at Aeronautics increased by about $520 million primarily due to increased production volume on various programs, including F-35 LRIP contracts, and the impact of additional aircraft deliveries. Cost of product sales at MST increased by about $485 million primarily due to increased volume on ship and aviation system programs partially offset by reserves of about $55 million for contract cost matters on ship and aviation system programs recorded in the fourth quarter of 2011 (including the terminated presidential helicopter program). Cost of product sales at Space Systems increased by about $180 million primarily due to increased volume on commercial satellites programs, Orion, and various strategic and defensive missile programs. Cost of product sales at IS&GS decreased by about $530 million primarily due to the substantial completion of various programs during 2011 as well as lower volume on numerous other programs. Cost of product sales at MFC decreased by about $70 million primarily due to higher risk retirements from tactical missile programs and fire control systems programs as well as the favorable resolution of contractual matters, partially offset by volume on air and missile defense programs. The 0.7% decrease in the percentage of cost of product sales relative to product sales in 2012 compared to 2011 primarily was due to higher risk retirements (primarily tactical missile programs) as well as the favorable resolution of contractual matters at MFC and higher risk retirements and lower reserves on ship and aviation system programs at MST.

The increase of $429 million, or 1%, in cost of product sales during 2011 compared to 2010 was attributable to higher cost of product sales at our Aeronautics and MFC business segments, partially offset by lower cost of product sales at our IS&GS, MST, and Space Systems business segments. Cost of product sales at Aeronautics increased by about $1.1 billion primarily due to higher production volume on various programs, including F-35 LRIP contracts, and the impact of additional aircraft deliveries. Cost of product sales at MFC increased about $260 million primarily due to production on air and missile defense programs. Cost of product sales at IS&GS decreased about $560 million primarily due to the absence of the DRIS program and lower volume on the JTRS program. Cost of product sales at MST decreased about $230 million primarily due to decreased volume on certain ship and aviation system programs and recording of reserves on certain undersea systems programs in 2010. Cost of product sales decreased at Space Systems by about $120 million primarily due to lower volume on the NASA External Tank and Orion programs.

Cost of Services Sales

Our cost of services sales decreased $131 million, or 2%, during 2012 compared to 2011. Most of our cost of services sales are in the IS&GS and MFC business segments. The decrease in cost of services sales primarily was attributable to lower cost of services sales at our MFC and MST business segments, partially offset by higher cost of services sales at our IS&GS business segment. Cost of services sales at MFC decreased approximately $105 million primarily due to lower volume on various services programs. Cost of services sales at MST decreased approximately $90 million primarily due to lower volume on various training services programs. Cost of services sales at IS&GS increased approximately $80 million primarily due to higher net sales from QTC, which was acquired in the fourth quarter of 2011, and various other services programs partially offset by lower costs from the substantial completion of ODIN in 2011 and lower volume on the Hanford contract. The 0.6% increase in the percentage of cost of services sales relative to services sales in 2012 compared to 2011 primarily was due to risk retirements on the ODIN and Hanford contracts in 2011.

Our cost of services sales increased $132 million, or 2%, during 2011 compared to 2010. The increase in cost of services sales primarily was attributable to higher cost of services sales at our MFC business segment, partially offset by lower cost of services sales at our IS&GS business segment. Cost of services sales at MFC increased approximately $190 million primarily due to growth on the SOF CLSS program. Cost of services sales at IS&GS decreased by about $55 million primarily due to higher margins as the result of risk retirements on various programs (including ODIN) during 2011 and the recording of reserves on various programs in 2010. The 1.3% decrease in the percentage of cost of services sales relative to services sales in 2011 compared to 2010 primarily was due to the retirement of risks and other factors on numerous programs at IS&GS, partially offset by volume on SOF CLSS, which provides a lower margin relative to other MFC programs.

Severance and Other Charges

During 2012, we recorded charges related to certain severance actions totaling $48 million, net of state tax benefits, of which $25 million related to our Aeronautics business segment and $23 million related to the reorganization of our former Electronic Systems business segment (Note 3). These charges reduced our net earnings by $31 million ($.09 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. The severance actions at our Aeronautics business segment resulted from cost reduction initiatives, including the consolidation of selected program support activities among certain Aeronautics locations.

During 2011, we recorded severance charges related to various severance actions totaling $136 million, net of state tax benefits, of which $49 million, $48 million, and $39 million related to our Aeronautics business segment, Space Systems business segment, and our IS&GS business segment and Corporate Headquarters. These charges reduced our net earnings by $88 million ($.26 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. These severance actions resulted from a strategic review of these businesses and our Corporate Headquarters to better align our organization and cost structure with changing economic conditions. The workforce reductions at the business segments also reflect changes in program lifecycles, where several of our major programs are either transitioning out of development and into production or are ending.

During 2010, we recorded a charge of $178 million, net of state tax benefits, related to the Voluntary Executive Separation Program (VESP). The charge, which included lump-sum special payments for qualifying executives, reduced our net earnings by $116 million ($.31 per share). The amounts of the VESP attributable to our business segments were $25 million at Aeronautics, $42 million at IS&GS, $17 million at MFC, $21 million at MST, and $41 million at Space Systems. The remaining $32 million was attributable to our Corporate Headquarters. Also, in 2010, our MST business segment decided to consolidate certain of its operations, including the closure of a facility in Eagan, Minnesota. Accordingly, we recorded a charge to cost of sales of $42 million, net of state tax benefits, which reduced our net earnings by $27 million ($.07 per share). The majority of the charge was associated with the accrual of severance payments to employees, with the remainder associated with impairment of assets.

We expect to recover a substantial amount of these severance charges, including the charge related to the VESP, in future periods through the pricing of our products and services to the U.S. Government and other customers. While the VESP is expected to be recovered over several years, the other severance charges are typically expected to be recovered within a one-year period after the charge has been incurred, with the impact included in the respective business segment’s results of operations.

Other Unallocated Costs

Other unallocated costs principally include the non-cash FAS/CAS pension adjustment, stock-based compensation, and other corporate costs. These costs are not allocated to the business segments and, therefore, are excluded from the costs of product and services sales (see “Note 3 – Information on Business Segments” of our consolidated financial statements for a description of these items). The $77 million decrease in other unallocated costs between 2012 and 2011 primarily was due to a decrease in the non-cash FAS/CAS pension adjustment of $92 million, partially offset by fluctuations in costs associated with various corporate items, none of which were individually significant. Other unallocated costs increased $451 million between 2011 and 2010, primarily attributable to an increase in the non-cash FAS/CAS pension adjustment of $468 million, which included increased FAS pension expense in 2011 compared to 2010 due primarily to the decrease in the discount rate in 2011. For more information, see the related discussion in “Critical Accounting Policies - Postretirement Benefit Plans.”

Other Income, Net

Other income, net for 2012 was $238 million, compared to $276 million in 2011 and $261 million in 2010. The changes between years primarily were due to fluctuations in equity earnings in investees in our Space Systems business segment.

Interest Expense

Interest expense for 2012 was $383 million, compared to $354 million in 2011 and $345 million in 2010. The increase between the years primarily was due to increased interest expense from the $2.0 billion issuance of long-term debt on September 9, 2011, partially offset by the redemption of $500 million in certain long-term notes in the fourth quarter of 2011.

Other Non-Operating Income (Expense), Net

Other non-operating income (expense), net was $21 million in 2012, compared to $(35) million in 2011 and $18 million in 2010. The change between years primarily was due to premiums of $48 million on early extinguishments of debt that occurred in 2011 (Note 8).

Income Tax Expense

Our effective income tax rate from continuing operations was 32.6% for 2012, 26.5% for 2011, and 30.8% for 2010. The rates for all periods benefited from tax deductions for dividends related to certain of our defined contribution plans with an employee stock ownership plan feature and tax deductions for U.S. manufacturing activities.

The effective income tax rate for 2012 included a reduction in the income tax benefit of the U.S. manufacturing deduction primarily caused by the $2.5 billion discretionary pension contributions in the fourth quarter of 2012, which increased income tax expense by $59 million ($.18 per share). As a result of the accelerated pension contributions in 2012, we expect to capture most of the reduced manufacturing deduction over the next two years through higher taxable income. The effective income tax rate for 2011 included a reduction to income tax expense of $89 million, or $.26 per diluted share, through the elimination of liabilities for unrecognized tax benefits as a result of the U.S. Congressional Joint Committee on Taxation completing its review of the Internal Revenue Service Appeals Division's resolution of adjustments related to tax years 2003 through 2008. The effective income tax rates for 2011 and 2010 also included the U.S. research and development (R&D) tax credit that expired on December 31, 2011.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012, which retroactively reinstates the R&D credit for two years, from January 1, 2012 through December 31, 2013. Since tax law changes are recognized in the period in which new legislation is enacted, the Corporation did not recognize the tax benefit of the R&D tax credit in 2012. The effective tax rate for 2010 was affected by the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which eliminated the tax deduction for company-paid retiree prescription drug expenses to the extent they are reimbursed under Medicare Part D, beginning in 2013. As a result, we recorded additional income tax expense of $96 million in 2010.

Net Earnings from Continuing Operations

We reported net earnings from continuing operations of $2.75 billion ($8.36 per share) in 2012, $2.67 billion ($7.85 per share) in 2011, and $2.61 billion ($7.10 per share) in 2010. Both net earnings from continuing operations and earnings per share were affected by the factors discussed above. In addition, earnings per share in 2011 and 2010 benefited from a net decrease of common shares outstanding as a result of shares repurchased, which were partially offset by share issuances under our stock-based awards and certain defined contribution plans. Net decreases of 25.1 million and 27.0 million in 2011 and 2010 represented 7% and 7% of our shares outstanding at the beginning of each year.

Net (Loss) Earnings from Discontinued Operations

Amounts related to discontinued operations in 2012 were not significant and, accordingly, were included in operating profit. Discontinued operations for 2011 include the operating results and other adjustments of Savi, a logistics business that was in our former Electronic Systems business segment sold in the third quarter of 2012 , and PAE, a business formerly within our IS&GS business segment sold in the second quarter of 2011. Discontinued operations for 2010 include the operating results of Savi, PAE, and EIG through the date of its sale in the fourth quarter of 2010. Net loss from discontinued operations were $12 million ($.04 per share) in 2011, and net earnings from discontinued operations of $264 million ($.71 per share) in 2010.

Net earnings from discontinued operations for 2011 included a deferred tax asset of $66 million that we expected to realize on the sale of Savi because our tax basis was higher than our book basis. This tax benefit was largely offset by operating losses and other adjustments. Net earnings from discontinued operations for 2010 included a gain, net of income taxes, of $184 million ($.50 per share) from the sale of EIG. Additionally, as a result of our decision to sell PAE in 2010, we recorded net adjustments that increased 2010 earnings from discontinued operations by $73 million ($.20 per share). For more information, see "Note 14 – Acquisitions and Divestitures" of our consolidated financial statements.

Business Segment Results of Operations

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

Net sales of our business segments exclude intersegment sales, as these activities are eliminated in consolidation. Intercompany transactions are generally negotiated under terms and conditions similar to our third-party contracts.

Operating profit of our business segments includes equity earnings or losses from investees because the operating activities of the investees are closely aligned with the operations of those business segments. Operating profit of our business segments excludes the non-cash FAS/CAS pension adjustment described below; expense for stock-based compensation programs; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to significant severance actions in 2012 and 2011 and the charges in 2010 related to the VESP and the facilities consolidation within MST (Note 13); gains or losses from divestitures (Note 14); the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item "Unallocated expenses, net" between operating profit from our business segments and our consolidated operating profit.

The results of operations of our business segments include pension expense only as determined and funded in accordance with U.S. Government Cost Accounting Standards (CAS). The non-cash FAS/CAS pension adjustment represents the difference between pension expense calculated in accordance with GAAP and pension costs calculated and funded in accordance with CAS. CAS governs the extent to which pension costs can be allocated to and recovered on U.S. Government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in each of our business segments' net sales and cost of sales.

The operating results in the following tables exclude businesses included in discontinued operations (Note 14) for all years presented. Summary operating results for each of our business segments were as follows (in millions):

	2012	2011	2010
Net sales			
Aeronautics	**$14,953**	$14,362	$13,109
Information Systems & Global Solutions	**8,846**	9,381	9,921
Missiles and Fire Control	**7,457**	7,463	6,930
Mission Systems and Training	**7,579**	7,132	7,443
Space Systems	**8,347**	8,161	8,268
Total net sales	**$47,182**	$46,499	$45,671
Operating profit			
Aeronautics	**$ 1,699**	$ 1,630	$ 1,498
Information Systems & Global Solutions	**808**	874	814
Missiles and Fire Control	**1,256**	1,069	973
Mission Systems and Training	**737**	645	713
Space Systems	**1,083**	1,063	1,030
Total business segment operating profit	**5,583**	5,281	5,028
Unallocated expenses, net:			
Non-cash FAS/CAS pension adjustment:			
FAS pension expense	**(1,941)**	(1,821)	(1,442)
Less: CAS expense	**1,111**	899	988
Non-cash FAS/CAS pension adjustment [a]	**(830)**	(922)	(454)
Severance and other charges [b]	**(48)**	(136)	(220)
Stock-based compensation	**(167)**	(157)	(168)
Other, net [c]	**(104)**	(46)	(81)
Total unallocated expenses, net	**(1,149)**	(1,261)	(923)
Total consolidated operating profit	**$ 4,434**	$ 4,020	$ 4,105

(a) FAS pension expense increased in 2012 compared to 2011, and in 2011 to 2010, primarily due to the decrease in the discount rate in 2012 and 2011. The segment operating profit includes pension expense only as determined and funded in accordance with CAS. The non-cash FAS/CAS pension adjustment is expected to be about $(485) million in 2013. For more information, see the related discussion in "Critical Accounting Policies - Postretirement Benefit Plans").

(b) Severance and other charges include the severance charges recorded in 2012 associated with our Aeronautics business segment and the reorganization of our former Electronic Systems business segment; for 2011, include the severance charges associated with our Aeronautics, IS&GS, and Space Systems business segments, and Corporate Headquarters; and for 2010, include the charges related to the VESP and the facilities consolidation within our MST business segment (Note 13). Severance charges for initiatives that are not significant are included in business segment operating profit.

(c) The change between years primarily was due to fluctuations in expense associated with various corporate items, none of which were individually significant.

The following segment discussions also include information relating to backlog for each segment. Backlog was approximately $82.3 billion, $80.7 billion, and $78.4 billion at December 31, 2012, 2011, and 2010. These amounts included both funded backlog (unfilled firm orders for which funding has been both authorized and appropriated by the customer – Congress in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not yet been appropriated). Backlog does not include unexercised options or task orders to be issued under indefinite-delivery, indefinite-quantity contracts. Funded backlog was approximately $54.8 billion at December 31, 2012.

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

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

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

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

Our net sales are primarily derived from long-term contracts for products and services provided to the U.S. Government as well as FMS contracted through the U.S. Government. We account for these contracts, as well as product contracts with non-U.S. Government customers, using the POC method of accounting, which represent substantially all of our net sales. We derive our remaining net sales from contracts to provide services to non-U.S. Government customers, which we account for under the services method of accounting.

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

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

In addition, comparability of our segment operating profit may be impacted by changes in estimated profit booking rates on our contracts accounted for using the POC method of accounting. Increases in the estimated profit booking rates, typically referred to as risk retirements, usually relate to revisions in the total estimated costs at completion that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated costs at completion and a reduction of the estimated profit booking rate. Increases or decreases in estimated profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit may also be impacted, favorably or unfavorably, by other matters such as the resolution of contractual matters, reserves for disputes, asset impairments and insurance recoveries, among others. Segment operating profit and items such as risk retirements, reductions of profit booking rates, or other matters are presented net of state income taxes.

Our consolidated net adjustments not related to volume, including net profit rate adjustments and other matters, increased segment operating profit, net of state income taxes, by approximately $1.9 billion, $1.6 billion, and $1.4 billion for 2012, 2011, and 2010. The increase in our consolidated net adjustments for 2012 as compared to 2011 primarily was due to an increase in profit booking rate adjustments and resolution of contractual matters at our MST and MFC business segments. The consolidated net adjustments for 2012 are inclusive of approximately $500 million in unfavorable items, about $100 million higher than 2011. The variance is primarily due to an adjustment on our F-35 program as described in our

Aeronautics business segment's results of operations discussion. The increase in our consolidated net adjustments for 2011 as compared to 2010 primarily was due to an increase in profit booking rate adjustments at our IS&GS and Aeronautics business segments.

Aeronautics

Our Aeronautics business segment is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. Aeronautics' major programs include the F-35 Lightning II Joint Strike Fighter, F-22 Raptor, F-16 Fighting Falcon, C-130 Hercules, and the C-5M Super Galaxy. Aeronautics' operating results included the following (in millions):

	2012	2011	2010
Net sales	**$14,953**	$14,362	$13,109
Operating profit	**1,699**	1,630	1,498
Operating margins	**11.4%**	11.3%	11.4%
Backlog at year-end	**30,100**	30,500	27,500

2012 compared to 2011

Aeronautics' net sales for 2012 increased $591 million, or 4%, compared to 2011. The increase was attributable to higher net sales of approximately $745 million from F-35 LRIP contracts principally due to increased production volume; about $285 million from F-16 programs primarily due to higher aircraft deliveries (37 F-16 aircraft delivered in 2012 compared to 22 in 2011) partially offset by lower volume on sustainment activities due to the completion of modification programs for certain international customers; and approximately $140 million from C-5 programs due to higher aircraft deliveries (four C-5M aircraft delivered in 2012 compared to two in 2011). Partially offsetting the increases were lower net sales of approximately $365 million from decreased production volume and lower risk retirements on the F-22 program as final aircraft deliveries were completed in the second quarter of 2012; approximately $110 million from the F-35 development contract primarily due to the inception-to-date effect of reducing the profit booking rate in the second quarter of 2012 and to a lesser extent lower volume; and about $95 million from a decrease in volume on other sustainment activities partially offset by various other Aeronautics programs due to higher volume. Net sales for C-130 programs were comparable to 2011 as a decline in sustainment activities largely was offset by increased aircraft deliveries.

Aeronautics' operating profit for 2012 increased $69 million, or 4%, compared to 2011. The increase was attributable to higher operating profit of approximately $105 million from C-130 programs due to an increase in risk retirements; about $50 million from F-16 programs due to higher aircraft deliveries partially offset by a decline in risk retirements; approximately $50 million from F-35 LRIP contracts due to increased production volume and risk retirements; and about $50 million from the completion of purchased intangible asset amortization on certain F-16 contracts. Partially offsetting the increases was lower operating profit of about $90 million from the F-35 development contract primarily due to the inception-to-date effect of reducing the profit booking rate in the second quarter of 2012; approximately $50 million from decreased production volume and risk retirements on the F-22 program partially offset by a resolution of a contractual matter in the second quarter of 2012; and approximately $45 million primarily due to a decrease in risk retirements on other sustainment activities partially offset by various other Aeronautics programs due to increased risk retirements and volume. Operating profit for C-5 programs was comparable to 2011. Adjustments not related to volume, including net profit booking rate adjustments and other matters described above, were approximately $30 million lower for 2012 compared to 2011.

2011 compared to 2010

Aeronautics' net sales for 2011 increased $1.3 billion, or 10%, compared to 2010. The growth in net sales primarily was due to higher volume of about $850 million for work performed on the F-35 LRIP contracts as production increased; higher volume of about $745 million for C-130 programs due to an increase in deliveries (33 C-130J aircraft delivered in 2011 compared to 25 during 2010) and support activities; about $425 million for F-16 support activities and an increase in aircraft deliveries (22 F-16 aircraft delivered in 2011 compared to 20 during 2010); and approximately $90 million for higher volume on C-5 programs (two C-5M aircraft delivered in 2011 compared to one during 2010). These increases partially were offset by a decline in net sales of approximately $675 million due to lower volume on the F-22 program and lower net sales of about $155 million for the F-35 development contract as development work decreased.

Aeronautics' operating profit for 2011 increased $132 million, or 9%, compared to 2010. The increase primarily was attributable to approximately $115 million of higher operating profit on C-130 programs due to increased volume and the retirement of risks; increased volume and risk retirements on F-16 programs of about $50 million and C-5 programs of approximately $20 million; and about $70 million due to risk retirements on other Aeronautics sustainment activities in 2011. These increases partially were offset by a decline in operating profit of approximately $75 million on the F-22 program and F-35 development contract primarily due to lower volume and about $55 million on other programs, including F-35 LRIP, primarily due to lower profit rate adjustments in 2011 compared to 2010. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $90 million higher in 2011 compared to 2010.

Backlog

Backlog decreased in 2012 compared to 2011 mainly due to lower orders on F-35 contracts and C-130 programs, partially offset by higher orders on F-16 programs. Backlog increased in 2011 compared to 2010 mainly due to higher orders on F-35 contracts, which partially were offset by higher sales volume on the C-130 programs.

Trends

We expect Aeronautics will experience a mid single digit percentage range decline in net sales for 2013 as compared to 2012. A decrease in net sales from a decline in F-16 and C-130J aircraft deliveries is expected to be partially offset by an increase in net sales volume on F-35 LRIP contracts. Operating profit is projected to decrease at a high single digit percentage range from 2012 levels due to the expected decline in net sales as well as changes in aircraft mix, resulting in a slight decline in operating margins between the years.

Information Systems & Global Solutions

Our IS&GS business segment provides management services, integrated information technology solutions, and advanced technology systems and expertise across a broad spectrum of applications for civil, defense, intelligence, and other government customers. IS&GS has a portfolio of many smaller contracts as compared to our other business segments. IS&GS has been impacted by the continuing downturn in the federal information technology budgets and the impact of the continuing resolution that was effective on October 1, 2012, the start of the U.S. Government's fiscal year. IS&GS' operating results included the following (in millions):

	2012	**2011**	**2010**
Net sales	**$8,846**	$9,381	$9,921
Operating profit	**808**	874	814
Operating margins	**9.1%**	9.3%	8.2%
Backlog at year-end	**8,700**	9,300	9,700

2012 compared to 2011

IS&GS' net sales for 2012 decreased $535 million, or 6%, compared to 2011. The decrease was attributable to lower net sales of approximately $485 million due to the substantial completion of various programs during 2011 (primarily JTRS; ODIN; and U.K. Census); and about $255 million due to lower volume on numerous other programs (primarily Hanford; Warfighter Information Network-Tactical (WIN-T); Command, Control, Battle Management and Communications (C2BMC); and Transportation Worker Identification Credential (TWIC)). Partially offsetting the decreases were higher net sales of approximately $140 million from QTC, which was acquired early in the fourth quarter of 2011; and about $65 million from increased activity on numerous other programs, primarily federal cyber security programs and Persistent Threat Detection System (PTDS) operational support.

IS&GS' operating profit for 2012 decreased $66 million, or 8%, compared to 2011. The decrease was attributable to lower operating profit of approximately $50 million due to the favorable impact of the ODIN contract completion in 2011; about $25 million due to an increase in reserves for performance issues related to an international airborne surveillance system in 2012; and approximately $20 million due to lower volume on certain programs (primarily C2BMC and WIN-T). Partially offsetting the decreases was an increase in operating profit due to higher risk retirements of approximately $15 million from the TWIC program; and about $10 million due to increased activity on numerous other programs, primarily federal cyber security programs and PTDS operational support. Operating profit for the JTRS program was comparable as a decrease in volume was offset by a decrease in reserves. Adjustments not related to volume, including net profit booking rate adjustments and other matters described above, were approximately $20 million higher for 2012 compared to 2011.

2011 compared to 2010

IS&GS' net sales for 2011 decreased $540 million, or 5%, compared to 2010. The decrease primarily was attributable to lower volume of approximately $665 million due to the absence of the DRIS program that supported the 2010 U.S. census and a decline in activities on the JTRS program. This decrease partially was offset by increased net sales on numerous programs.

IS&GS' operating profit for 2011 increased $60 million, or 7%, compared to 2010. Operating profit increased approximately $180 million due to volume and the retirement of risks in 2011 and the absence of reserves recognized in 2010 on numerous programs (including among others, ODIN (about $60 million) and TWIC and Automated Flight Service Station programs). The increases in operating profit partially were offset by the absence of the DRIS program and a decline in activities on the JTRS program of about $120 million. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $130 million higher in 2011 compared to 2010.

Backlog

Backlog decreased in 2012 compared to 2011 primarily due to the substantial completion of various programs in 2011 (primarily ODIN, U.K. Census, and JTRS). The decrease in backlog during 2011 compared to 2010 mainly was due to declining activities on the JTRS program and several other smaller programs.

Trends

We expect IS&GS' net sales to decline in 2013 in the mid single digit percentage range as compared to 2012 primarily due to the continued downturn in federal information technology budgets. Operating profit is expected to decline in 2013 in the mid single digit percentage range consistent with the expected decline in net sales, resulting in margins that are comparable with 2012 results.

Missiles and Fire Control

Our MFC business segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; fire control systems; mission operations support, readiness, engineering support, and integration services; logistics and other technical services; and manned and unmanned ground vehicles. MFC's major programs include PAC-3, THAAD, Multiple Launch Rocket System (MLRS), Hellfire, Javelin, Joint Air-to-Surface Standoff Missile (JASSM), Apache Fire Control System (Apache), Sniper®, Low Altitude Navigation and Targeting Infrared for Night (LANTIRN®), and SOF CLSS. MFC's operating results included the following (in millions):

	2012	2011	2010
Net sales	**$ 7,457**	$ 7,463	$ 6,930
Operating profit	**1,256**	1,069	973
Operating margins	**16.8%**	14.3%	14.0%
Backlog at year-end	**14,700**	14,400	12,800

2012 compared to 2011

MFC's net sales for 2012 were comparable to 2011. Net sales decreased approximately $130 million due to lower volume and risk retirements on various services programs, and about $60 million due to lower volume from fire control systems programs (primarily Sniper®; LANTIRN®; and Apache). The decreases largely were offset by higher net sales of approximately $95 million due to higher volume from tactical missile programs (primarily Javelin and Hellfire) and approximately $80 million for air and missile defense programs (primarily PAC-3 and THAAD).

MFC's operating profit for 2012 increased $187 million, or 17%, compared to 2011. The increase was attributable to higher risk retirements and volume of about $95 million from tactical missile programs (primarily Javelin and Hellfire); increased risk retirements and volume of approximately $60 million for air and missile defense programs (primarily THAAD and PAC-3); and about $45 million from a resolution of contractual matters. Partially offsetting these increases was lower risk retirements and volume on various programs, including $25 million for services programs. Adjustments not related to volume, including net profit booking rate adjustments and other matters described above, were approximately $145 million higher for 2012 compared to 2011.

2011 compared to 2010

MFC's net sales for 2011 increased $533 million, or 8%, compared to 2010. The increase was attributable to higher volume of about $420 million on air and missile defense programs (primarily PAC-3 and THAAD); and about $245 million from fire control systems programs primarily related to the SOF CLSS program, which began late in the third quarter of 2010. Partially offsetting these increases were lower net sales due to decreased volume of approximately $75 million primarily from various services programs and approximately $20 million from tactical missile programs (primarily MLRS and JASSM).

MFC's operating profit for 2011 increased $96 million, or 10%, compared to 2010. The increase was attributable to higher operating profit of about $60 million for air and missile defense programs (primarily PAC-3 and THAAD) as a result of increased volume and retirement of risks; and approximately $25 million for various services programs. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $35 million higher in 2011 compared to 2010.

Backlog

Backlog increased in 2012 compared to 2011 mainly due to increased orders and lower sales on fire control systems programs (primarily LANTIRN® and Sniper®) and on various services programs, partially offset by lower orders and higher sales volume on tactical missiles programs. Backlog increased in 2011 compared to 2010 primarily due to increased orders on air and missile defense programs (primarily THAAD).

Trends

We expect MFC's net sales for 2013 will be comparable with 2012. We expect low double digit percentage growth in air and missile defense programs, offset by an expected decline in volume on logistics services programs. Operating profit and margin are expected to be comparable with 2012 results.

Mission Systems and Training

Our MST business segment provides surface ship and submarine combat systems; sea and land-based missile defense systems; radar systems; mission systems and sensors for rotary and fixed-wing aircraft; littoral combat ships; simulation and training services; unmanned technologies and platforms; ship systems integration; and military and commercial training systems. MST's major programs include Aegis, MK-41 Vertical Launching System (VLS), TPQ-53 Radar System, MH-60, LCS, and PTDS. MST's operating results included the following (in millions):

	2012	2011	2010
Net sales	**$ 7,579**	$ 7,132	$ 7,443
Operating profit	**737**	645	713
Operating margins	**9.7%**	9.0%	9.6%
Backlog at year-end	**10,700**	10,500	10,600

2012 compared to 2011

MST's net sales for 2012 increased $447 million, or 6%, compared to 2011. The increase in net sales for 2012 was attributable to higher volume and risk retirements of approximately $395 million from ship and aviation system programs (primarily PTDS; LCS; VLS; and MH-60); about $115 million for training and logistics solutions programs primarily due to net sales from Sim Industries, which was acquired in the fourth quarter of 2011; and approximately $30 million as a result of increased volume on integrated warfare systems and sensors programs (primarily Aegis). Partially offsetting the increases were lower net sales of approximately $70 million from undersea systems programs due to lower volume on an international combat system program and towed array systems; and about $25 million due to lower volume on various other programs.

MST's operating profit for 2012 increased $92 million, or 14%, compared to 2011. The increase was attributable to higher operating profit of approximately $175 million from ship and aviation system programs, which reflects higher volume and risk retirements on certain programs (primarily VLS; PTDS; MH-60; and LCS) and reserves of about $55 million for contract cost matters on ship and aviation system programs recorded in the fourth quarter of 2011 (including the terminated presidential helicopter program). Partially offsetting the increase was lower operating profit of approximately $40 million from undersea systems programs due to reduced profit booking rates on certain programs and lower volume on an international combat system program and towed array systems; and about $40 million due to lower volume on various other programs. Adjustments not related to volume, including net profit booking rate adjustments and other matters described above, were approximately $150 million higher for 2012 compared to 2011.

2011 compared to 2010

MST's net sales for 2011 decreased $311 million, or 4%, compared to 2010. The decrease was attributable to decreased volume of approximately $390 million for certain ship and aviation system programs (primarily Maritime Patrol Aircraft and PTDS) and approximately $75 million for training and logistics solutions programs. Partially offsetting these decreases was higher sales of about $165 million from production on the LCS program.

MST's operating profit for 2011 decreased $68 million, or 10%, compared to 2010. The decrease was attributable to decreased operating profit of approximately $55 million as a result of increased reserves for contract cost matters on various ship and aviation system programs (including the terminated presidential helicopter program) and approximately $40 million due to lower volume and increased reserves on training and logistics solutions. Partially offsetting these decreases was higher operating profit of approximately $30 million in 2011 primarily due to the recognition of reserves on certain undersea systems programs in 2010. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $55 million lower in 2011 compared to 2010.

Backlog

Backlog increased in 2012 compared to 2011 mainly due to increased orders on ship and aviation system programs (primarily MH-60 and LCS), partially offset decreased orders and higher sales volume on integrated warfare systems and sensors programs (primarily Aegis). Backlog decreased slightly in 2011 compared to 2010 primarily due to higher sales volume on various integrated warfare systems and sensors programs.

Trends

We expect MST's net sales to decline in 2013 in the low single digit percentage range as compared to 2012 due to the completion of PTDS deliveries in 2012 and expected lower volume on training services programs. Operating profit and margin are expected to increase slightly from 2012 levels primarily due to anticipated improved contract performance.

Space Systems

Our Space Systems business segment is engaged in the research and development, design, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems. Space Systems is also responsible for various classified systems and services in support of vital national security systems. Space Systems' major programs include the Space-Based Infrared System (SBIRS), Advanced Extremely High Frequency (AEHF) system, Mobile User Objective System (MUOS), Global Positioning Satellite (GPS) III system, Geostationary Operational Environmental Satellite R-Series (GOES-R), Trident II D5 Fleet Ballistic Missile, and Orion. Operating results for our Space Systems business segment include our equity interests in United Launch Alliance (ULA), which provides expendable launch services for the U.S. Government, United Space Alliance (USA), which provided processing activities for the Space Shuttle program and is winding down following the completion of the last Space Shuttle mission in 2011, and a joint venture that manages the U.K.'s Atomic Weapons Establishment program. Space Systems' operating results included the following (in millions):

	2012	2011	2010
Net sales	**$ 8,347**	$ 8,161	$ 8,268
Operating profit	**1,083**	1,063	1,030
Operating margins	**13.0%**	13.0%	12.5%
Backlog at year-end	**18,100**	16,000	17,800

2012 compared to 2011

Space Systems' net sales for 2012 increased $186 million, or 2%, compared to 2011. The increase was attributable to higher net sales of approximately $150 million due to increased commercial satellite deliveries (two commercial satellites delivered in 2012 compared to one during 2011); about $125 million from the Orion program due to higher volume and an increase in risk retirements; and approximately $70 million from increased volume on various strategic and defensive missile programs. Partially offsetting the increases were lower net sales of approximately $105 million from certain government satellite programs (primarily SBIRS and MUOS) as a result of decreased volume and a decline in risk retirements; and about $55 million from the NASA External Tank program, which ended in connection with the completion of the Space Shuttle program in 2011.

Space Systems' operating profit for 2012 increased $20 million, or 2%, compared to 2011. The increase was attributable to higher operating profit of approximately $60 million from commercial satellite programs due to increased deliveries and reserves recorded in 2011; and about $40 million from the Orion program due to higher risk retirements and increased volume. Partially offsetting the increases was lower operating profit of approximately $45 million from lower volume and risk retirements on certain government satellite programs (primarily SBIRS); about $20 million from lower risk retirements and lower volume on the NASA External Tank program, which ended in connection with the completion of the Space Shuttle program in 2011; and approximately $20 million from lower equity earnings as a decline in launch related activities at ULA partially was offset by the resolution of contract cost matters associated with the wind-down of USA. Adjustments not related to volume, including net profit booking rate adjustments described above, were approximately $15 million higher for 2012 compared to 2011.

2011 compared to 2010

Space Systems' net sales for 2011 decreased $107 million, or 1%, compared to 2010. The decrease in net sales was attributable to a decline of about $90 million related to the NASA External Tank program, which ended in connection with the completion of the last Space Shuttle mission in July 2011; a decline in volume of about $90 million related to the Orion program; and lower volume of approximately $30 million related to government satellites. These decreases partially were offset by higher volume for fleet ballistic and defensive missile systems of about $80 million and commercial satellites of approximately $45 million (one commercial satellite delivery in both 2011 and 2010).

Space Systems' operating profit for 2011 increased $33 million, or 3%, compared to 2010. The increase in operating profit principally was attributable to retirement of risks on government satellite programs of about $60 million, partially offset by decreased equity earnings of about $15 million primarily due to the wind-down of USA. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $15 million higher in 2011 compared to 2010.

Equity earnings

Total equity earnings recognized by the Space Systems segment from ULA, USA, and AWE represented approximately $265 million, or 24% of this segment's operating profit during 2012. During 2011 and 2010, total equity earnings recognized by the Space Systems segment from ULA, USA, and AWE represented approximately $285 million and $300 million, or 27% and 29% of this segment's operating profit.

Backlog

Backlog increased in 2012 compared to 2011 mainly due to higher orders on government satellites activities, partially offset by lower orders on the Orion program. Backlog decreased in 2011 compared to 2010 mainly due to higher sales volume associated with the Orion program and on government satellite activities.

Trends

We expect Space Systems' net sales to decline in 2013 in the mid single digit percentage range as compared to 2012 due primarily to the absence of any commercial satellite deliveries in 2013. Operating profit is expected to decline in the low double digit percentage range in 2013 primarily due to lower equity earnings from USA, as no further significant activity is expected due to its wind-down in 2012, and lower sales volume, resulting in a decline in operating margins between the years.

Liquidity and Cash Flows

We have a balanced cash deployment strategy to enhance stockholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have invested in our business, including capital expenditures and independent research and development, returned cash to stockholders through dividends and share repurchases, made selective acquisitions of businesses, and managed our debt levels.

We have generated strong operating cash flows, which have been the primary source of funding for our operations, debt service and repayments, capital expenditures, share repurchases, dividends, acquisitions, and postretirement benefit plan funding. We have accessed the capital markets on limited occasions, as needed or when opportunistic. We expect our cash from operations will continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. We have financing resources available to fund potential cash outflows that are less predictable or more discretionary, as discussed in the "Capital Structure, Resources, and Other" section. We have access to the credit markets, if needed, for liquidity or general corporate purposes, including letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

Cash received from customers, either from the payment of invoices for work performed or for advances in excess of costs incurred, is our primary source of cash. We generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. We generally bill and collect cash more frequently under cost-reimbursable and time-and-materials contracts, which together represent approximately half of the sales we recorded in 2012, as we are authorized to bill as the costs are incurred or work is performed. By way of contrast, we generally do not bill our fixed-price contracts until milestones, including deliveries, are achieved. A number of our fixed-price contracts may provide for performance-based payments, which allow us to bill and collect cash as we perform on the contract. The amount of performance-based payments and the related milestones are encompassed in the negotiation of each contract. Such payments may precede our incurrence of costs related to our contract performance, thereby increasing our cash flows.

The U.S. Government has indicated that it would consider progress payments as the baseline for negotiating payment terms on fixed-price contracts, rather than performance-based payments. In contrast to negotiated performance-based payment terms, progress payment provisions correspond to a percentage of the amount of costs incurred during the performance of the contract. While the total amount of cash collected on a contract is the same, performance-based payments have had a more favorable impact on the timing of our cash flows. In addition, our cash flows may be affected if the U.S. Government decides to withhold payments on receivables. The amount of withholds increased to approximately $200 million as of December 31, 2012, primarily at our Aeronautics business segment related to U.S. Government audits of our business systems and certain delivered F-35 aircraft. While the impact of withholding delays the receipt of cash, the cumulative amount of cash collected during the life of the contract will not vary.

The majority of our capital expenditures for 2012 and those planned for 2013 can be divided into the categories of facilities infrastructure, equipment, and information technology. Expenditures for facilities infrastructure and equipment are generally incurred to support new and existing programs across all of our business segments. For example, we have projects underway in our Aeronautics business segment for facilities and equipment to support production of the F-35 combat aircraft. In addition, we have projects underway to modernize certain of our facilities, inclusive of our efforts to consolidate and reduce leased facilities. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure as well as for the development or purchase of internal-use software.

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

	2012	2011	2010
Operating activities			
Net earnings	**$ 2,745**	$ 2,655	$ 2,878
Non-cash adjustments	**2,133**	1,194	1,721
Changes in working capital	**(1,061)**	674	138
Other, net	**(2,256)**	(270)	(936)
Net cash provided by operating activities	**$ 1,561**	$ 4,253	$ 3,801
Net cash used for investing activities	**$(1,222)**	$ (813)	$ (573)
Net cash used for financing activities	**$(2,023)**	$(2,119)	$(3,358)
Cash and cash equivalents at end of year	**$ 1,898**	$ 3,582	$ 2,261

Operating Activities

2012 compared to 2011

Net cash provided by operating activities decreased $2.7 billion in 2012 as compared to 2011 primarily due to changes in working capital of $1.7 billion and increased pension contributions of $1.1 billion, net of CAS recoveries. The decrease of $1.7 billion in cash provided by working capital (defined as accounts receivable and inventories less accounts payable and customer advances and amounts in excess of costs incurred) was driven by higher payments of accounts payable due to timing as well as the timing of production and billing cycles affecting customer advances and progress payments applied to inventories. Additionally, growth in accounts receivable, primarily due to the timing of finalizing contract negotiations on the F-35 LRIP contracts in the fourth quarter of 2012, which delayed our billings, as well as the impact of U.S. Government withholdings on the F-35 program reduced the cash provided by operating activities.

2011 compared to 2010

Net cash provided by operating activities increased by $452 million in 2011 as compared to 2010 primarily due to changes in working capital. Cash provided by working capital increased by $536 million due to increases in accounts payable resulting from the timing of payments and an increase in customer advances due to the timing of production and billing schedules. This improvement in cash from working capital partially was offset by an increase in accounts receivable primarily due to the timing of contract negotiations and billing activities on the F-35 program. Partially offsetting the increase in cash provided by working capital was higher pension contributions, net of CAS recoveries of $134 million.

Investing Activities

Capital expenditures – Capital expenditures amounted to $942 million in 2012, $987 million in 2011, and $1.1 billion in 2010.

Acquisitions, divestitures and other activities – Acquisition activities include both the acquisition of businesses and investments in affiliates. We paid $304 million in 2012 for acquisition activities, primarily related to the acquisitions of Chandler/May, CDL, and Procerus (Note 14). In 2011, we paid $649 million for acquisition activities, primarily related to the acquisitions of QTC and Sim-Industries (Note 14). In 2010, we paid $148 million primarily related to investments in affiliates. In 2010, we received proceeds of $798 million from the sale of EIG (Note 14). During 2011, we decreased our short-term investments by $510 million compared to an increase of $171 million in 2010.

Financing Activities

Dividends and share activity – We paid dividends totaling $1.4 billion ($4.15 per share) in 2012, $1.1 billion ($3.25 per share) in 2011, and $969 million ($2.64 per share) in 2010. We have increased our quarterly dividend rate in each of the last three years, including a 15% increase in the quarterly dividend rate in the fourth quarter of 2012. We declared quarterly dividends of $1.00 per share during each of the first three quarters of 2012 and $1.15 per share for the last quarter; $.75 per share during each of the first three quarters of 2011 and $1.00 per share for the last quarter; and $.63 per share during each of the first three quarters of 2010 and $.75 per share for the last quarter.

We paid cash totaling $1.0 billion, $2.5 billion, and $2.4 billion for share repurchases during 2012, 2011, and 2010. Pursuant to our share repurchase program, we are authorized to repurchase up to $6.5 billion of our common stock. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. As of December 31, 2012, we had repurchased a total of 54.3 million shares of our common stock under the program for $4.2 billion, and there remained $2.3 billion authorized for additional share repurchases.

Cash received from the issuance of our common stock in connection with stock option exercises during 2012, 2011, and 2010 totaled $440 million, $116 million, and $59 million. Those activities resulted in the issuance of 6.7 million shares, 2.3 million shares, and 1.4 million shares during the respective periods.

Long-term debt – In 2012, we paid $225 million to complete an exchange of debt (Note 8) to take advantage of the low interest rate environment. In 2011, we issued a total of $2.0 billion of long-term notes with fixed coupon rates ranging from 2.13% to 4.85%. We used a portion of the proceeds from the long-term notes that were issued in 2011 to redeem all of our $500 million long-term notes due in 2013 with a fixed coupon rate of 4.12%. In 2011, we also repurchased $84 million of our long-term notes through open-market purchases and paid premiums of $48 million in connection with the early extinguishments of certain long-term notes.

Capital Structure, Resources, and Other

At December 31, 2012, we held cash and cash equivalents of $1.9 billion. As of December 31, 2012, approximately $500 million of our cash and cash equivalents was held outside of the U.S. by foreign subsidiaries. Although those balances are generally available to fund ordinary business operations without legal or other restrictions, a significant portion is not immediately available to fund U.S. operations unless repatriated. Our intention is to permanently reinvest earnings from our foreign subsidiaries. While we do not intend to do so, if this cash was repatriated at the end of 2012, we estimate that about $45 million of U.S. federal income tax would have been due after considering foreign tax credits.

Our long-term debt, net of unamortized discounts, amounted to $6.2 billion, and mainly is in the form of publicly-issued notes that bear interest at fixed rates. As of December 31, 2012, we were in compliance with all covenants contained in our debt and credit agreements.

In August 2011, we entered into a $1.5 billion revolving credit facility with a group of banks and terminated our existing $1.5 billion revolving credit facility that was to expire in June 2012. The credit facility expires August 2016, and we may request and the banks may grant, at their discretion, an increase to the credit facility by an additional amount up to $500 million. There were no borrowings outstanding under either facility through December 31, 2012. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on a Eurodollar rate or a Base Rate, as defined in the credit facility. Each bank's obligation to make loans under the credit facility is subject to, among other things, our compliance with various representations, warranties and covenants, including covenants limiting our ability and certain of our subsidiaries' ability to encumber assets and a covenant not to exceed a maximum leverage ratio, as defined in the credit facility. The leverage ratio covenant excludes the adjustments recognized in stockholders' equity related to postretirement benefit plans. As of December 31, 2012, we were in compliance with all covenants contained in the credit facility, as well as in our debt agreements.

We have agreements in place with banking institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding during the year ended December 31, 2012. If we were to issue commercial paper, the borrowings would be supported by the credit facility. We also have an effective shelf registration statement on Form S-3 on file with the U.S. Securities and Exchange Commission through August 2014 to provide for the issuance of an indeterminate amount of debt securities.

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

Our stockholders' equity was $39 million at December 31, 2012, a decrease of $962 million from December 31, 2011. The decrease was due to the annual December 31 re-measurement adjustment related to our postretirement benefit plans of $3.2 billion, which was partially offset by the amortization of net actuarial gains and losses of $858 million in 2012; dividends declared of $1.4 billion during the year; and the repurchase of 11.3 million common shares for $1.0 billion. These decreases partially were offset by net earnings of $2.7 billion and employee stock activity of $900 million. As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess of purchase price over par value of $108 million recorded as a reduction of retained earnings.

If in the future we were to have a deficit in stockholders' equity as a result of further adjustments associated with the funded status of postretirement benefit plans, the deficit would not affect our ability to comply with our debt covenants. The debt-related financial covenants in our revolving credit facility exclude the effect of adjustments to stockholders' equity resulting from re-measuring the funded status of postretirement plans. In addition, as a Maryland corporation, so long as we are able to pay our indebtedness as it becomes due in the usual course of business, we anticipate that we would be able to pay dividends and make stock repurchases in an amount limited to our net earnings in either the current or the preceding fiscal year or from the net earnings for the preceding eight quarters.

Contractual Commitments and Off-Balance Sheet Arrangements

At December 31, 2012, we had contractual commitments to repay debt, make payments under operating leases, settle obligations related to agreements to purchase goods and services, and settle tax and other liabilities. Capital lease obligations were not material. Payments due under these obligations and commitments are as follows (in millions):

	Payments Due By Period				
	Total	**Less Than 1 Year**	**Years 2 and 3**	**Years 4 and 5**	**After 5 Years**
Long-term debt [(a)]	$ 7,165	$ 150	$ —	$ 952	$ 6,063
Interest payments	6,243	355	698	633	4,557
Other liabilities	2,628	271	430	365	1,562
Operating lease obligations	859	229	279	151	200
Purchase obligations:					
Operating activities	24,837	14,859	8,127	1,697	154
Capital expenditures	216	102	78	36	—
Total contractual cash obligations	$41,948	$15,966	$9,612	$3,834	$12,536

(a) Long-term debt includes scheduled principal payments only.

Amounts related to other liabilities represent the contractual obligations for certain long-term liabilities recorded as of December 31, 2012. Such amounts mainly include expected payments under non-qualified pension plans, environmental liabilities, and deferred compensation plans.

Purchase obligations related to operating activities include agreements and contracts that give the supplier recourse to us for cancellation or nonperformance under the contract or contain terms that would subject us to liquidated damages. Such agreements and contracts may, for example, be related to direct materials, obligations to subcontractors, and outsourcing arrangements. Total purchase obligations for operating activities in the preceding table include approximately $22.8 billion related to contractual commitments entered into as a result of contracts we have with our U.S. Government customers. The U.S. Government generally would be required to pay us for any costs we incur relative to these commitments if they were to terminate the related contracts "for convenience" under the FAR, subject to available funding. This also would be true in cases where we perform subcontract work for a prime contractor under a U.S. Government contract. The termination for convenience language also may be included in contracts with foreign, state, and local governments. We also have contracts with customers that do not include termination for convenience provisions, including contracts with commercial customers.

Purchase obligations in the preceding table for capital expenditures generally include amounts for facilities and equipment related to customer contracts.

We also may enter into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. These agreements are designed to enhance the social and economic environment of the foreign country by requiring the contractor to promote investment in the country. Offset agreements may be satisfied through activities that do not require us to use cash, including transferring technology, providing manufacturing and other consulting support to in-country projects, and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements also may be satisfied through our use of cash for such activities as purchasing supplies from in-country vendors, providing financial support for in-country projects, establishment of joint ventures with local companies, and building or leasing facilities for in-country operations. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customer and typically require cash outlays that represent only a fraction of the original amount in the offset agreement. At December 31, 2012, the remaining obligations under our outstanding offset agreements totaled $9.3 billion, which primarily relate to our Aeronautics, MFC, and MST business segments, some of which extend through 2026. To the extent we have entered into purchase obligations at December 31, 2012 that also satisfy offset agreements, those amounts are included in the preceding table. Offset programs usually extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements. While historically we have not been required to pay material penalties, resolution of offset requirements are often the result of negotiations and subjective judgments.

In connection with our 50% ownership interest of ULA, we and The Boeing Company (Boeing) have each received distributions totaling $494 million (since ULA's formation in December 2006) which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its $560 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through December 31, 2012, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

We have entered into standby letters of credit, surety bonds, and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as joint venture partners. At December 31, 2012, we had the following outstanding letters of credit, surety bonds, and guarantees (in millions):

	Commitment Expiration By Period				
	Total Commitment	Less Than 1 Year [a]	Years 2 and 3 [a]	Years 4 and 5 [a]	After 5 Years
Standby letters of credit	$1,074	$ 759	$236	$ 79	$ —
Surety bonds	357	357	—	—	—
Guarantees	816	2	98	170	546
Total commitments	$2,247	$1,118	$334	$249	$546

(a) Approximately $609 million, $23 million, and $3 million of standby letters of credit in the “Less Than 1 Year,” “Years 2 and 3,” and “Years 4 and 5,” periods, and approximately $34 million of surety bonds, are expected to renew for additional periods until completion of the contractual obligation.

At December 31, 2012, third-party guarantees totaled $816 million, of which approximately 85% related to guarantees of the contractual performance of joint ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the joint venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. We believe our current and former joint venture partners will be able to perform their obligations, as they have done through December 31, 2012, and that it will not be necessary to make payments under the guarantees. In determining our exposures, we evaluate the reputation, technical capabilities, and credit quality of our current and former joint venture partners.

Critical Accounting Policies

Contract Accounting / Sales Recognition

Substantially all of our net sales are accounted for using the POC method, which requires that significant estimates and assumptions be made in accounting for the contracts. Our remaining net sales are derived from contracts to provide services to non-U.S. Government customers, which we account for under the services accounting model.

We evaluate new or significantly modified contracts with customers other than the U.S. Government, to the extent the contracts include multiple elements, to determine if the individual deliverables should be accounted for as separate units of accounting. When we determine that accounting for the deliverables as separate units is appropriate, we allocate the contract value to the deliverables based on their relative estimated selling prices. The contracts or contract modifications we evaluate for multiple elements typically are long term in nature and include the provision of both products and services. Based on the nature of our business, we generally account for components of such contracts using the POC accounting model or the services accounting model, as appropriate.

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

Contract Types

Cost-reimbursable contracts

Cost-reimbursable contracts, which accounted for about 45%, 50%, and 60% of our total net sales in 2012, 2011, and 2010, provide for the payment of allowable costs incurred during performance of the contract plus a fee, up to a ceiling based on the amount that has been funded. We generate revenue under two general types of cost-reimbursable contracts: cost-plus-award-fee/incentive fee which represent a substantial majority of our cost-reimbursable contracts; and cost-plus-fixed-fee contracts.

Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer's assessment of our performance against a predetermined set of criteria, such as targets based on cost, quality, technical, and schedule criteria. Cost-plus-incentive-fee contracts provide for reimbursement of costs plus a fee which is adjusted by a formula based on the relationship of total allowable costs to total target costs (incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (incentive based on performance). The fixed fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed fee does not vary with actual costs.

Fixed-price and other contracts

Under fixed-price contracts, which accounted for about 50%, 45%, and 35% of our total net sales in 2012, 2011, and 2010, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit, or could incur a loss. Some fixed-price contracts have a performance-based component under which we may earn incentive payments or incur financial penalties based on our performance.

Under time-and-materials contracts, which accounted for about 5% of our total net sales in each of 2012, 2011, and 2010, we are paid a fixed hourly rate for each direct labor hour expended, and we are reimbursed for allowable material costs and allowable out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, or could incur a loss.

POC Method of Accounting

We record net sales and an estimated profit on a POC basis for cost-reimbursable and fixed-price contracts for product and services contracts with the U.S. Government.

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

Award and incentive fees, as well as penalties related to contract performance, are considered in estimating sales and profit rates on contracts accounted for under the POC method. Estimates of award fees are based on past experience and anticipated performance. We record incentives or penalties when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs.

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

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

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (for example, a newly-developed product versus a mature product), the schedule and associated tasks (for example, the number and type of milestone events), and costs (for example, material, labor, subcontractor and overhead). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and costs aspects of the contract. Alternatively, our profit booking rates may decrease if the estimated costs to complete the contract increase. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate.

In addition, comparability of our segment operating profit may be impacted by changes in estimated profit booking rates on our contracts accounted for using the POC method of accounting. Increases in the estimated profit booking rates, typically referred to as risk retirements, usually relate to revisions in the total estimated costs at completion that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the total estimated costs at completion and a reduction of the estimated profit booking rate. Increases or decreases in estimated profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit may also be impacted, favorably or unfavorably, by other matters such as the resolution of contractual matters, reserves for disputes, asset impairments and insurance recoveries, among others. Segment operating profit and items such as risk retirements, reductions of profit booking rates, or other matters are presented net of state income taxes.

Services Method of Accounting

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

Other Contract Accounting Considerations

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

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

Postretirement Benefit Plans

Overview

Many of our employees are covered by defined benefit pension plans, and we provide certain health care and life insurance benefits to eligible retirees (collectively, postretirement benefit plans – see Note 9). In recent years, we have taken certain actions to mitigate the effect of our defined benefit pension plans on our financial results, including no longer offering a defined benefit pension plan to new, non-represented employees starting in January 2006. Over the last few years, we have negotiated similar changes with our union represented population and as a result substantially all represented employees hired after June 2012 do not participate in a defined benefit pension plan. We have also made substantial cash contributions over the years to our defined benefit pension plans including $3.6 billion in 2012. Additionally, during 2012 lump settlement payments of $310 million were made from the defined benefit pension trust to certain former employees who had not commenced receiving their vested benefit payments, and the corresponding benefit obligation that was released was $375 million. Notwithstanding these actions, the impact of these plans and benefits on our GAAP earnings may be volatile in that the amount of expense we record and funded status for our postretirement benefit plans may materially change from year to year because those calculations are sensitive to funding levels as well as changes in several key economic assumptions, including interest rates, rates of return on plan assets, and other actuarial assumptions including expected rates of increase in future compensation levels, employee turnover and mortality, as well as the timing of funding.

We recognize on a plan-by-plan basis the funded status of our postretirement benefit plans under GAAP as either an asset or a liability on our Balance Sheets. There is a corresponding non-cash adjustment to accumulated other comprehensive loss, net of tax benefits recorded as deferred tax assets, in stockholders' equity. The GAAP funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan. The GAAP benefit obligation represents the present value of the future benefits to be paid to plan participants. The present value is calculated using a discount rate that is determined at the end of each year. Historically low interest rates over the last few years have significantly increased our benefit obligation. This has contributed to a lower funded status of our defined benefit pension plans as determined by GAAP.

The funding of our pension plans is determined in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA). Our goal has been to fund the pension plans to a level of at least 80%, as determined by the PPA. This ERISA funded status is calculated on a different basis than under GAAP. The ERISA liability does not reflect anticipated future pay increases for plan participants as required under GAAP and is currently measured using a higher discount rate than for GAAP, primarily due to The Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21) which provides temporary funding relief due to the historically low interest rate environment. By way of contrast, under ERISA our plans are about 90% funded at December 31, 2012 and 2011, while for GAAP our defined benefit pension plans are about 67% funded at December 31, 2012 and 2011. The U.S. Government Cost Accounting Standards (CAS) governs the extent to which our pension costs are allocable to and recoverable under contracts with the U.S. Government, including FMS.

Actuarial Assumptions

GAAP requires that the amounts we record related to our plans be computed using actuarial valuations. The primary year-end assumptions used to determine the funded status and estimate postretirement benefit plan expense for the following calendar year are the discount rate, the expected long-term rate of return on plan assets, and employee turnover and mortality for all postretirement benefit plans; funding levels; the expected rates of increase in future compensation levels for the participants in our defined benefit pension plans; and the health care cost trend rates for our retiree medical plans. These assumptions we make impact both the calculation of the benefit obligation at the end of the year and the calculation of net postretirement benefit plan cost in the subsequent year. The difference between the long-term rate of return on plan assets assumption we select and the actual return on plan assets as well as funding levels in any given year affects both the funded status of our benefit plans and the calculation of net postretirement benefit plan cost in subsequent years. When reassessing these assumptions each year we consider past and current market conditions and make judgments about future market trends. We also have to consider factors such as the timing and amounts of expected contributions to the plans and benefit payments to plan participants.

We selected 4.00% as the discount rate for calculating our benefit obligations at December 31, 2012 related to our defined benefit pension plans, compared to 4.75% at the end of 2011 and 5.50% at the end of 2010. We selected 3.75% as the discount rate for calculating our benefit obligations at December 31, 2012 related to our retiree medical plans, compared to 4.50% at the end of 2011 and 5.50% at the end of 2010. We evaluate several data points in order to arrive at an appropriate discount rate, including results from cash flow models, quoted rates from long-term bond indices, and changes in long-term bond rates over the past year. As part of our evaluation, we calculate the approximate average yields on corporate bonds rated AA or better that were selected to match our projected postretirement benefit plan cash flows.

We concluded that 8.00% was a reasonable estimate for the expected long-term rate of return on plan assets assumption at December 31, 2012, consistent with the rate used at December 31, 2011, and we used 8.50% at December 31, 2010. The long-term rate of return assumption represents the expected average rate of earnings on the funds invested, or to be invested, to provide for the benefits included in the plan obligation. This assumption is based on several factors including historical market index returns, the anticipated long-term allocation of plan assets, the historical return data for the trust funds, plan expenses, and the potential to outperform market index returns. The actual return in any specific year likely will differ from the assumption, but the average expected return over a long-term future horizon should be approximately equal to the assumption. As a result, changes in this assumption are less frequent than changes in the discount rate.

Our stockholders' equity has been reduced cumulatively by $13.5 billion from the annual year-end measurements of the funded status of postretirement benefit plans, inclusive of the December 31, 2012 adjustment of $3.2 billion. These non-cash, after-tax amounts primarily represent net actuarial losses resulting from declines in discount rates and differences between actual experience and our actuarial assumptions, which will be amortized to expense over the average future service period of employees expected to receive benefits under the plans of approximately 10 years. During 2012, $858 million of these amounts was recognized as a component of postretirement benefit plans expense and $1.0 billion is expected to be recognized as expense in 2013. If in the future we were to have a deficit in stockholders' equity as a result of further adjustments associated with the funded status of postretirement benefit plans, the deficit would not affect our ability to comply with our debt covenants nor do we anticipate the deficit to hinder our ability to pay dividends and make stock repurchases as further described in the "Capital Structure, Resources, and Other" section above.

We expect that our 2013 pension expense will be $1.9 billion, which is comparable to our 2012 pension expense. An increase in the amortization of net actuarial gains and losses caused by the decrease in the discount rate mentioned above was offset by an increase in the expected dollar amount of return on plan assets primarily due to the $2.5 billion of discretionary contributions to the qualified defined benefit plans in the fourth quarter of 2012.

The discount rate and long-term rate of return on plan assets assumptions we select at the end of each year are based on our best estimates and judgment. A change of plus or minus 25 basis points in the 4.00% discount rate assumption at December 31, 2012, with all other assumptions held constant, would have decreased or increased the amount of the qualified pension benefit obligation we recorded at the end of 2012 by approximately $1.5 billion, which would result in an after-tax increase or decrease in stockholders' equity at the end of the year of approximately $1.0 billion. If the 4.00% discount rate at December 31, 2012 that was used to compute the expected 2013 expense for our qualified defined benefit pension plans had been 25 basis points higher or lower, with all other assumptions held constant, the amount of expense projected for 2013 would be lower or higher by approximately $145 million. If the 8.00% expected long-term rate of return on plan assets assumption at December 31, 2012 that was used to compute the expected 2013 expense for our qualified defined benefit pension plans had been 25 basis points higher or lower, with all other assumptions held constant, the amount of expense projected for 2013 would be lower or higher by approximately $80 million.

Funding Considerations

The PPA became applicable to us and other large U.S. defense contractors beginning in 2011 and had the effect of accelerating the required amount of annual pension plan contributions. We made contributions related to our qualified defined benefit pension plans of $3.6 billion in 2012, $2.3 billion in 2011, and $2.2 billion in 2010, inclusive of amounts in excess of our required contributions. We recovered $1.1 billion in 2012, $899 million in 2011 and $988 million in 2010 as CAS costs. Amounts funded under CAS are recovered over time through the pricing of our products and services on U.S. Government contracts, including FMS, and are recognized in our cost of sales and net sales. Amounts contributed in excess of the CAS funding requirements, over $8.0 billion inclusive of interest as of December 31, 2012, are considered to be prepayment credits under the CAS rules.

We would expect our required contributions to be temporarily lowered beginning in 2013 through 2015 as a result of MAP-21. We expect to make contributions of $1.5 billion related to our qualified defined benefit pension plans in 2013 and anticipate recovering $1.5 billion as CAS cost on our contracts in 2013.

The CAS Board published its revised pension accounting rules (CAS Harmonization) with an effective date of February 27, 2012 to better align the recovery of pension contributions, including prepayment credits, on U.S. Government contracts with the accelerated funding requirements of the PPA. The CAS Harmonization rules increase our CAS cost beginning in 2013. There is a transition period during which the cost impact of the new rules is phased in, with the full impact occurring in 2017. The incremental impact of CAS Harmonization in 2013 is a very modest CAS cost increase, and we expect much larger increases will occur successively in years 2014 through 2017.

Based upon current assumptions which may change, we expect that the increase in CAS costs caused by CAS Harmonization should result in increased earnings a few years from now, as our CAS costs would be in excess of the pension expense we record under GAAP. Accordingly, we expect our non-cash FAS/CAS pension adjustment, discussed further in the “Business Segment Results of Operations” section above, will soon increase earnings rather than decrease earnings as it has the past few years. In addition, we expect that our future CAS pension recoveries will soon be equal to or greater than our required pension contributions, which should increase our cash flow from operations.

Environmental Matters

We are a party to various agreements, proceedings, and potential proceedings for environmental cleanup issues, including matters at various sites where we have been designated a potentially responsible party (PRP) by the EPA or by a state agency. At December 31, 2012 and 2011, the total amount of liabilities recorded on our Balance Sheet for environmental matters was $950 million and $932 million. We have recorded receivables totaling $821 million and $808 million at December 31, 2012 and 2011 for the portion of environmental costs that are probable of future recovery in pricing of our products and services for agencies of the U.S. Government, as discussed below. The amount that is expected to be allocated to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts has been expensed through cost of sales. We project costs and recovery of costs over approximately 20 years.

We enter into agreements (e.g., administrative orders, consent decrees) that document the extent and timing of our environmental remediation obligation. We also are involved in remediation activities at environmental sites where formal agreements either do not exist or do not quantify the extent and timing of our obligation. Environmental cleanup activities usually span many years, which makes estimating the costs more judgmental due to, for example, changing remediation technologies. To determine the costs related to cleanup sites, we have to assess the extent of contamination, effects on natural resources, the appropriate technology to be used to accomplish the remediation, and evolving regulatory environmental standards.

We perform quarterly reviews of environmental remediation sites and record liabilities and receivables in the period it becomes probable that a liability has been incurred and the amounts can be reasonably estimated (see the discussion under “Environmental Matters” in “Note 1 – Significant Accounting Policies” and “Note 12 – Legal Proceedings, Commitments, and Contingencies” to our consolidated financial statements). We consider the above factors in our quarterly estimates of the timing and amount of any future costs that may be required for remediation activities, which results in the calculation of a range of estimates for a particular environmental site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. Given the required level of judgment and estimation, it is likely that materially different amounts could be recorded if different assumptions were used or if circumstances were to change (e.g., a change in environmental standards or a change in our estimate of the extent of contamination).

Both the EPA and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking processes are lengthy and may take years to complete. If substantially lower standards are adopted, we would expect a material increase in our estimates for remediation at several existing sites.

Under agreements reached with the U.S. Government, most of the amounts we spend for environmental remediation are allocated to our operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures relating to our U.S. Government business, after deducting any recoveries received from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, most of the expenditures we incur are included in our net sales and cost of sales according to U.S. Government agreement or regulation, regardless of the contract form (e.g. cost-reimbursable, fixed-price). We continually evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs.

As disclosed above, we may record changes in the amount of environmental remediation liabilities as a result of our quarterly reviews of the status of our environmental remediation sites, which would result in a change to the corresponding environmental receivable and a charge to earnings. For example, if we were to determine that the liabilities should be increased by $100 million, the corresponding receivables would be increased by approximately $87 million, with the remainder recorded as a charge to earnings. This allocation is determined annually, based upon our existing and projected business activities with the U.S. Government.

We reasonably cannot determine the extent of our financial exposure at all environmental sites with which we are involved. There are a number of former operating facilities we are monitoring or investigating for potential future remediation. In some cases, although a loss may be probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties (e.g., assessing the extent of the contamination). During any particular quarter, such uncertainties may be resolved, allowing us to estimate and recognize the initial liability to remediate a particular former operating site. The amount of the liability could be material. Upon recognition of the liability, a portion will be recognized as a receivable with the remainder charged to earnings.

If we are ultimately found to have liability at those sites where we have been designated a PRP, we expect that the actual costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site cleanup and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation. Under existing environmental laws, responsible parties are jointly and severally liable and, therefore, we are potentially liable for the full cost of funding such remediation. In the unlikely event that we were required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of cost recovery or contribution from the other PRPs. The amounts we record do not reflect the fact that we may recover some of the environmental costs we have incurred through insurance or from other PRPs, which we are required to pursue by agreement and U.S. Government regulation.

Goodwill

Our goodwill balances were $10.4 billion and $10.1 billion at December 31, 2012 and 2011. We test goodwill for impairment at least annually in the fourth quarter or more frequently upon the occurrence of certain events or significant changes in circumstances that indicate the carrying value of goodwill may not be recoverable. Such events or changes in circumstances may include a significant deterioration in overall economic conditions, changes in the business climate of our industry, a decline in our market capitalization, operating performance indicators, competition, reorganizations of our business, or the disposal of all or a portion of a reporting unit. Our goodwill has been allocated to and is tested for impairment at a level referred to as the reporting unit, which is our business segment level or a level below the business segment. The level at which we test goodwill for impairment requires judgment to determine whether the operations below the business segment constitute a self-sustaining business for which discrete financial information is available and segment management regularly reviews the operating results.

We initially test goodwill for impairment by comparing the fair value of each reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired. If the carrying value of a reporting unit exceeds its fair value, we compare the implied fair value of the reporting unit's goodwill with the carrying value of its goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The carrying value of each reporting unit includes the assets and liabilities employed in its operations, allocations of amounts held at the business segment and corporate levels as well as goodwill. The corporate allocations include our postretirement benefit plans liabilities as determined in accordance with CAS in order to align the basis of the carrying values with the fair values of our reporting units. CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is allocated to and recognized in the estimated fair value of each reporting unit. The discount rate used for CAS is currently higher than the discount rate used for GAAP, but is expected to trend downward over the next few years and would increase the amount of CAS liabilities allocated to each reporting unit, contributing to a decline in the carrying value of each reporting unit.

We estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public trading values and values observed in market transactions. Determining fair value requires the exercise of significant judgments, including judgments about the amount and timing of expected future cash flows, discount rates, perpetual growth rates, and relevant comparable company earnings multiples and transaction multiples. The cash flows employed in the DCF analyses are based on our best estimate of future sales and operating costs, based primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements, and general market conditions; changes in working capital; long-term business plans; and recent operating performance. The discount rates utilized in the DCF analysis are based on our weighted average cost of capital (WACC), which takes into account the relative weights of each component of capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider the risk inherent in future cash flows of the respective reporting unit.

In the fourth quarter of 2012 we tested goodwill for impairment for each of our reporting units, including the reporting units of our former Electronic Systems business segment and the reporting units of our new MFC and MST business segments. The results of our 2012 annual impairment tests of goodwill indicated that the estimated fair values of our reporting units exceeded their carrying values and, as such, no impairment existed. The fair value of each reporting unit was premised on the assumption that sequestration does not occur as it remains difficult to determine when and how sequestration would be implemented; that the U.S. Government continues to support and fund our programs, which is consistent with the continuing resolution funding measure through March 27, 2013; and that Congress approves defense budget legislation for the U.S. Government's fiscal year 2013 at a level consistent with the President's proposed defense budget for the second half of the U.S. Government's fiscal year 2013. While the specific effects of sequestration cannot be determined, we expect that across-the-board reductions would cause our sales, profits, and cash flows to be lower than our current projections. Such circumstances could eventually result in an impairment of our goodwill. Certain of our businesses with smaller, short-term contracts are the most susceptible to the impacts of budget reductions, such as our IS&GS business segment and certain services businesses within our MFC and MST business segments. However, we currently do not believe that any of our reporting units are at risk of failing a goodwill impairment test in the near-term, as their fair values are significantly greater than their carrying values.

Impairment assessments inherently involve management judgments regarding assumptions about expected future sales, profits, and cash flows and the impact of market conditions on those assumptions. Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

Income Taxes

We calculate our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, as well as from operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Future changes in tax law could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of the related tax legislation, with a corresponding material, one-time increase to income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Our net deferred tax assets as of December 31, 2012 and 2011 were $6.1 billion and $5.7 billion, based on a 35% Federal statutory income tax rate, and primarily relate to our postretirement benefit plans. If the Federal statutory income tax rate had been lowered to 25% at December 31, 2012, our net deferred tax assets would have been reduced by $1.7 billion, and we would have recorded a corresponding, one time increase in income tax expense of $1.7 billion. The amount of net deferred tax assets will change periodically based on several factors, including the annual re-measurement of our postretirement benefit plan obligations and actual cash contributions to our postretirement benefit plans.

Recent Accounting Pronouncements

We adopted a new accounting standard during 2012, which resulted only in a change in how we present other comprehensive loss in our consolidated financial statements and did not have any impact on our results of operations, financial position, or cash flows. For more information, see the "Recent accounting pronouncements" section within "Note 1 – Significant Accounting Policies" of our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We maintain active relationships with a broad and diverse group of domestic and international financial institutions. We believe that they provide us with sufficient access to the general and trade credit we require to conduct our business. We continue to closely monitor the financial market environment and actively manage counterparty exposure to minimize the potential impact from adverse developments with any single credit provider while ensuring availability of, and access to, sufficient credit resources.

Our main exposure to market risk relates to interest rates, foreign currency exchange rates, and market prices on certain equity securities. Our financial instruments that are subject to interest rate risk principally include fixed-rate long-term debt. As bond yields are at historical lows and move inversely to bond prices, the estimated fair value of our outstanding debt was $8.2 billion at December 31, 2012, and the outstanding principal amount was $7.2 billion, excluding unamortized discounts of $892 million. A 10% change in the level of interest rates would not have a material impact on the fair value of our outstanding debt at December 31, 2012.

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

The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to the effective portion of hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items, or reflected net of income taxes in accumulated other comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are attributable to the ineffective portion of the hedges, or of derivatives that are not considered to be highly effective hedges, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding foreign currency exchange contracts at December 31, 2012 and 2011 was $1.3 billion and $1.7 billion. The aggregate notional amount of our interest rate swap contracts at December 31, 2012 and 2011 was $503 million and $450 million. At December 31, 2012 and 2011, the net fair value of our derivative instruments was not material (Note 15). A 10% appreciation or devaluation of the hedged currency as compared to the level of foreign exchange rates for currencies under contract at December 31, 2012 would not have a material impact on the aggregate net fair value of such contracts or our cash flows.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into agreements with those deemed to have acceptable credit risk at the time the agreements are executed. Our foreign currency exchange hedge portfolio is diversified across several banks. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We maintain a separate trust that includes investments to fund certain of our non-qualified deferred compensation plans. As of December 31, 2012, investments in the trust totaled $874 million and are reflected at fair value on our Balance Sheet in other noncurrent assets. The trust holds investments in marketable equity securities and fixed-income securities that are exposed to price changes and changes in interest rates. A portion of the liabilities associated with the deferred compensation plans supported by the trust is also impacted by changes in the market price of our common stock and certain market indices. Changes in the value of the liabilities have the effect of partially offsetting the impact of changes in the value of the trust. Both the change in the fair value of the trust and the change in the value of the liabilities are recognized on our Statements of Earnings in other unallocated costs, and were not material for the year ended December 31, 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Ernst & Young LLP,
Independent Registered Public Accounting Firm,
on the Audited Consolidated Financial Statements

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2013

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Net sales			
Products	**$ 37,817**	$ 36,925	$ 36,380
Services	**9,365**	9,574	9,291
Total net sales	**47,182**	46,499	45,671
Cost of sales			
Products	**(33,495)**	(32,968)	(32,539)
Services	**(8,383)**	(8,514)	(8,382)
Severance and other charges	**(48)**	(136)	(220)
Other unallocated costs	**(1,060)**	(1,137)	(686)
Total cost of sales	**(42,986)**	(42,755)	(41,827)
Gross profit	**4,196**	3,744	3,844
Other income, net	**238**	276	261
Operating profit	**4,434**	4,020	4,105
Interest expense	**(383)**	(354)	(345)
Other non-operating income (expense), net	**21**	(35)	18
Earnings from continuing operations before income taxes	**4,072**	3,631	3,778
Income tax expense	**(1,327)**	(964)	(1,164)
Net earnings from continuing operations	**2,745**	2,667	2,614
Net (loss) earnings from discontinued operations	**—**	(12)	264
Net earnings	**$ 2,745**	$ 2,655	$ 2,878
Earnings (loss) per common share			
Basic			
Continuing operations	**$ 8.48**	$ 7.94	$ 7.18
Discontinued operations	**—**	(.04)	.72
Basic earnings per common share	**$ 8.48**	$ 7.90	$ 7.90
Diluted			
Continuing operations	**$ 8.36**	$ 7.85	$ 7.10
Discontinued operations	**—**	(.04)	.71
Diluted earnings per common share	**$ 8.36**	$ 7.81	$ 7.81

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

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Net earnings	**$ 2,745**	$ 2,655	$2,878
Other comprehensive (loss) income, net of tax			
Postretirement benefit plans:			
Unrecognized amounts in 2012, 2011, and 2010, net of tax benefit of $1.8 billion, $1.6 billion, and $531 million	**(3,204)**	(2,858)	(983)
Recognition of previously deferred amounts in 2012, 2011, and 2010, net of tax expense of $469 million, $364 million, and $304 million	**858**	666	553
Other, net	**110**	(55)	15
Other comprehensive loss, net of tax	**(2,236)**	(2,247)	(415)
Comprehensive income	**$ 509**	$ 408	$2,463

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

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

	December 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	**$ 1,898**	$ 3,582
Receivables, net	**6,563**	6,064
Inventories, net	**2,937**	2,481
Deferred income taxes	**1,269**	1,339
Other current assets	**1,188**	628
Total current assets	**13,855**	14,094
Property, plant, and equipment, net	**4,675**	4,611
Goodwill	**10,370**	10,148
Deferred income taxes	**4,809**	4,388
Other noncurrent assets	**4,948**	4,667
Total assets	**$ 38,657**	$ 37,908
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	**$ 2,038**	$ 2,269
Customer advances and amounts in excess of costs incurred	**6,503**	6,399
Salaries, benefits, and payroll taxes	**1,649**	1,664
Current portion of long-term debt	**150**	—
Other current liabilities	**1,815**	1,798
Total current liabilities	**12,155**	12,130
Long-term debt, net	**6,158**	6,460
Accrued pension liabilities	**15,278**	13,502
Other postretirement benefit liabilities	**1,220**	1,274
Other noncurrent liabilities	**3,807**	3,541
Total liabilities	**38,618**	36,907
Stockholders' equity		
Common stock, $1 par value per share	**321**	321
Additional paid-in capital	**—**	—
Retained earnings	**13,211**	11,937
Accumulated other comprehensive loss	**(13,493)**	(11,257)
Total stockholders' equity	**39**	1,001
Total liabilities and stockholders' equity	**$ 38,657**	$ 37,908

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

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Operating activities			
Net earnings	**$ 2,745**	$ 2,655	$ 2,878
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**988**	1,008	1,052
Stock-based compensation	**167**	157	168
Deferred income taxes	**930**	(2)	452
Severance and other charges	**48**	136	220
Reduction in tax expense from resolution of certain tax matters	**—**	(89)	(10)
Tax expense related to Medicare Part D reimbursement	**—**	—	96
Net adjustments related to discontinued operations	**—**	(16)	(257)
Changes in operating assets and liabilities:			
Receivables, net	**(460)**	(363)	3
Inventories, net	**(422)**	(74)	(207)
Accounts payable	**(236)**	609	(364)
Customer advances and amounts in excess of costs incurred	**57**	502	706
Postretirement benefit plans	**(1,883)**	(393)	(1,027)
Income taxes	**(535)**	304	70
Other, net	**162**	(181)	21
Net cash provided by operating activities	**1,561**	4,253	3,801
Investing activities			
Capital expenditures	**(942)**	(987)	(1,074)
Acquisitions of businesses / investments in affiliates	**(304)**	(649)	(148)
Net proceeds from sale of EIG	**—**	—	798
Net cash provided by (used for) short-term investment transactions	**—**	510	(171)
Other, net	**24**	313	22
Net cash used for investing activities	**(1,222)**	(813)	(573)
Financing activities			
Repurchases of common stock	**(990)**	(2,465)	(2,420)
Proceeds from stock option exercises	**440**	116	59
Dividends paid	**(1,352)**	(1,095)	(969)
Premium paid on debt exchange	**(225)**	—	—
Issuance of long-term debt, net of related costs	**—**	1,980	—
Repayments of long-term debt	**—**	(632)	—
Other, net	**104**	(23)	(28)
Net cash used for financing activities	**(2,023)**	(2,119)	(3,358)
Net change in cash and cash equivalents	**(1,684)**	1,321	(130)
Cash and cash equivalents at beginning of year	**3,582**	2,261	2,391
Cash and cash equivalents at end of year	**$ 1,898**	$ 3,582	$ 2,261

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

Lockheed Martin Corporation
Consolidated Statements of Stockholders' Equity
(in millions, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2009	$373	$ —	$12,188	$ (8,595)	$ 3,966
Net earnings	—	—	2,878	—	2,878
Other comprehensive loss, net of tax	—	—	—	(415)	(415)
Repurchases of common stock	(33)	(514)	(1,936)	—	(2,483)
Dividends declared ($2.64 per share)	—	—	(969)	—	(969)
Stock-based awards and ESOP activity	6	514	—	—	520
Balance at December 31, 2010	346	—	12,161	(9,010)	3,497
Net earnings	—	—	2,655	—	2,655
Other comprehensive loss, net of tax	—	—	—	(2,247)	(2,247)
Repurchases of common stock	(32)	(589)	(1,781)	—	(2,402)
Dividends declared ($3.25 per share)	—	—	(1,098)	—	(1,098)
Stock-based awards and ESOP activity	7	589	—	—	596
Balance at December 31, 2011	321	—	11,937	(11,257)	1,001
Net earnings	**—**	**—**	**2,745**	**—**	**2,745**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**(2,236)**	**(2,236)**
Repurchases of common stock	**(11)**	**(889)**	**(108)**	**—**	**(1,008)**
Dividends declared ($4.15 per share)	**—**	**—**	**(1,363)**	**—**	**(1,363)**
Stock-based awards and ESOP activity	**11**	**889**	**—**	**—**	**900**
Balance at December 31, 2012	**$321**	**$ —**	**$13,211**	**$(13,493)**	**$ 39**

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

Lockheed Martin Corporation
Notes to Consolidated Financial Statements

Note 1 – Significant Accounting Policies

Organization – We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of management, engineering, technical, scientific, logistic, and information services. We serve both domestic and international customers with products and services that have defense, civil, and commercial applications, with our principal customers being agencies of the U.S. Government.

Basis of presentation – Our consolidated financial statements include the accounts of subsidiaries we control, and we consolidate all variable interest entities for which we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. Our receivables, inventories, customer advances and amounts in excess of costs incurred, and certain amounts in other current liabilities primarily are attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, we include these items in current assets and current liabilities. Certain prior year amounts have been reclassified to conform to the current year's presentation, which are discussed elsewhere in our footnotes. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a "per diluted share" basis from continuing operations.

Use of estimates – We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). In doing so, we are required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, sales and cost recognition, postretirement benefit plans, environmental receivables and liabilities, evaluation of goodwill and other assets for impairment, income taxes including deferred tax assets, fair value measurements, and contingencies.

Cash and cash equivalents – Cash equivalents include highly liquid instruments with original maturities of 90 days or less.

Receivables – Receivables include amounts billed and currently due from customers, and unbilled costs and accrued profits primarily related to sales on long-term contracts that have been recognized but not yet billed to customers. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, assets related to such contracts as a result of advances, performance-based payments, and progress payments. We reflect those advances and payments as an offset to the related receivables balance for contracts that we account for on a percentage-of-completion (POC) basis using the cost-to-cost method to measure progress towards completion.

Inventories – We record inventories at the lower of cost or estimated net realizable value. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production or contract-specific facilities and equipment, allocable operating overhead, advances to suppliers and, in the case of contracts with the U.S. Government, research and development and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances, performance-based payments, and progress payments. We reflect those advances and payments as an offset against the related inventory balances for contracts that we account for on a POC basis using units-of-delivery as the basis to measure progress toward completing the contract. We determine the costs of other product and supply inventories by the first-in first-out or average cost methods.

Property, plant, and equipment – We record property, plant, and equipment at cost. We provide for depreciation and amortization on plant and equipment generally using accelerated methods during the first half of the estimated useful lives of the assets, and the straight-line method thereafter. The estimated useful lives of our plant and equipment generally range from 10 to 40 years for buildings and five to 15 years for machinery and equipment. No depreciation expense is recorded on construction in progress until such assets are placed into operation. Depreciation expense related to plant and equipment was $715 million in 2012, $712 million in 2011, and $749 million in 2010.

We review the carrying values of long-lived assets for impairment if events or changes in the facts and circumstances indicate that their carrying values may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset to its carrying value. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying value.

Capitalized software – We capitalize certain costs associated with the development or purchase of internal-use software. The amounts capitalized are included in other noncurrent assets on our Balance Sheets and are amortized on a straight-line basis over the estimated useful life of the resulting software, which ranges from two to six years. As of December 31, 2012 and 2011, capitalized software totaled $809 million and $864 million, net of accumulated amortization of $1.5 billion and $1.3 billion. No amortization expense is recorded until the software is ready for its intended use. Amortization expense related to capitalized software was $217 million in 2012, $211 million in 2011, and $211 million in 2010.

Goodwill – We test goodwill for impairment at least annually in the fourth quarter or more frequently upon the occurrence of certain events or significant changes in circumstances that indicate the carrying value of goodwill may not be recoverable. Such events or changes in circumstances may include a significant deterioration in overall economic conditions, changes in the business climate of our industry, a decline in our market capitalization, operating performance indicators, competition, reorganizations of our business, or the disposal of all or a portion of a reporting unit. Our goodwill has been allocated to and is tested for impairment at a level referred to as the reporting unit, which is our business segment level or a level below the business segment.

We initially test goodwill for impairment by comparing the fair value of each reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired. If the carrying value of a reporting unit exceeds its fair value, we compare the implied fair value of the reporting unit's goodwill with the carrying value of its goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. We estimate the fair value of each reporting unit using a combination of a discounted cash flow analysis and market-based valuation methodologies such as comparable public trading values and values observed in market transactions. We completed our assessment of goodwill in the fourth quarter of each year presented and did not identify any impairment.

Customer advances and amounts in excess of cost incurred – We receive advances, performance-based payments, and progress payments from customers that may exceed costs incurred on certain contracts, including contracts with agencies of the U.S. Government. We classify such advances, other than those reflected as a reduction of receivables or inventories as discussed above, as current liabilities.

Postretirement benefit plans – Many of our employees are covered by defined benefit pension plans, and we provide certain health care and life insurance benefits to eligible retirees (collectively, postretirement benefit plans). GAAP requires that the amounts we record related to our postretirement benefit plans be computed using actuarial valuations that are based in part on certain key assumptions we make, including the discount rate, the expected long-term rate of return on plan assets, the rates of increase in future compensation levels, health care cost trend rates, and employee turnover and mortality, each as appropriate based on the nature of the plans. We recognize on a plan-by-plan basis the funded status of our postretirement benefit plans under GAAP as either an asset recorded within other noncurrent assets or a liability recorded within noncurrent liabilities on our Balance Sheets. There is a corresponding non-cash adjustment to accumulated other comprehensive loss, net of tax benefits recorded as deferred tax assets, in stockholders' equity. The GAAP funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan. The funded status under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA), is calculated on a different basis than under GAAP.

Environmental matters – We record a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. Our environmental liabilities are recorded on our Balance Sheets within other liabilities, both current and non-current. We expect to include a substantial portion of environmental costs in net sales and cost of sales in future periods pursuant to U.S. Government agreement or regulation. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs. We include the portion of those costs expected to be allocated to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts in cost of sales at the time the liability is established. Our environmental receivables are recorded on our Balance Sheets within other assets, both current and non-current. We project costs and recovery of costs over approximately 20 years.

Sales and earnings – We record net sales and estimated profits for substantially all of our contracts using the POC method for cost-reimbursable and fixed-price contracts for products and services with the U.S. Government. Sales are recorded on all time-and-materials contracts as the work is performed based on agreed-upon hourly rates and allowable costs. We account for our services contracts with non-U.S. Government customers using the services method of accounting. We classify net sales as products or services on our Statements of Earnings based on the attributes of the underlying contracts.

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

Award and incentive fees, as well as penalties related to contract performance, are considered in estimating sales and profit rates on contracts accounted for under the POC method. Estimates of award fees are based on past experience and anticipated performance. We record incentives or penalties when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs.

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

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

In addition, comparability of our segment operating profit may be impacted by changes in estimated profit booking rates on our contracts accounted for using the POC method of accounting. Increases in the estimated profit booking rates, typically referred to as risk retirements, usually relate to revisions in the total estimated costs at completion that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the total estimated costs at completion and a reduction of the estimated profit booking rate. Increases or decreases in estimated profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit may also be impacted, favorably or unfavorably, by other matters such as the resolution of contractual matters, reserves for disputes, asset impairments and insurance recoveries, among others. Segment operating profit and items such as risk retirements, reductions of profit booking rates, or other matters are presented net of state income taxes.

Our consolidated net adjustments not related to volume, including net profit rate adjustments and other matters, increased segment operating profit, net of state income taxes, by approximately $1.9 billion in 2012, $1.6 billion in 2011, and $1.4 billion in 2010. These adjustments increased net earnings by approximately $1.2 billion ($3.70 per share) in 2012, $1.0 billion ($3.00 per share) in 2011, and $890 million ($2.40 per share) in 2010.

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

Research and development and similar costs – Except for certain arrangements described below, we account for independent research and development costs as part of the general and administrative costs that are allocated among all of our contracts and programs in progress under U.S. Government contractual arrangements and charged to cost of sales. Under some arrangements in which a customer shares in product development costs, our portion of unreimbursed costs is expensed as incurred in cost of sales. Independent research and development costs charged to cost of sales totaled $616 million in 2012, $585 million in 2011, and $639 million in 2010. Costs we incur under customer-sponsored research and development programs pursuant to contracts are included in net sales and cost of sales.

Investments in marketable securities – Investments in marketable securities consist of debt and equity securities and are classified as trading securities. As of December 31, 2012 and 2011, the fair value of our trading securities totaled $874 million and $781 million and was included in other noncurrent assets on the Balance Sheets. Our trading securities are held in a separate trust, which includes investments to fund our deferred compensation plan liabilities. Net gains on trading securities in 2012, 2011, and 2010 were $67 million, $40 million, and $56 million. In 2012, gains and losses on these investments were reclassified from other non-operating income (expense), net to other unallocated costs within cost of sales for all years presented on our Statements of Earnings in order to align the classification of changes in the market value of investments held for the plan with changes in the value of the corresponding plan liabilities.

Equity method investments – Investments where we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are included in other noncurrent assets on the Balance Sheets. Significant influence typically exists if we have a 20% to 50% ownership interest in the investee. Under this method of accounting, our share of the net earnings or losses of the investee is included in operating profit in other income, net on the Statements of Earnings since the activities of the investee are closely aligned with the operations of the business segment holding the investment. We evaluate our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period. As of December 31, 2012 and 2011, our equity method investments totaled $749 million and $697 million. Our share of net earnings related to these investments was $277 million in 2012, $332 million in 2011, and $312 million in 2010, of which approximately $265 million, $285 million, and $300 million related to our Space Systems business segment.

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

We record derivatives at their fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to the effective portion of hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items, or reflected net of income taxes in accumulated other comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are attributable to the ineffective portion of the hedges, or of derivatives that are not considered to be highly effective hedges, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2012 and 2011 was $1.3 billion and $1.7 billion. The aggregate notional amount of our outstanding interest rate swaps at December 31, 2012 and 2011 was $503 million and $450 million. Derivative instruments did not have a material impact on net earnings and comprehensive income during 2012, 2011, and 2010. Substantially all of our derivatives are designated for hedge accounting. See Note 15 for more information on the fair value measurements related to our derivative instruments.

Stock-based compensation – Compensation cost related to all share-based payments including stock options and restricted stock units is measured at the grant date based on the estimated fair value of the award. We generally recognize the compensation cost ratably over a three-year vesting period.

Income taxes – We periodically assess our tax filing exposures related to periods that are open to examination. Based on the latest available information, we evaluate our tax positions to determine whether the position will more likely than not be sustained upon examination by the Internal Revenue Service (IRS). If we cannot reach a more-likely-than-not determination, no benefit is recorded. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. We record interest and penalties related to income taxes as a component of income tax expense on our Statements of Earnings. Interest and penalties are not material.

Accumulated other comprehensive loss – Changes in the balance of accumulated other comprehensive loss, net of income taxes, consisted of the following (in millions):

	Postretirement Benefit Plan Adjustments	Other, net	Accumulated Other Comprehensive Loss
Balance at January 1, 2010	$ (8,564)	$ (31)	$ (8,595)
Other comprehensive (loss) income	(430)	15	(415)
Balance at December 31, 2010	(8,994)	(16)	(9,010)
Other comprehensive loss	(2,192)	(55)	(2,247)
Balance at December 31, 2011	(11,186)	(71)	(11,257)
Other comprehensive (loss) income	**(2,346)**	**110**	**(2,236)**
Balance at December 31, 2012	**$ (13,532)**	**$ 39**	**$ (13,493)**

The postretirement benefit plan adjustments are shown net of tax benefits at December 31, 2012, 2011, and 2010 of $7.4 billion, $6.1 billion, and $4.9 billion. These tax benefits include amounts recognized on our income tax returns as current deductions and deferred income taxes, which will be recognized on our tax returns in future years. See Note 7 and Note 9 for more information on our income taxes and postretirement plans.

Recent accounting pronouncements – Effective January 1, 2012, we retrospectively adopted new guidance issued by the Financial Accounting Standards Board by presenting total comprehensive income and the components of net income and other comprehensive loss in two separate but consecutive statements. The adoption of this guidance resulted only in a change in how we present other comprehensive loss in our consolidated financial statements and did not have any impact on our results of operations, financial position, or cash flows.

Note 2 – Earnings Per Share

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

	2012	2011	2010
Weighted average common shares outstanding for basic computations	**323.7**	335.9	364.2
Weighted average dilutive effect of stock options and restricted stock units	**4.7**	4.0	4.1
Weighted average common shares outstanding for diluted computations	**328.4**	339.9	368.3

We compute basic and diluted earnings per common share by dividing net earnings by the respective weighted average number of common shares outstanding for the periods presented. Our calculation of diluted earnings per common share includes the dilutive effects for the assumed exercise of stock options and vesting of restricted stock units based on the treasury stock method.

The computation of diluted earnings per common share excluded 8.0 million, 13.4 million, and 14.7 million stock options for the years ended December 31, 2012, 2011, and 2010 because their inclusion would have been anti-dilutive, primarily due to their exercise prices exceeding the average market price of our common stock during each respective reporting period.

Note 3 – Information on Business Segments

We organize our business segments based on the nature of the products and services offered. Effective December 31, 2012, we operate in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST), and Space Systems. This structure reflects the reorganization of our former Electronic Systems business segment into the new MFC and MST business segments in order to streamline our operations and enhance customer alignment. In connection with this reorganization, management layers at our former Electronic Systems business segment and our former Global Training and Logistics (GTL) business were eliminated, and the former GTL business was split between the two new business segments. In addition, operating results for Sandia Corporation, which manages the Sandia National Laboratories for the U.S. Department of Energy, and our equity interest in the U.K. Atomic Weapons Establishment joint venture were transferred from our former Electronic Systems business segment to our Space Systems business segment. The amounts, discussion, and presentation of our business segments reflect this reorganization for all years presented in this Annual Report on Form 10-K. The following is a brief description of the activities of our business segments:

Ÿ **Aeronautics** – Engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies.

Ÿ **Information Systems & Global Solutions** – Provides management services, integrated information technology solutions, and advanced technology systems and expertise across a broad spectrum of applications for civil, defense, intelligence, and other government customers.

Ÿ **Missiles and Fire Control** – Provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; fire control systems; mission operations support, readiness, engineering support, and integration services; logistics and other technical services; and manned and unmanned ground vehicles.

Ÿ **Mission Systems and Training** – Provides surface ship and submarine combat systems; sea and land-based missile defense systems; radar systems; mission systems and sensors for rotary and fixed-wing aircraft; littoral combat ships; simulation and training services; unmanned technologies and platforms; ship systems integration; and military and commercial training systems.

Ÿ **Space Systems** – Engaged in the research and development, design, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems. Space Systems is also responsible for various classified systems and services in support of vital national security systems. Operating results for our Space Systems business segment include our equity interests in United Launch Alliance, which provides expendable launch services for the U.S. Government, United Space Alliance, which provided processing activities for the Space Shuttle program and is winding down following the completion of the last Space Shuttle mission in 2011, and a joint venture that manages the U.K.'s Atomic Weapons Establishment program.

The financial information in the following tables includes the results of Chandler/May, Inc. (Chandler/May); CDL Systems Ltd. (CDL); and Procerus Technologies, L.C. (Procerus) in the MST business segment information from their respective dates of acquisition in 2012 (Note 14) and QTC Holdings Inc. (QTC) in the IS&GS business segment information and Sim-Industries B.V. (Sim Industries) in the MST business segment information from their respective dates of acquisition in 2011 (Note 14). Also, the 2011 and 2010 financial information in the tables below excludes businesses included in discontinued operations (Note 14). Amounts related to discontinued operations in 2012 were not significant and, accordingly, are included in “Other unallocated expenses, net” in the table below.

Net sales of our business segments exclude intersegment sales, as these activities are eliminated in consolidation. Intercompany transactions are generally negotiated under terms and conditions similar to our third-party contracts.

Operating profit of our business segments includes equity earnings and losses from investees because the operating activities of the investees are closely aligned with the operations of those business segments. Operating profit of our business segments excludes the non-cash FAS/CAS pension adjustment described below; expense for stock-based compensation programs; the effects of items not considered part of management’s evaluation of segment operating performance, such as charges related to significant severance actions in 2012 and 2011 and the charges in 2010 related to the Voluntary Executive Separation Program (VESP) and facilities consolidation within MST (Note 13); gains or losses from divestitures (Note 14); the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item “Unallocated expenses, net” between operating profit from our business segments and our consolidated operating profit.

The results of operations of our business segments include pension expense only as determined and funded in accordance with U.S. Government Cost Accounting Standards (CAS). The non-cash FAS/CAS pension adjustment represents the difference between pension expense calculated in accordance with GAAP and pension costs calculated and funded in accordance with CAS. CAS governs the extent to which pension costs can be allocated to and recovered on U.S. Government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in each of our business segments’ net sales and cost of sales.

Selected Financial Data by Business Segment

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

	2012	2011	2010
Net sales			
Aeronautics	**$14,953**	$14,362	$13,109
Information Systems & Global Solutions	**8,846**	9,381	9,921
Missiles and Fire Control	**7,457**	7,463	6,930
Mission Systems and Training	**7,579**	7,132	7,443
Space Systems	**8,347**	8,161	8,268
Total net sales	**$47,182**	$46,499	$45,671
Operating profit			
Aeronautics	**$ 1,699**	$ 1,630	$ 1,498
Information Systems & Global Solutions	**808**	874	814
Missiles and Fire Control	**1,256**	1,069	973
Mission Systems and Training	**737**	645	713
Space Systems	**1,083**	1,063	1,030
Total business segment operating profit	**5,583**	5,281	5,028
Unallocated expenses, net			
Severance and other charges [a]	**(48)**	(136)	(220)
Other unallocated expenses, net [b]	**(1,101)**	(1,125)	(703)
Total consolidated operating profit	**$ 4,434**	$ 4,020	$ 4,105
Intersegment sales			
Aeronautics	**$ 197**	$ 193	$ 128
Information Systems & Global Solutions	**838**	864	912
Missiles and Fire Control	**298**	304	295
Mission Systems and Training	**908**	958	857
Space Systems	**107**	113	124
Total intersegment sales	**$ 2,348**	$ 2,432	$ 2,316
Depreciation and amortization			
Aeronautics	**$ 311**	$ 345	$ 334
Information Systems & Global Solutions	**92**	83	106
Missiles and Fire Control	**104**	102	103
Mission Systems and Training	**179**	174	183
Space Systems	**191**	199	212
Total business segment depreciation and amortization	**877**	903	938
Corporate activities	**111**	105	114
Total depreciation and amortization	**$ 988**	$ 1,008	$ 1,052
Capital expenditures			
Aeronautics	**$ 271**	$ 361	$ 422
Information Systems & Global Solutions	**78**	71	67
Missiles and Fire Control	**128**	119	112
Mission Systems and Training	**158**	161	176
Space Systems	**167**	192	205
Total business segment capital expenditures	**802**	904	982
Corporate activities	**140**	83	92
Total capital expenditures	**$ 942**	$ 987	$ 1,074

(a) Severance and other charges include the severance charges recorded in 2012 associated with our Aeronautics business segment and the reorganization of our former Electronic Systems business segment; for 2011, include the severance charges associated with our Aeronautics, IS&GS, and Space Systems business segments, and Corporate Headquarters; and for 2010, include the charges related to the VESP and the facilities consolidation within our MST business segment (Note 13). Severance charges for initiatives that are not significant are included in business segment operating profit.

(b) Other unallocated expenses, net included the following (in millions):

	2012	2011	2010
Non-cash FAS/CAS pension adjustment	**$ (830)**	$ (922)	$(454)
Stock-based compensation	**(167)**	(157)	(168)
Other, net	**(104)**	(46)	(81)
Total	**$(1,101)**	$(1,125)	$(703)

Selected Financial Data by Business Segment (continued)

Net Sales by Customer Category

Net sales by customer category were as follows (in millions):

	2012	2011	2010
U.S. Government			
Aeronautics	**$11,587**	$10,749	$10,623
Information Systems & Global Solutions	**8,340**	8,769	9,488
Missiles and Fire Control	**5,224**	5,455	5,422
Mission Systems and Training	**5,685**	5,180	5,301
Space Systems	**7,952**	7,848	8,026
Total U.S. Government net sales	**$38,788**	$38,001	$38,860
International [(a)]			
Aeronautics	**$ 3,323**	$ 3,577	$ 2,458
Information Systems & Global Solutions	**380**	464	320
Missiles and Fire Control	**2,208**	1,977	1,480
Mission Systems and Training	**1,826**	1,906	2,082
Space Systems	**319**	144	97
Total international net sales	**$ 8,056**	$ 8,068	$ 6,437
U.S. Commercial and Other			
Aeronautics	**$ 43**	$ 36	$ 28
Information Systems & Global Solutions	**126**	148	113
Missiles and Fire Control	**25**	31	28
Mission Systems and Training	**68**	46	60
Space Systems	**76**	169	145
Total U.S. commercial and other net sales	**$ 338**	$ 430	$ 374
Total net sales	**$47,182**	$46,499	$45,671

(a) Sales made to other governments through the U.S. Government (i.e., foreign military sales) are included in the "International" category.

Our Aeronautics business segment includes our largest program, the F-35 Lightning II Joint Strike Fighter, an international multi-role, stealth fighter. Net sales for the F-35 program represented approximately 14%, 13%, and 12% of our total net sales during 2012, 2011, and 2010.

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Selected Financial Data by Business Segment (continued)

Total assets, goodwill, and customer advances and amounts in excess of costs incurred for each of our business segments were as follows (in millions):

	2012	2011
Assets [(a)]		
Aeronautics	**$ 6,525**	$ 5,752
Information Systems & Global Solutions	**5,664**	5,838
Missiles and Fire Control	**4,186**	4,096
Mission Systems and Training	**6,589**	6,159
Space Systems	**3,478**	3,346
Total business segment assets	**26,442**	25,191
Corporate assets [(b)]	**12,215**	12,717
Total assets	**$38,657**	$37,908
Goodwill		
Aeronautics	**$ 146**	$ 146
Information Systems & Global Solutions	**3,767**	3,749
Missiles and Fire Control	**2,485**	2,481
Mission Systems and Training	**3,264**	3,065
Space Systems	**708**	707
Total goodwill [(c)]	**$10,370**	$10,148
Customer advances and amounts in excess of costs incurred		
Aeronautics	**$ 2,382**	$ 2,443
Information Systems & Global Solutions	**323**	350
Missiles and Fire Control	**1,988**	1,888
Mission Systems and Training	**1,335**	1,326
Space Systems	**475**	392
Total customer advances and amounts in excess of costs incurred	**$ 6,503**	$ 6,399

(a) We have no significant long-lived assets located in foreign countries.
(b) Corporate assets primarily include cash and cash equivalents, deferred income taxes, environmental receivables, and investments held in a separate trust.
(c) During 2012, the increase in goodwill primarily was due to the acquisitions of Chandler/May, CDL, and Procerus at our MST business segment (Note 14). During 2011, goodwill increased $543 million primarily due to the acquisitions of QTC at our IS&GS business segment and Sim-Industries at our MST business segment (Note 14). As a result of the previously discussed reorganization, the goodwill related to the former Electronic Systems business segment was reassigned on a relative fair value basis to the MFC, MST, and Space Systems business segments.

Note 4 – Receivables, net

Receivables consisted of the following (in millions):

	2012	2011
U.S. Government		
Amounts billed	**$ 1,088**	$ 1,273
Unbilled costs and accrued profits	**5,630**	4,961
Less: customer advances and progress payments	**(1,048)**	(1,086)
Total U.S. Government receivables, net	**5,670**	5,148
Other governments and commercial		
Amounts billed	**376**	396
Unbilled costs and accrued profits	**789**	774
Less: customer advances	**(272)**	(254)
Total other governments and commercial receivables, net	**893**	916
Total receivables, net	**$ 6,563**	$ 6,064

We expect to bill substantially all of the December 31, 2012 unbilled costs and accrued profits during 2013.

Note 5 – Inventories, net

Inventories consisted of the following (in millions):

	2012	2011
Work-in-process, primarily related to long-term contracts and programs in progress	**$ 7,000**	$ 7,129
Less: customer advances and progress payments	**(4,932)**	(5,425)
	2,068	1,704
Other inventories	**869**	777
Total inventories, net	**$ 2,937**	$ 2,481

Work-in-process inventories at December 31, 2012 and 2011 included general and administrative costs of $623 million and $592 million. During 2012, 2011, and 2010, general and administrative costs incurred and recorded in inventories totaled $2.4 billion, $2.3 billion, and $2.3 billion, and general and administrative costs charged to cost of sales from inventories totaled $2.4 billion, $2.2 billion, and $2.4 billion.

Note 6 – Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following (in millions):

	2012	2011
Land	**$ 101**	$ 98
Buildings	**5,388**	5,159
Machinery and equipment	**6,728**	6,408
Construction in progress	**768**	805
	12,985	12,470
Less: accumulated depreciation and amortization	**(8,310)**	(7,859)
Total property, plant, and equipment, net	**$ 4,675**	$ 4,611

Note 7 – Income Taxes

Our provision for federal and foreign income tax expense for continuing operations consisted of the following (in millions):

	2012	2011	2010
Federal income taxes:			
Current	**$ 387**	$ 912	$ 600
Deferred	**925**	9	561
Total federal income taxes	**1,312**	921	1,161
Foreign income taxes:			
Current	**14**	38	8
Deferred	**1**	5	(5)
Total foreign income taxes	**15**	43	3
Income tax expense	**$1,327**	$ 964	$1,164

State income taxes are included in our operations as general and administrative costs and, under U.S. Government regulations, are allowable costs in establishing prices for the products and services we sell to the U.S. Government. Therefore, a substantial portion of state income taxes is included in our net sales and cost of sales. As a result, the impact of certain transactions on our operating profit and of other matters presented in these financial statements is disclosed net of state income taxes. Our total net state income tax expense was $183 million for 2012, $149 million for 2011, and $168 million for 2010 (including state income taxes related to the sale of Enterprise Integration Group (EIG) (Note 14)).

Our reconciliation of the 35% U.S. federal statutory income tax rate to actual income tax expense for continuing operations is as follows (in millions):

	2012	2011	2010
Income tax expense at the U.S. federal statutory tax rate	**$1,425**	$1,271	$1,322
Increase (decrease) in tax expense:			
U.S. manufacturing activity benefit	**(29)**	(106)	(110)
Tax deductible dividends	**(73)**	(62)	(56)
Research and development tax credit	**—**	(35)	(43)
IRS appeals and audit resolution	**—**	(89)	(10)
Medicare Part D law change	**—**	—	96
Other, net	**4**	(15)	(35)
Income tax expense	**$1,327**	$ 964	$1,164

Our U.S. manufacturing activity benefit is based on income derived from qualified production activity (QPA) in the U.S. The deduction rate, which was 9% for 2012, 2011, and 2010, is applied against QPA income to arrive at the deduction. Our tax-deductible pension contributions were significantly higher in 2012 than in prior years and, accordingly, our U.S. manufacturing deduction for 2012 was significantly reduced.

We receive a tax deduction for dividends paid on shares of our common stock held by certain of our defined contribution plans with an employee stock ownership plan (ESOP) feature. The amount of the tax deduction has increased as we increased our dividend over the last three years.

We recognized tax benefits of $35 million in 2011 and $43 million in 2010 related to the impact of the research and development (R&D) tax credit. On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012, which retroactively reinstates the R&D tax credit for two years, from January 1, 2012 through December 31, 2013. The financial impacts of tax law changes are recognized in the period in which new legislation is enacted, and accordingly we will recognize the benefit of the R&D tax credit for both 2012 and 2013 in 2013.

In April 2011, the U.S. Congressional Joint Committee on Taxation (JCT) completed its review of the IRS Appeals Division’s resolution of certain adjustments related to our tax years 2003-2008. As a result, we recognized additional tax benefits and reduced our income tax expense for 2011 by $89 million ($.26 per share).

In March 2010, the President signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Beginning January 1, 2013, these laws change the tax treatment for retiree prescription drug expenses by eliminating the tax deduction available to the extent that those expenses are reimbursed under Medicare Part D. Because the tax benefits associated with these future deductions were reflected as deferred tax assets as of December 31, 2009, the elimination of the tax deductions resulted in a reduction in deferred tax assets and an increase in income tax expense of $96 million ($.26 per share) in 2010.

We participate in the IRS Compliance Assurance Process program. The IRS examinations of the years 2011, 2010, and 2009 were completed in the fourth quarter of 2012, 2011, and 2010. We also resolved certain issues in our 2009 tax return with the IRS Appeals Division in 2012. The resolution of these examinations and issues did not have a material impact on our effective tax rates.

The primary components of our federal and foreign deferred income tax assets and liabilities at December 31 were as follows (in millions):

	2012	2011
Deferred tax assets related to:		
Accrued compensation and benefits	**$ 909**	$ 843
Pensions	**5,117**	4,578
Other postretirement benefit obligations	**433**	487
Contract accounting methods	**853**	806
Sale of discontinued operations	**—**	69
Foreign company operating losses and credits	**34**	31
Other	**284**	305
Valuation allowance [(a)]	**(8)**	(14)
Deferred tax assets, net	**7,622**	7,105
Deferred tax liabilities related to:		
Goodwill and purchased intangibles	**402**	369
Property, plant, and equipment	**604**	638
Exchanged debt securities and other [(b)]	**544**	379
Deferred tax liabilities	**1,550**	1,386
Net deferred tax assets [(c)]	**$ 6,072**	$ 5,719

(a) A valuation allowance has been provided against certain foreign company deferred tax assets arising from carryforwards of unused tax benefits.
(b) Includes deferred taxes associated with the exchange of debt securities in 2012 (Note 8) and prior years.
(c) Includes net foreign current deferred tax liabilities, which are included on the Balance Sheets in other current liabilities.

We had recorded liabilities for unrecognized tax benefits related to permanent and temporary tax adjustments, exclusive of interest, that totaled $160 million at January 1, 2011. In 2011, we eliminated most of these liabilities due to the completion of the JCT’s review of the IRS Appeals Division’s resolution of certain adjustments related to our tax years 2003-2008 as mentioned above. Our unrecognized tax benefits as of December 31, 2012 and 2011 are not material.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. With few exceptions, the statute of limitations is no longer open for U.S. federal or non-U.S. income tax examinations for the years before 2009, other than with respect to refunds.

U.S. income taxes and foreign withholding taxes have not been provided on earnings of $211 million, $193 million, and $108 million that have not been distributed by our non-U.S. companies as of December 31, 2012, 2011, and 2010. Our intention is to permanently reinvest these earnings, thereby indefinitely postponing their remittance to the U.S. If these earnings were remitted, we estimate that the additional income taxes after foreign tax credits would have been approximately $45 million in 2012, $41 million in 2011, and $17 million in 2010.

Our federal and foreign income tax payments, net of refunds received, were $890 million in 2012, $722 million in 2011, and $806 million in 2010. Our 2012 net payments reflect a $153 million refund received from the IRS in 2012 related to a 2011 capital loss carryback claim; our 2011 net payments reflect a $250 million refund received from the IRS in 2011 related to estimated taxes paid for 2010; and our 2010 net payments reflect a $325 million refund received from the IRS in 2010 related to estimated taxes paid for 2009, a payment of $260 million associated with the divestiture of EIG, and an $85 million advance payment related to matters subsequently resolved with the IRS Appeals Division. As of December 31, 2012, we had federal and foreign taxes receivable of $662 million recorded within other current assets on our Balance Sheet, primarily attributable to our tax-deductible pension contributions and debt exchange transaction in the fourth quarter of 2012.

Note 8 – Debt

Our long-term debt consisted of the following (in millions):

	2012	2011
Notes with rates from 2.13% to 6.15%, due 2016 to 2042	**$ 5,642**	$ 5,308
Notes with rates from 7.00% to 7.75%, due 2013 to 2036	**1,080**	1,239
Other debt	**478**	19
Total long-term debt	**7,200**	6,966
Less: unamortized discounts	**(892)**	(506)
Total long-term debt, net of unamortized discounts	**6,308**	6,460
Less: current maturities of long-term debt	**(150)**	—
Total long-term debt, net	**$ 6,158**	$ 6,460

In December 2012, we issued notes totaling $1.3 billion with a fixed interest rate of 4.07% maturing in December 2042 (the New Notes) in exchange for outstanding notes totaling $1.2 billion with interest rates ranging from 5.50% to 8.50% maturing in 2023 to 2040 (the Old Notes). In connection with the exchange, we paid a premium of $393 million, of which $225 million was paid in cash and $168 million was in the form of New Notes. This premium, in addition to $194 million in remaining unamortized discounts related to the Old Notes, will be amortized as additional interest expense over the term of the New Notes using the effective interest method. We may, at our option, redeem some or all of the New Notes at any time by paying the principal amount of notes being redeemed plus a make-whole premium and accrued and unpaid interest. Interest on the New Notes is payable on June 15 and December 15 of each year, beginning on June 15, 2013. The New Notes are unsecured senior obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness.

On September 9, 2011, we issued $2.0 billion of long-term notes in a registered public offering consisting of $500 million maturing in 2016 with a fixed interest rate of 2.13%, $900 million maturing in 2021 with a fixed interest rate of 3.35%, and $600 million maturing in 2041 with a fixed interest rate of 4.85%. We may, at our option, redeem some or all of the notes at any time by paying the principal amount of notes being redeemed plus a make-whole premium and accrued and unpaid interest. Interest on the notes is payable on March 15 and September 15 of each year, beginning on March 15, 2012. In October 2011, we used a portion of the proceeds to redeem all of our $500 million long-term notes maturing in 2013. In 2011, we repurchased $84 million of our long-term notes through open-market purchases. We paid premiums of $48 million in connection with the early extinguishments of debt, which were recognized in other non-operating income (expense), net.

In August 2011, we entered into a $1.5 billion revolving credit facility with a group of banks and terminated our existing $1.5 billion revolving credit facility that was to expire in June 2012. The credit facility expires August 2016, and we may request and the banks may grant, at their discretion, an increase to the credit facility by an additional amount up to $500 million. There were no borrowings outstanding under either facility through December 31, 2012. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on a Eurodollar rate or a Base Rate, as defined in the credit facility. Each bank's obligation to make loans under the credit facility is subject to, among other things, our compliance with various representations, warranties and covenants, including covenants limiting our ability and certain of our subsidiaries' ability to encumber assets and a covenant not to exceed a maximum leverage ratio, as defined in the credit facility. The leverage ratio covenant excludes the adjustments recognized in stockholders' equity related to postretirement benefit plans. As of December 31, 2012, we were in compliance with all covenants contained in the credit facility, as well as in our debt agreements.

We have agreements in place with banking institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding during 2012 or 2011. If we were to issue commercial paper, the borrowings would be supported by the credit facility.

During the next five years, we have scheduled long-term debt maturities of $150 million due in 2013 and $952 million due in 2016. Interest payments were $378 million in 2012, $326 million in 2011, and $337 million in 2010.

Note 9 – Postretirement Plans

Defined Benefit Pension Plans and Retiree Medical and Life Insurance Plans

Many of our employees are covered by qualified defined benefit pension plans, and we provide certain health care and life insurance benefits to eligible retirees (collectively, postretirement benefit plans). We also sponsor nonqualified defined benefit pension plans to provide for benefits in excess of qualified plan limits. Non-union represented employees hired after December 2005 do not participate in our qualified defined benefit pension plans, but are eligible to participate in a qualified defined contribution plan in addition to our other retirement savings plans. They also have the ability to participate in our retiree medical plans, but we do not subsidize the cost of their participation in those plans as we do with employees hired before January 1, 2006. Over the last few years, we have negotiated similar changes with our union represented population. Substantially all represented employees hired after June 2012 do not participate in a defined benefit pension plan. We have made contributions to trusts established to pay future benefits to eligible retirees and dependents, including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans. We use December 31 as the measurement date. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net periodic benefit cost is based on assumptions in effect at the end of the respective preceding year.

The rules related to accounting for postretirement benefit plans under GAAP require us to recognize on a plan-by-plan basis the funded status of our postretirement benefit plans as either an asset or a liability on our Balance Sheets. There is a corresponding non-cash adjustment to accumulated other comprehensive loss, net of tax benefits recorded as deferred tax assets, in stockholders' equity. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan.

The net periodic benefit cost recognized each year included the following (in millions):

	Qualified Defined Benefit Pension Plans [(a)]			Retiree Medical and Life Insurance Plans		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Service cost	**$ 1,055**	$ 974	$ 903	**$ 28**	$ 32	$ 36
Interest cost	**1,884**	1,918	1,876	**131**	162	166
Expected return on plan assets	**(2,187)**	(2,033)	(2,027)	**(131)**	(140)	(129)
Recognized net actuarial losses	**1,116**	880	595	**32**	34	25
Amortization of prior service cost (credit) and other	**73**	82	95	**(12)**	(16)	(16)
Total net periodic benefit cost	**$ 1,941**	$ 1,821	$ 1,442	**$ 48**	$ 72	$ 82

(a) Total net periodic benefit cost associated with our qualified defined benefit plans represents pension expense calculated in accordance with GAAP (FAS expense). We are required to calculate pension expense in accordance with both GAAP and CAS rules, each of which results in a different calculated amount of pension expense. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in net sales and cost of sales for products and services. We include the difference between FAS expense and CAS expense, referred to as the non-cash FAS/CAS pension adjustment ($(830) million in 2012, $(922) million in 2011, and $(454) million in 2010), as a component of other unallocated costs on our Statements of Earnings. The non-cash FAS/CAS pension adjustment effectively adjusts the amount of CAS pension expense in the business segment operating profit so that pension expense recorded on our Statements of Earnings is equal to FAS expense.

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The following table provides a reconciliation of benefit obligations, plan assets, and unfunded status related to our qualified defined benefit pension plans and our retiree medical and life insurance plans (in millions):

	Qualified Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation				
Beginning balance	**$ 40,616**	$ 35,773	**$ 3,023**	$ 3,046
Service cost	**1,055**	974	**28**	32
Interest cost	**1,884**	1,918	**131**	162
Benefits paid [(a)]	**(2,094)**	(1,685)	**(364)**	(363)
Actuarial losses (gains)	**4,442**	3,632	**169**	(28)
Plan amendments	**114**	4	**(6)**	11
Medicare Part D subsidy	**—**	—	**48**	2
Participants' contributions	**—**	—	**155**	161
Ending balance	**$ 46,017**	$ 40,616	**$ 3,184**	$ 3,023
Change in plan assets				
Beginning balance at fair value	**$ 27,292**	$ 25,345	**$ 1,749**	$ 1,833
Actual return on plan assets	**2,089**	1,347	**141**	116
Benefits paid [(a)]	**(2,094)**	(1,685)	**(364)**	(363)
Company contributions	**3,637**	2,285	**235**	—
Medicare Part D subsidy	**—**	—	**48**	2
Participants' contributions	**—**	—	**155**	161
Ending balance at fair value	**$ 30,924**	$ 27,292	**$ 1,964**	$ 1,749
Unfunded status of the plans	**$ (15,093)**	$ (13,324)	**$(1,220)**	$(1,274)

(a) Benefits paid in 2012 for qualified defined benefit pension plans include $310 million in the form of lump-sum settlement payments to former employees who had not commenced receiving their vested benefit payments. The corresponding benefit obligation that was released was $375 million. The settlement payments had no impact on our 2012 FAS pension expense and CAS pension cost.

The following table provides amounts recognized on our Balance Sheets related to our qualified defined benefit pension plans and our retiree medical and life insurance plans (in millions):

	Qualified Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	2012	**2011**	**2012**	**2011**
Prepaid pension asset	**$ 185**	$ 178	**$ —**	$ —
Accrued postretirement benefit liabilities	**(15,278)**	(13,502)	**(1,220)**	(1,274)
Accumulated other comprehensive loss (pre-tax) related to:				
Net actuarial losses	**19,121**	15,698	**777**	648
Prior service cost (credit)	**418**	377	**(3)**	(10)
Total[(a)]	**$ 19,539**	$ 16,075	**$ 774**	$ 638

(a) Accumulated other comprehensive loss for postretirement benefit plan adjustments, after tax, of $13.5 billion and $11.2 billion at December 31, 2012 and 2011 (Note 1) includes $19.5 billion ($12.6 billion after tax) and $16.1 billion ($10.4 billion after tax) for qualified defined benefit pension plans, $774 million ($500 million after tax) and $638 million ($413 million after tax) for retiree medical and life insurance plans, and $626 million ($406 million after tax) and $596 million ($385 million after tax) for other plans.

The accumulated benefit obligation (ABO) for all qualified defined benefit pension plans was $40.4 billion and $35.7 billion at December 31, 2012 and 2011, of which $40.2 billion and $35.5 billion related to plans where the ABO was in excess of plan assets. The ABO represents benefits accrued without assuming future compensation increases to plan participants. Certain key information related to our qualified defined benefit pension plans as of December 31, 2012 and 2011 is as follows (in millions):

	2012	2011
Plans where ABO was in excess of plan assets		
Projected benefit obligation	**$ 45,875**	$ 40,478
Less: fair value of plan assets	**30,597**	26,976
Unfunded status of plans [(a)]	**(15,278)**	(13,502)
Plans where ABO was less than plan assets		
Projected benefit obligation	**142**	138
Less: fair value of plan assets	**327**	316
Funded status of plans [(b)]	**$ 185**	$ 178

(a) Represent accrued pension liabilities, which are included on our Balance Sheets.
(b) Represent prepaid pension assets, which are included on our Balance Sheets in other noncurrent assets.

We also sponsor nonqualified defined benefit plans to provide benefits in excess of qualified plan limits. The aggregate liabilities for these plans at December 31, 2012 and 2011 were $1.0 billion and $907 million, which also represent the plans' unfunded status. We have set aside certain assets totaling $270 million and $283 million as of December 31, 2012 and 2011 in a separate trust which we expect to be used to pay obligations under our nonqualified defined benefit plans. In accordance with GAAP, those assets may not be used to offset the amount of the benefit obligation similar to the postretirement benefit plans in the table above. The unrecognized net actuarial losses at December 31, 2012 and 2011 were $544 million and $476 million, and the unrecognized prior service costs were not material. The expense associated with these plans totaled $107 million in 2012, $104 million in 2011, and $85 million in 2010. We also sponsor a small number of other postemployment plans and foreign benefit plans. The aggregate liability for the other postemployment plans was $109 million and $107 million as of December 31, 2012 and 2011. The expense for the other postemployment plans, as well as the liability and expense associated with the foreign benefit plans, was not material to our results of operations, financial position, or cash flows. The actuarial assumptions used to determine the benefit obligations and expense associated with our nonqualified defined benefit plans and postemployment plans are similar to those assumptions used to determine the benefit obligations and expense related to our qualified defined benefit pension plans and retiree medical and life insurance plans as described below.

The following table provides the amounts recognized in other comprehensive loss related to postretirement benefit plans, net of tax, for the years ended December 31, 2012, 2011, and 2010 (in millions):

	Incurred but Not Yet Recognized in Net Periodic Benefit Cost			Recognition of Previously Deferred Amounts		
	2012	2011	2010	2012	2011	2010
	Gains (losses)			*(Gains) losses*		
Actuarial gains and losses						
Qualified defined benefit pension plans	**$(2,933)**	$(2,793)	$(763)	**$721**	$568	$464
Retiree medical and life insurance plans	**(104)**	1	(95)	**21**	22	17
Other plans	**(98)**	(56)	(63)	**77**	34	20
	(3,135)	(2,848)	(921)	**819**	624	501
	Credit (cost)			*(Credit) cost*		
Prior service credit and cost						
Qualified defined benefit pension plans	**(73)**	(3)	(61)	**47**	53	62
Retiree medical and life insurance plans	**4**	(7)	—	**(8)**	(11)	(10)
Other plans	**—**	—	(1)	**—**	—	—
	(69)	(10)	(62)	**39**	42	52
	$(3,204)	$(2,858)	$(983)	**$858**	$666	$553

We expect that approximately $1.6 billion, or $1.0 billion net of tax, of actuarial losses and prior service cost related to postretirement benefit plans included in accumulated other comprehensive loss at the end of 2012 to be recognized in net periodic benefit cost during 2013. Of this amount, $1.5 billion, or $963 million net of tax, primarily relates to actuarial losses associated with our qualified defined benefit plans and is included in our expected 2013 pension expense of $1.9 billion.

Actuarial Assumptions

The actuarial assumptions used to determine the benefit obligations at December 31 of each year, and to determine the net periodic benefit cost for each subsequent year, were as follows:

	Qualified Defined Benefit Pension Plans			Retiree Medical and Life Insurance Plans		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Discount rate	**4.00%**	4.75%	5.50%	**3.75%**	4.50%	5.50%
Expected long-term rate of return on assets	**8.00%**	8.00%	8.50%	**8.00%**	8.00%	8.50%
Rate of increase in future compensation levels	**4.30%**	4.30%	4.40%			
Health care trend rate assumed for next year				**9.00%**	9.50%	10.00%
Ultimate health care trend rate				**5.00%**	5.00%	5.50%
Year that the ultimate health care trend rate is reached				**2029**	2021	2021

The decrease in the discount rate from December 31, 2011 to December 31, 2012 and from December 31, 2010 to December 31, 2011 resulted in an increase in the projected benefit obligations of our qualified defined benefit pension plans of approximately $4.5 billion and $3.8 billion at December 31, 2012 and 2011.

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. That assumption is based on several factors including historical market index returns, the anticipated long-term asset allocation of plan assets, the historical return data, plan expenses, and the potential to outperform market index returns.

Plan Assets

Investment policies and strategies – Lockheed Martin Investment Management Company (LMIMCo), our wholly-owned subsidiary, has the fiduciary responsibility for making investment decisions related to the assets of our postretirement benefit plans. LMIMCo's investment objectives for the assets of these plans are (1) to minimize the net present value of expected funding contributions; (2) to ensure there is a high probability that each plan meets or exceeds our actuarial long-term rate of return assumptions; and (3) to diversify assets to minimize the risk of large losses. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers; the maintenance of a portfolio diversified by asset class, investment approach, and security holdings; and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

LMIMCo's investment policies require that asset allocations of postretirement benefit plans be maintained within the following approximate ranges:

Asset Class	Asset Allocation Ranges
Cash and cash equivalents	0 - 30%
Equity	10 - 55%
Fixed income	10 - 60%
Alternative investments:	
Private equity funds	0 - 15%
Real estate funds	0 - 10%
Hedge funds	0 - 20%
Commodities	0 - 25%

Fair value measurements – The rules related to accounting for postretirement benefit plans under GAAP require certain fair value disclosures related to postretirement benefit plan assets, even though those assets are not included on our Balance Sheets. The following table presents the fair value of the assets (in millions) of our qualified defined benefit pension plans and retiree medical and life insurance plans by asset category and their level within the fair value hierarchy, which has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets, Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**$ 3,563**	**$ —**	**$ —**	**$ 3,563**	$ 2,886	$ —	$ —	$ 2,886
Equity [a]:								
U.S. equity securities	**3,871**	**50**	**10**	**3,931**	3,834	37	7	3,878
International equity securities	**3,363**	**15**	**11**	**3,389**	3,750	11	15	3,776
Commingled equity funds	**980**	**2,845**	**—**	**3,825**	1,016	1,127		2,143
Fixed income [a]:								
Corporate debt securities	**—**	**1,045**	**61**	**1,106**	—	946	98	1,044
U.S. Government securities	**—**	**12,013**	**—**	**12,013**	—	10,040	—	10,040
Other fixed income securities	**—**	**435**	**49**	**484**	—	508	45	553
Alternative investments:								
Private equity funds	**—**	**—**	**2,461**	**2,461**	—	—	2,286	2,286
Real estate funds	**—**	**25**	**504**	**529**	—	—	278	278
Hedge funds	**—**	**—**	**806**	**806**	—	—	825	825
Commodities [a]	**735**	**1**	**—**	**736**	992	277	—	1,269
Total	**$12,512**	**$16,429**	**$3,902**	**$32,843**	$12,478	$12,946	$3,554	$28,978
Receivables, net				**45**				63
Total				**$32,888**				$29,041

[a] Equity securities, fixed income securities, and commodities included derivative assets and liabilities whose fair values were not material as of December 31, 2012 and 2011. LMIMCo's investment policies restrict the use of derivatives to either establish long exposures for purposes of expediency or capital efficiency, or to hedge risks to the extent of a plan's current exposure to such risks. Most derivative transactions are settled on a daily basis.

As of December 31, 2012 and 2011, the assets associated with our foreign defined benefit pension plans were not material and have not been included in the table above.

The following table presents the changes during 2012 and 2011 in the fair value of plan assets categorized as Level 3 in the preceding table (in millions):

	Private Equity Funds	Real Estate Funds	Hedge Funds	Other	Total
Balance at January 1, 2011	$2,085	$164	$1,025	$126	$3,400
Actual return on plan assets:					
Realized gains (losses), net	171	25	(4)	2	194
Unrealized gains (losses), net	7	22	(11)	(9)	9
Purchases, sales, and settlements, net	23	67	(183)	21	(72)
Transfers into (out of) Level 3, net	—	—	(2)	25	23
Balance at December 31, 2011	$2,286	$278	$ 825	$165	$3,554
Actual return on plan assets:					
Realized gains (losses), net	**142**	**11**	**16**	**1**	**170**
Unrealized gains (losses), net	**22**	**20**	**31**	**2**	**75**
Purchases, sales, and settlements, net	**92**	**113**	**(65)**	**(9)**	**131**
Transfers into (out of) Level 3, net	**(81)**	**82**	**(1)**	**(28)**	**(28)**
Balance at December 31, 2012	**$2,461**	**$504**	**$ 806**	**$131**	**$3,902**

Valuation techniques – Cash equivalents are mostly comprised of short-term money-market instruments and are valued at cost, which approximates fair value.

U.S. equity securities and international equity securities categorized as Level 1 are traded on active national and international exchanges and are valued at their closing prices on the last trading day of the year. For U.S. equity securities and international equity securities not traded on an active exchange, or if the closing price is not available, the trustee obtains indicative quotes from a pricing vendor, broker, or investment manager. These securities are categorized as Level 2 if the custodian obtains corroborated quotes from a pricing vendor or categorized as Level 3 if the custodian obtains uncorroborated quotes from a broker or investment manager.

Commingled equity funds are public investment vehicles valued using the Net Asset Value (NAV) provided by the fund manager. The NAV is the total value of the fund divided by the number of shares outstanding. Commingled equity funds are categorized as Level 1 if traded at their NAV on a nationally recognized securities exchange or categorized as Level 2 if the NAV is corroborated by observable market data (e.g., purchases or sales activity).

Fixed income securities categorized as Level 2 are valued by the trustee using pricing models that use verifiable observable market data (e.g. interest rates and yield curves observable at commonly quoted intervals), bids provided by brokers or dealers, or quoted prices of securities with similar characteristics.

Private equity funds, real estate funds, hedge funds, and fixed income securities categorized as Level 3 are valued based on valuation models that include significant unobservable inputs and cannot be corroborated using verifiable observable market data. Valuations for private equity funds and real estate funds are determined by the general partners, while hedge funds are valued by independent administrators. Depending on the nature of the assets, the general partners or independent administrators use both the income and market approaches in their models. The market approach consists of analyzing market transactions for comparable assets while the income approach uses earnings or the net present value of estimated future cash flows adjusted for liquidity and other risk factors.

Commodities categorized as Level 1 are traded on an active commodity exchange and are valued at their closing prices on the last trading day of the year. Commodities categorized as Level 2 represent shares in a commingled commodity fund valued using the NAV, which is corroborated by observable market data.

Contributions and Expected Benefit Payments

We generally determine funding requirements for our defined benefit pension plans in a manner consistent with CAS and Internal Revenue Code rules. In 2012, we made contributions of $3.6 billion related to our qualified defined benefit pension plans. We plan to make contributions of approximately $1.5 billion related to the qualified defined benefit pension plans in 2013. In 2012, we made contributions of $235 million related to our retiree medical and life insurance plans. We expect no required contributions related to the retiree medical and life insurance plans in 2013.

The following table presents estimated future benefit payments, which reflect expected future employee service, as of December 31, 2012 (in millions):

	2013	2014	2015	2016	2017	2018 - 2022
Qualified defined benefit pension plans	$1,900	$1,970	$2,050	$2,130	$2,220	$12,880
Retiree medical and life insurance plans	200	210	220	220	220	1,080

Defined Contribution Plans

We maintain a number of defined contribution plans, most with 401(k) features, that cover substantially all of our employees. Under the provisions of our 401(k) plans, we match most employees' eligible contributions at rates specified in the plan documents. Our contributions were $380 million in 2012, $378 million in 2011, and $379 million in 2010, the majority of which were funded in our common stock. Our defined contribution plans held approximately 48.6 million and 52.1 million shares of our common stock as of December 31, 2012 and 2011.

Note 10 – Stockholders' Equity

At December 31, 2012, our authorized capital was composed of 1.5 billion shares of common stock and 50 million shares of series preferred stock. Of the 323 million shares of common stock issued and outstanding, 321 million shares were considered outstanding for Balance Sheet presentation purposes; the remaining shares were held in a separate trust. No preferred stock shares were issued and outstanding at December 31, 2012.

During 2012, 2011, and 2010, we repurchased 11.3 million, 31.8 million, and 33.0 million shares of our common stock for $1.0 billion, $2.4 billion, and $2.5 billion. We paid cash totaling $990 million for share repurchases during 2012, of which 0.2 million shares purchased for $18 million were settled and paid for in January 2013. We paid cash totaling $2.5 billion for share repurchases during 2011, which included $63 million for shares we repurchased in December 2010 but were settled and paid for in January 2011. Our share repurchase program provides for the repurchase of our common stock from time-to-time, up to a total authorized amount of $6.5 billion. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. As of December 31, 2012, we had repurchased a total of 54.3 million shares of our common stock under the program for $4.2 billion, and had remaining authorization of $2.3 billion for future share repurchases.

As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess of purchase price over par value of $108 million and $1.8 billion recorded as a reduction of retained earnings in 2012 and 2011.

Note 11 – Stock-Based Compensation

During 2012, 2011, and 2010, we recorded non-cash compensation cost related to stock options and restricted stock units totaling $167 million, $157 million, and $168 million, which is included on our Statements of Earnings in other unallocated costs within cost of sales. The net impact to earnings for the respective years was $108 million, $101 million, and $109 million.

Stock-Based Compensation Plans

We had two stock-based compensation plans in place at December 31, 2012: the Lockheed Martin 2011 Incentive Performance Award Plan (the Award Plan) and the Lockheed Martin Directors Equity Plan (the Directors Plan). Under the Award Plan, we have the right to grant key employees stock-based incentive awards, including options to purchase common stock, stock appreciation rights, restricted stock units (RSUs), performance stock units (PSUs), or other stock units. Employees also may receive cash-based incentive awards. We evaluate the types and mix of stock-based incentive awards on an ongoing basis and may vary the mix based on our overall strategy regarding compensation. The Award Plan was approved by our stockholders at our April 28, 2011 annual meeting. Prior to stockholder approval of the Award Plan, equity awards were made to employees under the Amended and Restated 2003 Incentive Performance Award Plan (the Prior Plan). Awards made under the Prior Plan remain outstanding but no new awards may be made under the Prior Plan after April 28, 2011.

Under the Award Plan and the Prior Plan, the exercise price of options to purchase common stock may not be less than the fair market value of our stock on the date of grant. No award of stock options may become fully vested prior to the third anniversary of the grant, and no portion of a stock option grant may become vested in less than one year. The minimum vesting period for restricted stock or stock units payable in stock is three years. Award agreements may provide for shorter or pro-rated vesting periods or vesting following termination of employment in the case of death, disability, divestiture, retirement, change of control, or layoff. Neither the Award Plan nor the Prior Plan imposes any minimum vesting periods on other types of awards. The maximum term of a stock option or any other award is 10 years.

We generally recognize compensation cost for stock options ratably over the three-year vesting period. For stock options granted prior to 2011 to active employees that are retirement eligible on the date of grant or become retirement eligible during the first year after grant, we recognize compensation expense ratably over a period of one year. For stock options granted prior to 2011 to active employees that become retirement eligible after the one-year anniversary of the grant but prior to the three-year anniversary of the grant, we recognize compensation expense ratably from the date of grant to the date on which the employee becomes retirement eligible. Beginning in 2011, stock option grants do not provide for vesting upon reaching retirement eligibility. We use the Black-Scholes option pricing model to estimate the fair value of stock options.

RSUs granted under both the Award Plan and the Prior Plan are based on the fair market value of our common stock on the date of the award. We recognize the related compensation expense over the three-year vesting period. Employees who are granted RSUs receive the right to receive shares of stock after completion of the vesting period, however, the shares are not issued, and the employees cannot sell or transfer shares prior to vesting and have no voting rights until the RSUs vest, generally three years from the date of the award. Dividend equivalents are paid in cash during the vesting period for RSUs granted prior to April 2010. Employees who are granted RSUs subsequent to April 2010, receive dividend-equivalent cash payments only upon vesting. For these RSU awards, the grant date fair value of our common stock is reduced to reflect the delay in payment of dividends. Most PSU awards are accounted for in a manner similar to RSUs, and PSU awards vest relative to the achievement of certain performance metrics. In 2013, we granted mostly RSUs as well as PSUs to our employees and did not grant stock options.

Under the Directors Plan, directors receive a portion of their annual compensation in the form of equity-based compensation. Each director may elect to receive his or her equity-based compensation in the form of stock units that track investment returns to changes in value of our common stock with dividends reinvested, options to purchase common stock, or a combination of the two. Under the Directors Plan, options to purchase common stock have an exercise price of 100% of the market value of the underlying stock on the date of grant. Stock options and stock units issued under the Directors Plan vest half on June 30 following the date of grant and half on December 31 following the date of grant, except in certain circumstances. The maximum term of a stock option is 10 years.

Our stockholders have approved the Award Plan, the Prior Plan and the Directors Plan, as well as the number of shares of our common stock authorized for issuance under these plans. At December 31, 2012, inclusive of the shares reserved for outstanding stock options and RSUs, we had 32 million shares reserved for issuance under our stock option and award plans. At December 31, 2012, 6.2 million of the shares reserved for issuance remained available for grant under the plans. We issue new shares upon the exercise of stock options or when restrictions on RSUs have been satisfied.

Summary of 2012 Activity

As of December 31, 2012, we had $186 million of unrecognized compensation cost related to nonvested stock options and RSUs. We expect that cost to be recognized over a weighted average period of 1.6 years. We received cash from the exercise of stock options totaling $440 million, $116 million, and $59 million during 2012, 2011, and 2010. In addition, our income tax liabilities for 2012, 2011, and 2010 were reduced by $96 million, $56 million, and $47 million due to recognized tax benefits on stock-based compensation arrangements.

2012 Activity

Stock Options

Stock options vest over three years and have 10-year terms. Exercise prices of stock options awarded for all periods were equal to the market price of the stock on the date of grant. The following table summarizes stock option activity during 2012:

	Number of Stock Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2011	24,559	$78.45		
Granted	3,401	82.01		
Exercised	(6,743)	65.22		
Forfeited/expired	(592)	85.85		
Outstanding at December 31, 2012	**20,625**	**83.15**	**5.7**	**$248.9**
Vested and expected-to-vest at December 31, 2012	**20,517**	**83.16**	**5.7**	**247.8**
Vested at December 31, 2012	**14,873**	**84.35**	**4.7**	**178.4**

The following table pertains to stock options that were granted, vested, and exercised in 2012, 2011, and 2010 (in millions, except for weighted average grant-date fair value of stock options granted):

	2012	2011	2010
Weighted average grant-date fair value of stock options granted	**$10.57**	$13.06	$14.05
Grant-date fair value of all stock options that vested	**47**	60	71
Intrinsic value of all stock options exercised	**162**	60	50

We estimate the fair value for stock options at the date of grant using the Black-Scholes option pricing model, which requires us to make certain assumptions. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield is determined based on estimated dividend payments and changes to our stock price during the expected option life. We estimate volatility based on the historical volatility of our daily stock price over the past five years, which is commensurate with the expected life of the options. We base the average expected life on the contractual term of the stock option, historical trends in employee exercise activity, and post-vesting employment termination trends. While not material, we estimate forfeitures at the date of grant based on historical experience.

We used the following weighted average assumptions in the Black-Scholes option pricing model to determine the fair values of stock-based compensation awards during 2012, 2011, and 2010:

	2012	2011	2010
Risk-free interest rate	**0.78%**	1.97%	2.49%
Dividend yield	**5.40%**	4.20%	3.40%
Volatility factors	**0.283**	0.277	0.272
Expected option life	**5 years**	5 years	5 years

RSUs

The following table summarizes activity related to nonvested RSUs during 2012:

	Number of RSUs (In thousands)	Weighted Average Grant-Date Fair Value Per Share
Nonvested at December 31, 2011	4,302	$78.25
Granted	1,987	81.93
Vested	(1,299)	80.64
Forfeited	(168)	79.03
Nonvested at December 31, 2012	4,822	$79.10

Note 12 – Legal Proceedings, Commitments, and Contingencies

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

Legal Proceedings

We have reached an agreement in principle to settle without a material effect on the Corporation's financial statements the previously disclosed class action lawsuit filed by the City of Pontiac General Employees' Retirement System against the Corporation and three of our executives.

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

On September 11, 2006, we and LMIMCo, a subsidiary, were named as defendants in a lawsuit filed in the U.S. District Court for the Southern District of Illinois, seeking to represent a putative class of participants and beneficiaries in two of our 401(k) plans. Plaintiffs have alleged that we or LMIMCo caused our plans to pay certain expenses that were higher than reasonable and breached our fiduciary duties under ERISA by offering certain allegedly imprudent investment options and providing inadequate disclosures to our participants. On March 31, 2009, the Court dismissed a number of plaintiffs' claims, leaving three claims for trial, specifically plaintiffs' claims involving the company stock funds, the Stable Value Fund, and overall administrative fees. On September 24, 2012, following plaintiffs' amended motion for class certification on these remaining claims, the Court denied class certification of the Stable Value Fund claims, granted class certification of the administrative fees claims, and partially granted class certification of the company stock funds claims. The U.S. Court of Appeals for the Seventh Circuit has granted plaintiffs' petition seeking discretionary review of the class certification of the Stable Value Fund claim. The complaint does not allege a specific calculation of damages, and we reasonably cannot estimate the possible loss, or range of loss, which could be incurred if plaintiffs were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

On August 28, 2003, the U.S. Department of Justice (DOJ) filed complaints in partial intervention in two lawsuits filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Western District of Kentucky, United States ex rel. Natural Resources Defense Council, et al., v. Lockheed Martin Corporation, et al., and United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al. DOJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing, and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The complaint does not allege a specific calculation of damages, and we reasonably cannot estimate the possible loss, or range of loss, which could be incurred if the plaintiff were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

Environmental Matters

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities, or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to be unallowable for pricing under U.S. Government contracts, in our cost of sales at the time the liability is established.

At December 31, 2012 and 2011, the aggregate amount of liabilities recorded relative to environmental matters was $950 million and $932 million, of which $844 million and $814 million is recorded in other noncurrent liabilities on the Balance Sheets at December 31, 2012 and 2011, with the remainder recorded in other current liabilities. We have recorded receivables totaling $821 million and $808 million at December 31, 2012 and 2011, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. Of those amounts, $730 million and $706 million are recorded in other noncurrent assets on the Balance Sheets at December 31, 2012 and 2011, with the remainder recorded in other current assets. We project costs and recovery of costs over approximately 20 years.

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

We perform quarterly reviews of the status of our environmental remediation sites and the related liabilities and receivables. We record a liability when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined.

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

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

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

Operating Leases

We rent certain equipment and facilities under operating leases. Certain major plant facilities and equipment are furnished by the U.S. Government under short-term or cancelable arrangements. Our total rental expense under operating leases was $302 million, $347 million, and $399 million for 2012, 2011, and 2010. Future minimum lease commitments at December 31, 2012 for all operating leases that have a remaining term of more than one year were $859 million ($229 million in 2013, $161 million in 2014, $118 million in 2015, $91 million in 2016, $60 million in 2017, and $200 million in later years).

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

We have entered into standby letters of credit, surety bonds, and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as joint venture partners. We had total outstanding letters of credit, surety bonds, and third-party guarantees aggregating $2.2 billion and $3.9 billion at December 31, 2012 and 2011. The decrease in 2012 primarily was due to scheduled reductions in a letter of credit issued to secure advance payments received under an F-16 contract from an international customer. The letter of credit was reduced as certain events occurred during the period of performance in accordance with the contract terms.

At December 31, 2012 and 2011, third-party guarantees totaled $816 million and $907 million, of which approximately 85% related to guarantees of the contractual performance of joint ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the joint venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. We believe our current and former joint venture partners will be able to perform their obligations, as they have done through December 31, 2012, and that it will not be necessary to make payments under the guarantees. In determining our exposures, we evaluate the reputation, technical capabilities, and credit quality of our current and former joint venture partners.

United Launch Alliance

In connection with our 50% ownership interest of United Launch Alliance, L.L.C. (ULA), we and The Boeing Company (Boeing) have each received distributions totaling $494 million (since ULA's formation in December 2006) which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its $560 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through December 31, 2012, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

Our 50% ownership share of ULA's net assets exceeded the book value of our investment by approximately $395 million, which we are recognizing as income ratably over 10 years through 2016. This yearly amortization and our share of ULA's net earnings are reported as equity in net earnings (losses) of equity investees in other income, net on our Statements of Earnings. Our investment in ULA totaled $572 million and $574 million at December 31, 2012 and 2011.

Note 13 – Severance and Other Charges

During 2012, we recorded charges related to certain severance actions totaling $48 million, net of state tax benefits, of which $25 million related to our Aeronautics business segment and $23 million related to the reorganization of our former Electronic Systems business segment (Note 3). These charges reduced our net earnings by $31 million ($.09 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. The severance actions at our Aeronautics business segment resulted from cost reduction initiatives, including the consolidation of selected program support activities among certain Aeronautics locations. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid through the first half of 2013.

During 2011, we recorded severance charges related to various severance actions totaling $136 million, net of state tax benefits, of which $49 million, $48 million, and $39 million related to our Aeronautics business segment, Space Systems business segment, and our IS&GS business segment and Corporate Headquarters. These charges reduced our net earnings by $88 million ($.26 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. These severance actions resulted from a strategic review of these businesses and our Corporate Headquarters to better align our organization and cost structure with changing economic conditions. The workforce reductions at the business segments also reflect changes in program lifecycles, where several of our major programs are either transitioning out of development and into production or are ending. Upon separation, terminated employees received lump-sum severance payments based on years of service. During 2011, we made approximately half of the severance payments associated with these 2011 severance actions, and paid the remaining amounts in 2012.

During 2010, we recorded a charge of $178 million, net of state tax benefits, related to the VESP. The charge, which included lump-sum special payments for qualifying executives, reduced our net earnings by $116 million ($.31 per share). The amounts of the VESP attributable to our business segments were $25 million at Aeronautics, $42 million at IS&GS, $17 million at MFC, $21 million at MST, and $41 million at Space Systems. The remaining $32 million was attributable to our Corporate Headquarters. Upon separation, lump-sum special payments were made.

In 2010, our MST business segment decided to consolidate certain of its operations, including the closure of a facility in Eagan, Minnesota. Accordingly, we recorded a charge to cost of sales of $42 million, net of state tax benefits, which reduced our net earnings by $27 million ($.07 per share). The majority of the charge was associated with the accrual of severance payments to employees, with the remainder associated with impairment of assets.

Note 14 – Acquisitions and Divestitures

Acquisitions

We used $304 million in 2012 for acquisition activities including the acquisitions of Chandler/May and CDL both in the fourth quarter of 2012, and Procerus in the first quarter of 2012, and each has been included within our MST business segment. These companies specialize in the design, development, manufacturing, and support of advanced unmanned systems. We used $649 million in 2011 for acquisition activities including the acquisitions of QTC, which provides outsourced medical evaluation services to the U.S. Government, and Sim-Industries, a commercial aviation simulation company, both in the fourth quarter of 2011. QTC has been included within our IS&GS business segment, and Sim-Industries has been included within our MST business segment. Acquisition activities in 2010 were not material.

We have accounted for the acquisitions of businesses under the acquisition method, which required us to measure all of the assets acquired and liabilities assumed at their acquisition-date fair values. Purchase allocations related to the 2012 and 2011 acquisitions above resulted in recording goodwill aggregating $197 million and $547 million, including $69 million and $113 million that will be amortized for tax purposes. Additionally, purchase allocations related to the 2011 acquisitions above resulted in recording $133 million of other intangible assets, primarily relating to the value of customer relationships and trade names we acquired.

Divestitures

Amounts related to discontinued operations in 2012 were not significant and, accordingly, were included in operating profit. Discontinued operations for 2011 include the operating results and other adjustments of Savi Technology, Inc. (Savi), a logistics business that was in our former Electronic Systems business segment sold in the third quarter of 2012, and Pacific Architects and Engineers, Inc. (PAE), a business formerly within our IS&GS business segment sold in the second quarter of 2011. Discontinued operations for 2010 include the operating results of Savi, PAE, and EIG, a business formerly within our IS&GS business segment, through the date of its sale in the fourth quarter of 2010.

As a result of our decisions to sell Savi and PAE, we recorded deferred tax assets to reflect the tax benefit that we expected to realize on the sale of those businesses because our tax bases were higher than our book bases. Accordingly, we recorded a $66 million deferred tax asset in 2011 related to Savi and a $182 million deferred tax asset in 2010 related to PAE. These amounts are included in “Other adjustments” in the table below, which also includes charges associated with Savi and PAE that were incurred in 2011 and a $109 million impairment charge related to PAE in 2010. The impairment charge, which was determined using a Level 3 valuation that was based on inputs and analysis used to estimate the expected net proceeds from the sale transaction, reduced the carrying value of PAE to equal the expected net proceeds from the transaction.

We sold EIG for $815 million and recognized a gain, net of tax, of $184 million ($.50 per share) in 2010, which is included in discontinued operations. We received net proceeds of $798 million related to the sale, which are included in investing activities on our 2010 Statement of Cash Flows. We made a $260 million tax payment related to the sale which is included in operating activities on our 2010 Statement of Cash Flows.

In the following table, we have combined the results of operations of Savi, PAE, and EIG, as the amounts for the individual businesses were not material. Summary financial information related to discontinued operations is as follows (in millions):

	2011	2010
Net sales	$193	$1,177
(Loss) earnings before income taxes	(40)	17
(Loss) earnings after income taxes	(28)	7
Gain on sale of EIG, after income taxes	—	184
Other adjustments	16	73
Net (loss) earnings from discontinued operations	$ (12)	$ 264

The assets and liabilities of Savi have not been classified as held for sale on our 2011 Balance Sheet as the amounts are not material.

Note 15 – Fair Value Measurements

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

	December 31, 2012			December 31, 2011		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Assets						
Equity securities	**$ 75**	**$ 75**	**$ —**	$ 91	$ 91	$ —
Mutual funds	**418**	**418**	**—**	380	380	—
U.S. Government securities	**213**	**—**	**213**	211	—	211
Other securities	**141**	**—**	**141**	102	—	102
Derivative assets	**39**	**—**	**39**	43	—	43
Liabilities						
Derivative liabilities	**25**	**—**	**25**	26	—	26

Substantially all assets measured at fair value, other than derivatives, represent investments held in a separate trust to fund certain of our non-qualified deferred compensation plans. The fair values of equity securities and mutual funds are determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair values of U.S. Government and other securities are determined using model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The fair values of derivative instruments, which consist of foreign currency exchange forward and interest rate swap contracts, primarily are determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates, credit spreads, and foreign currency exchange rates. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during 2012.

In addition to the financial instruments listed in the table above, we hold other financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying values for cash and cash equivalents, accounts receivable, and accounts payable approximated their fair values. The estimated fair value of our outstanding debt was $8.2 billion and $7.8 billion at December 31, 2012 and 2011, and the outstanding principal amount was $7.2 billion and $7.0 billion at December 31, 2012 and 2011, excluding unamortized discounts of $892 million and $506 million. The estimated fair value was determined based on quoted prices for similar instruments in active markets (Level 2).

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Note 16 – Summary of Quarterly Information (Unaudited)

A summary of quarterly information is as follows (in millions, except per share data):

	2012 Quarters			
	First [a]	**Second [a]**	**Third [a]**	**Fourth**
Net sales	**$11,293**	**$11,921**	**$11,869**	**$12,099**
Operating profit	**1,044**	**1,192**	**1,137**	**1,061**
Net earnings [b]	**668**	**781**	**727**	**569**
Basic earnings per share	**2.06**	**2.41**	**2.25**	**1.76**
Diluted earnings per share [c]	**2.03**	**2.38**	**2.21**	**1.73**

	2011 Quarters			
	First [a]	Second [a]	Third [a]	Fourth [a]
Net sales	$10,626	$11,543	$12,119	$12,211
Operating profit	880	999	1,035	1,106
Net earnings from continuing operations [d]	556	748	665	698
Net (loss) earnings from discontinued operations [e]	(26)	(6)	35	(15)
Net earnings	530	742	700	683
Basic earnings per share [c]	1.52	2.16	2.12	2.12
Diluted earnings per share [c]	1.50	2.14	2.10	2.09

(a) Operating profit varies from the amounts previously reported on Forms 10-Q as a result of the reclassification of net gains from securities held in a separate trust from other non-operating income (expense), net to cost of sales in the fourth quarter of 2012 (Note 1).

(b) The fourth quarter of 2012 included a reduction in the income tax benefit of the U.S. manufacturing deduction primarily caused by $2.5 billion of discretionary pension contributions in the fourth quarter of 2012, which increased income tax expense by $59 million ($.18 per share).

(c) The sum of the quarterly earnings per share amounts do not equal the earnings per share amount included on our Statements of Earnings, primarily due to the timing of our share repurchases during 2012 and 2011.

(d) The second quarter of 2011 included a reduction in income tax expense of $89 million due to the resolution of certain tax matters (Note 7), and the second quarter and third quarter of 2011 included charges of $97 million ($63 million after tax) and $39 million ($25 million after tax) related to certain severance actions (Note 13).

(e) The third quarter of 2011 included a tax benefit of $66 million related to Savi which was recorded when the decision was made to dispose of the business (Note 14).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2012. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were operating and effective as of December 31, 2012.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2012, our internal control over financial reporting was effective.

Our independent registered public accounting firm has issued a report on the effectiveness of our internal control over financial reporting, which is below.

(c) Report of Ernst & Young LLP, Independent Registered Public Accounting Firm, Regarding Internal Control Over Financial Reporting

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lockheed Martin Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lockheed Martin Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Lockheed Martin Corporation and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2013

(d) Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors required by Item 401 of Regulation S-K is included under the caption "Proposal 1 - Election of Directors" in our definitive Proxy Statement to be filed pursuant to Regulation 14A (the 2013 Proxy Statement), and that information is incorporated by reference in this Form 10-K. Information concerning executive officers required by Item 401 of Regulation S-K is located under Part I, Item 4(a) of this Form 10-K. The information required by Item 405 of Regulation S-K is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K. The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is included under the captions "Committees of the Board of Directors — Committees" and "Committees of the Board of Directors — Audit Committee Report" in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

We have had a written code of ethics in place since our formation in 1995. *Setting the Standard*, our Code of Ethics and Business Conduct, applies to all our employees, including our principal executive officer, principal financial officer, and principal accounting officer and controller, and to members of our Board of Directors. A copy of our Code of Ethics and Business Conduct is available on our investor relations website: www.lockheedmartin.com/investor. Printed copies of our Code of Ethics and Business Conduct may be obtained, without charge, by contacting Investor Relations, Lockheed Martin Corporation, 6801 Rockledge Drive, Bethesda, Maryland 20817. We are required to disclose any change to, or waiver from, our Code of Ethics and Business Conduct for our Chief Executive Officer and senior financial officers. We use our website to disseminate this disclosure as permitted by applicable SEC rules.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is included in the text and tables under the captions "Executive Compensation" and "Director Compensation" in the 2013 Proxy Statement and that information is incorporated by reference in this Form 10-K. The information required by Items 407(e)(4) and (e)(5) of Regulation S-K is included under the captions "Executive Compensation – Compensation Committee Interlocks and Insider Participation" and "Executive Compensation – Compensation Committee Report" in the 2013 Proxy Statement, and that information is furnished by incorporation by reference in this Form 10-K.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is included under the heading "Security Ownership of Management and Certain Beneficial Owners" in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

Equity Compensation Plan Information

The following table provides information about our equity compensation plans that authorize the issuance of shares of Lockheed Martin common stock to employees and directors. The information is provided as of December 31, 2012.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1) (2)	25,944,276	$83.15	6,150,121
Equity compensation plans not approved by security holders (3)	1,512,786	—	2,520,926
Total (1) (2) (3)	27,457,062	$83.15	8,671,047

(1) Column (a) includes, as of December 31, 2012, 5,319,047 shares that have been granted as Restricted Stock Units (RSUs) and 20,537,942 shares granted as options under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (IPA Plan) or predecessor plans and 87,287 stock units payable in shares of stock that have been granted under the Directors Equity Plan or predecessor plans for members (or former members) of the Board of Directors. Column (c) includes, as of December 31, 2012, 5,591,758 shares available for future issuance under the IPA Plan as options, stock appreciation rights (SARs), Restricted Stock Awards (RSAs), or RSUs (including Performance Stock Units (PSUs)) and 558,363 shares available for future issuance under the Lockheed Martin Corporation 2009 Directors Equity Plan (Directors Equity Plan) as stock options and stock units. Of the 5,591,758 shares available for grant under the IPA Plan on December 31, 2012, 1,328,337 and 687,738 shares are issuable pursuant to grants on January 28, 2013, of RSUs and PSUs (assuming the maximum number of PSUs are earned and payable at the end of the three-year performance period), respectively.

(2) At December 31, 2012, a total of 1,461 shares of Lockheed Martin common stock were issuable upon the exercise of the options assumed by the Corporation in connection with the COMSAT Corporation acquisition. The weighted average exercise price of those outstanding options was $30.88 per share.

(3) The shares represent Management Incentive Compensation Plan (MICP) bonuses and Long-Term Incentive Performance (LTIP) payments earned and voluntarily deferred by employees. The deferred amounts are payable to them under the Deferred Management Incentive Compensation Plan (DMICP). Deferred amounts are credited as phantom stock units at the closing price of our stock on the date the deferral is effective. Amounts equal to our dividend are credited as stock units at the time we pay a dividend. Following termination of employment, a number of shares of stock equal to the number of stock units credited to the employee's DMICP account are distributed to the employee. There is no discount or value transfer on the stock distributed. Distributions may be made from newly issued shares or shares purchased on the open market. Historically, all distributions have come from shares held in a separate trust and, therefore, do not further dilute our common shares outstanding. As a result, the phantom stock units also were not considered in calculating the total weighted average exercise price in the table.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is included under the captions "Corporate Governance – Related Person Transaction Policy," "Corporate Governance – Certain Relationships and Related Person Transactions of Directors, Executive Officers, and 5 Percent Stockholders," and "Corporate Governance – Director Independence" in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is included under the caption "Proposal 2 — Ratification of Appointment of Independent Auditors" in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) List of financial statements filed as part of this Form 10-K.

The following financial statements of Lockheed Martin Corporation and consolidated subsidiaries are included in Item 8 of this Form 10-K at the page numbers referenced below:

	Page
Consolidated Statements of Earnings – Years ended December 31, 2012, 2011, and 2010	55
Consolidated Statements of Comprehensive Income – Years ended December 31, 2012, 2011, and 2010	56
Consolidated Balance Sheets – At December 31, 2012 and 2011	57
Consolidated Statements of Cash Flows – Years ended December 31, 2012, 2011, and 2010	58
Consolidated Statements of Stockholders' Equity – Years ended December 31, 2012, 2011, and 2010	59
Notes to Consolidated Financial Statements	60

The report of Lockheed Martin Corporation's independent registered public accounting firm with respect to the above-referenced financial statements and their report on internal control over financial reporting appear on pages 54 and 89 of this Form 10-K. Their consent appears as Exhibit 23 of this Form 10-K.

(2) List of financial statement schedules filed as part of this Form 10-K.

All schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes to the financial statements.

(3) Exhibits.

3.1	Charter of Lockheed Martin Corporation, as amended by Articles of Amendment dated April 23, 2009 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).
3.2	Bylaws of Lockheed Martin Corporation, as amended effective January 24, 2013 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
4.1	Indenture, dated May 16, 1996, among Lockheed Martin Corporation, Lockheed Martin Tactical Systems, Inc. and First Trust of Illinois, National Association as Trustee (incorporated by reference to Exhibit 4.A to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 20, 1996).
4.2	Indenture, dated as of August 30, 2006, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 31, 2006).
4.3	Indenture, dated as of March 11, 2008, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on March 12, 2008).
4.4	Indenture, dated as of May 25, 2010, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 25, 2010).
4.5	Indenture, dated as of September 6, 2011, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 7, 2011).
4.6	Indenture, dated as of December 14, 2012, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on December 17, 2012).
	See also Exhibits 3.1 and 3.2.

	No instruments defining the rights of holders of long-term debt that is not registered are filed because the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of Lockheed Martin Corporation on a consolidated basis. Lockheed Martin Corporation agrees to furnish a copy of such instruments to the SEC upon request.
10.1	Lockheed Martin Corporation Directors Deferred Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
10.2	Lockheed Martin Corporation Directors Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008).
10.3	Resolutions relating to Lockheed Martin Corporation Financial Counseling Program and personal liability and accidental death and dismemberment benefits for officers and company presidents, (incorporated by reference to Exhibit 10(g) to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 1997).
10.4	Martin Marietta Corporation Postretirement Death Benefit Plan for Senior Executives, as amended (incorporated by reference to Exhibit 10.9 to Lockheed Martin Corporation's Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995), and as further amended September 26, 1996 (incorporated by reference to Exhibit 10 (ooo) to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 1996).
10.5	Martin Marietta Corporation Amended Omnibus Securities Award Plan, as amended (incorporated by reference to Exhibit 10.13 to Lockheed Martin Corporation's Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995).
10.6	Martin Marietta Corporation Directors' Life Insurance Program (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation's Registration Statement on Form S-4 (File No.# 033-57645) filed with the SEC on February 9, 1995).
10.7	Lockheed Martin Supplementary Pension Plan for Employees of Transferred GE Operations, as amended (incorporated by reference to Exhibit 10.7 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).
10.8	Supplemental Retirement Benefit Plan for Certain Transferred Employees of Lockheed Martin Corporation, as amended (incorporated by reference to Exhibit 10.8 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).
10.9	Lockheed Martin Corporation Supplemental Savings Plan, as amended.
10.10	Amendment to Terms of Outstanding Stock Option Relating to Exercise Period for Employees of Divested Business (incorporated by reference to Exhibit 10 (dd) to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 1999).
10.11	Lockheed Martin Corporation Postretirement Death Benefit Plan for Elected Officers, as amended (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on July 3, 2007).
10.12	Deferred Performance Payment Plan of Lockheed Martin Corporation Space & Strategic Missiles Sector (incorporated by reference to Exhibit 10 (ooo) to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 1997).
10.13	Lockheed Martin Corporation Directors Equity Plan, as amended (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on November 2, 2006).
10.14	Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, as amended.
10.15	Lockheed Martin Corporation 2006 Management Incentive Compensation Plan (Performance Based), as amended (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
10.16	Deferred Management Incentive Compensation Plan of Lockheed Corporation and its, subsidiaries (incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

10.17	Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008).
10.18	Five-Year Credit Agreement, dated as of August 26, 2011, among Lockheed Martin Corporation and the banks listed therein (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 1, 2011).
10.19	Lockheed Martin Supplemental Retirement Plan, as amended (incorporated by reference to Exhibit 10.20 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).
10.20	Joint Venture Master Agreement, dated as of May 2, 2005, by and among Lockheed Martin Corporation, The Boeing Company and United Launch Alliance, L.L.C. (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.21	Lockheed Martin Corporation Nonqualified Capital Accumulation Plan, as amended.
10.22	Lockheed Martin Corporation Severance Benefit Plan For Certain Management Employees, as amended.
10.23	Lockheed Martin Corporation 2009 Directors Equity Plan (incorporated by reference to Appendix E to Lockheed Martin Corporation's Definitive Proxy Statement on schedule 14A filed with the SEC on March 14, 2008).
10.24	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.34 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2009).
10.25	Lockheed Martin Corporation Special Termination Plan for Certain Management Employees (incorporated by reference to Exhibit 10 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 27, 2010).
10.26	Form of Stock Option Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.27	Form of Restricted Stock Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.28	Form of Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2006-2008 performance periods) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.4 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 2, 2006).
10.29	Form of the Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2007-2009 Performance Period) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.30 of Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2006).
10.30	Forms of Long-Term Incentive Performance Award Agreements (2008-2010 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.39 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2007).
10.31	Forms of Long-Term Incentive Performance Award Agreements (2009-2011 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.32 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008).
10.32	Forms of Long-Term Incentive Performance Award Agreements (2010-2012 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.33 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2009).
10.33	Form of Stock Option Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.2 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 3, 2011).
10.34	Form of Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.3 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 3, 2011).

10.35	LTIP award agreement forms as approved on February 24, 2011 (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 25, 2011).
10.36	Amendment to Stock Option Award Agreement (Grant Date: January 31, 2011) (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2011).
10.37	Post-Retirement Consulting Agreement (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2011).
10.38	Form of Restricted Stock Unit Award Agreement, Form of Performance Stock Unit Award Agreement (2013-2015 performance period), and Form of Long-Term Incentive Performance Award Agreement (2013-2015 performance period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibits 10.3, 10.4 and 10.5, respectively, to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
10.39	Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
10.40	Forms of Long-Term Incentive Performance Award Agreements (2012-2014 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.39 of Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2011).
10.41	Retirement Transition Agreement and Consulting Agreement with Ralph D. Heath, dated January 26, 2012 (incorporated by reference to Exhibit 10.40 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2011).
10.42	Separation Letter Agreement, dated as of November 9, 2012, between Christopher E. Kubasik and the Corporation (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on November 9, 2012).
10.43	Transition Agreement between Lockheed Martin Corporation and Robert J. Stevens (incorporated by reference to Exhibit 99.2 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on November 27, 2012).
10.44	Retirement Transition Agreement between Lockheed Martin Corporation and Ms. Joanne M. Maguire, dated February 7, 2013, and executed by Ms. Maguire on February 8, 2013 (incorporated by reference to Exhibit 10.1 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 12, 2013).
10.45	Retirement Transition Agreement between Lockheed Martin Corporation and Ms. Linda R. Gooden, dated February 7, 2013, and executed by Ms. Gooden on February 8, 2013 (incorporated by reference to Exhibit 10.2 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 12, 2013).
12	Computation of ratio of earnings to fixed charges.
21	Subsidiaries of Lockheed Martin Corporation.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31.1	Rule 13a-14(a) Certification of Marillyn A. Hewson.
31.2	Rule 13a-14(a) Certification of Bruce L. Tanner.
32.1	Certification Pursuant to 18 U.S.C. Section 1350 of Marillyn A. Hewson and Bruce L. Tanner.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Exhibits 10.1 through 10.17 and 10.21 through 10.45 constitute management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

LOCKHEED MARTIN CORPORATION

Date: February 28, 2013

/s/ Christopher J. Gregoire

Christopher J. Gregoire
Vice President and Controller
(Chief Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	***Title***	***Date***
/s/ Marillyn A. Hewson Marillyn A. Hewson	Chief Executive Officer, President, and Director	February 28, 2013
/s/ Bruce L. Tanner Bruce L. Tanner	Executive Vice President and Chief Financial Officer	February 28, 2013
/s/ Christopher J. Gregoire Christopher J. Gregoire	Vice President, Controller (Chief Accounting Officer)	February 28, 2013
/s/ Robert J. Stevens* Robert J. Stevens	Director	February 28, 2013
/s/ Nolan D. Archibald* Nolan D. Archibald	Director	February 28, 2013
/s/ Rosalind G. Brewer* Rosalind G. Brewer	Director	February 28, 2013
/s/ David B. Burritt* David B. Burritt	Director	February 28, 2013
/s/ James O. Ellis Jr.* James O. Ellis Jr.*	Director	February 28, 2013
/s/ Thomas J. Falk* Thomas J. Falk	Director	February 28, 2013
/s/ Gwendolyn S. King* Gwendolyn S. King	Director	February 28, 2013
/s/ James M. Loy* James M. Loy	Director	February 28, 2013
/s/ Douglas H. McCorkindale* Douglas H. McCorkindale	Director	February 28, 2013
/s/ Joseph W. Ralston* Joseph W. Ralston	Director	February 28, 2013
/s/ Anne Stevens* Anne Stevens	Director	February 28, 2013

*By: /s/ Maryanne R. Lavan
(Maryanne R. Lavan, Attorney-in-fact**)

February 28, 2013

** By authority of Powers of Attorney filed with this Annual Report on Form 10-K.

Exhibit 10.9

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

LOCKHEED MARTIN CORPORATION
SUPPLEMENTAL SAVINGS PLAN

(Amended and Restated as of December 14, 2012)

ARTICLE I

PURPOSES OF THE PLAN

The purposes of the Lockheed Martin Corporation Supplemental Savings Plan (the “Supplemental Savings Plan” or “Plan”) are to provide certain key management employees of Lockheed Martin Corporation and its Subsidiaries (as such term is defined herein) (the “Company”) the opportunity to defer compensation that cannot be contributed under the Lockheed Martin Salaried Corporation Savings Plan (the “Qualified Savings Plan”) because of the limitation of Code section 402(g), 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.

The Plan was amended and restated, effective January 1, 2005, in order to comply with the requirements of Code section 409A. The 2005 amendment and restatement of the Plan, as further amended and restated from time to time, applies only to the portion of a Participant’s Account Balance (and any earnings or losses attributable to those amounts) that is deferred or becomes vested on or after January 1, 2005. Notwithstanding anything to the contrary herein, the portion of a Participant’s Account Balance that was deferred and vested prior to January 1, 2005 (and any earnings or losses attributable to those amounts) shall be governed by the terms of the Plan in effect on December 31, 2004, which is attached hereto as Appendix A.

Since 2005, the Plan has been amended and restated from time to time to provide for the treatment of Roth 401(k) contributions, to make installment distribution options consistent among the nonqualified plans sponsored by the Company, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A, to modify the eligibility provisions of the plan, and to make other administrative clarifications. The Plan was amended and restated, effective November 15, 2010, to eliminate deferrals under the Plan based on Compensation in excess of the limitations of Code section 401(a)(17) or 415(c)(1)(A) and to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A. The Plan was hereby amended and restated, effective February 23, 2011, to make distribution options consistent among the nonqualified plans sponsored by the Company. The Plan is hereby amended and restated to name the Company’s current incentive plans for select management or highly compensated employees listed in the Plan’s eligibility provisions and to clarify the Plan’s eligibility provisions.

ARTICLE II

DEFINITIONS

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

1. ACCOUNT — The bookkeeping account maintained by the Company for each Participant which is credited with the Participant's Deferred Compensation, 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 (as such term is defined herein).

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 in accordance with Article III.

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

12. ELIGIBLE EMPLOYEE —

(a) A salaried employee:

(i) 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

(ii) (a) who is a participant in the Lockheed Martin Corporation Management Incentive Compensation Plan, the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan, or the Lockheed Martin Corporation Attorney Incentive Plan, as of November 1 of the Year preceding the Year for which a Deferral Agreement is to take effect, or

(b) whose annual rate of Compensation equals or exceeds $200,000 (increased by $5,000 for each Year after 2009 for employees who have no Deferral Agreement in effect) as of November 1 of the Year preceding the Year for which a Deferral Agreement is to take effect, and

(iii) 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. For example, the Committee may limit participation in the Plan to employees who are engaged full-time in activities related to the management of the Corporation or its Subsidiaries, affiliates, programs, or employees.

(b) Notwithstanding Article II, section 12(a)(ii)(b) above, an employee who was an active Participant in the Plan in 2009, shall remain an Eligible Employee on November 1, 2009 (and November 1 of each succeeding year), provided that (a) his or her annual rate of Compensation on November 1, 2009 (and November 1 of each succeeding year) equals or exceeds $150,000, (b) he or she continues to participate in the Plan for each Year after 2009, and (c) he or she satisfies section (iii) above (hereinafter referred to as “grandfathered Participants”). If such a grandfathered Participant cancels his or her Deferral Agreement for any Year after 2009 (including due to termination of employment), such grandfathered Participant shall no longer be an Eligible Employee until such time as he or she has satisfied Article II, section 12(a)(i), (ii), and (iii) above.

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 (other than the ESOP Fund or the Self-Managed Account, which are not available under this 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 current or former employee whose Account Balance has not been fully distributed.

17. QUALIFIED SAVINGS PLAN — The Lockheed Martin Corporation 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. TERMINATION OF EMPLOYMENT — A separation from service as such term is defined in Code section 409A and the regulations thereunder.

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

21. 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 was amended and restated (and re-named) pursuant to action of the Board on July 25, 1996, and as further amended from time to time.

22. YEAR — The calendar year.

ARTICLE III

ELECTION OF DEFERRED AMOUNT

1. Timing of Deferral Elections. An Eligible Employee may elect to defer Compensation for a Year by executing and delivering to the Company a Deferral Agreement by the deadline established by the Committee or its delegate (no later than the end of the immediately 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 by the deadline established by the Committee or its delegate (no later than the end of the Year immediately preceding such succeeding Year).

2. Amount of Deferred Compensation. Unless an Eligible Employee elects 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 specified 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, Roth 401(k) 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 Employee's Deferral Agreement shall take effect with respect to Compensation for a Year after the Eligible Employee's pre-tax salary reduction contributions and/or Roth 401(k) contributions, if applicable, under the Qualified Savings Plan for such Year equal the applicable limit under Code section 402(g). An Eligible Employee's Deferral Agreement shall first take effect and apply to that portion of Compensation for a Year 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

MATCHING CREDITS

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, Roth 401(k), or after-tax contributions to the Qualified Savings Plan.

ARTICLE V

CREDITING OF ACCOUNTS

1. Crediting of Deferred Compensation. Deferred Compensation shall be 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, Roth 401(k), or after-tax contributions to the Qualified Savings Plan.

2. Crediting of Matching Credits. Matching Credits shall be credited to a Participant's Account as of the day on which the Deferred Compensation to which they relate is credited under Section 1.

3. Crediting of Earnings. Earnings (or losses) shall be credited to a Participant's 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 (or losses) through the date that is four (4) business days before the date on which the distribution is made. The manner in which earnings (or losses) are credited under each of the Investment Options shall be determined in the same manner as under the Qualified Savings Plan.

4. Selection of Investment Options. A Participant may elect to allocate his or her Account among the Investment Options available under the Qualified Savings Plan (other than the options designated as the ESOP Fund or the Self-Managed Account). The procedures for directing allocations and reallocations among the Investment Options in the Supplemental Savings Plan (including the procedures relating to timing, frequency, amount, and the investment of Matching Credits) shall be the same as the procedures for making allocations under the Qualified Savings Plan. In the event a Participant does not make an investment allocation for the Supplemental Savings Plan, his elections will be deemed to be the elections made by the Participant in the Qualified Savings Plan (except that an election for the ESOP Fund or the Self-Managed Account shall be disregarded, and such amounts shall be allocated to the default investment option applicable to the Qualified Savings Plan until reallocated by the Participant).

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 (but no more than 90 days) following the Participant's Termination of Employment with the Company. Notwithstanding the foregoing, benefits paid under this Plan to a Participant who is reasonably determined by the Company to be a "specified employee" within the meaning of Code section 409A(a)(2)(B)(i), shall not commence before six (6) months following the month in which the Participant terminates employment.

3. Form of Payment. At the time an Eligible Employee 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, as designated by the Participant for a period not to exceed 25 years (or 25 annual payments). 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.

Such election shall be irrevocable except as provided in Section 4 of this Article 6. Such election shall be made in writing in the form and manner designated by the Company. Notwithstanding the foregoing, if the Account Balance of a Participant who is entitled to begin payment equals $10,000 or less, the Participant's Account Balance shall be paid in a single lump sum payment in full discharge of all liabilities with respect to such benefits.

4. Prospective Change of Payment Election.

(a) A Participant may modify his or her payment election at the time the Participant enters into a Deferral Agreement for a Year. Any such modification shall apply to all amounts credited to the Participant's Account under this Supplemental Savings Plan.

(b) In the event a Participant does not make a valid election with respect to the form of benefit, the Participant will be deemed to have elected that payment of benefits be made in a lump sum.

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

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

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

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. Such lump sum shall be paid as soon as administratively practicable (but no later than 90 days) after the death of the Participant.

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, to the extent reasonably necessary, the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical (but no later than 90 days) following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined that the conflict of interest may exist; provided, however, that if a distribution in accordance with the provisions of this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. This Section 6 of Article VI shall apply, however, only to the extent that the accelerated payment upon a conflict of interest determination conforms to Code section 409A.

7. Acceleration upon Change in Control.

(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 the Company's Subsidiaries and, as a result of the merger, combination, consolidation, recapitalization or other reorganization, less than 75% of the outstanding voting securities of the surviving or resulting corporation shall immediately after the event be owned in the aggregate by the stockholders of the Company (directly or indirectly), determined on the basis of record ownership as of the date of determination of holders entitled to vote on the action (or in the absence of a vote, the day immediately prior to the event).

(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 Company Subsidiary.

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

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

9. Change of Law. Notwithstanding anything herein to the contrary, if the Committee determines in good faith, based on consultation with counsel and in accordance with the requirements of Code section 409A, that the Federal income tax treatment or legal status of 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 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

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This Supplemental Savings Plan constitutes a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this 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 under this Plan shall not be assignable or transferable and any purported transfer, assignment, pledge or other encumbrance or attachment of any payments or benefits under this Plan, or any interest therein shall not be permitted or recognized, other than the designation of, or passage of payment rights to, a Beneficiary. Notwithstanding, any portion of a Participant's benefit under this Plan may be paid to a spouse, former spouse, or child pursuant to the terms of a domestic relations order (which shall be interpreted and administered in accordance with Code sections 414(p)(1)(B) and 409A), provided that the form of payment designated in such order is a lump sum payment described in Section 3(a) of Article VI of this Plan.

ARTICLE VIII

AMENDMENT OR TERMINATION

1. Amendment. The Board or its authorized delegate may amend, modify, suspend or discontinue this 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 Plan at any time and to pay all Participants their Account Balances in any form and at such times that the Board reasonably determines in its discretion is appropriate and conforms to the requirements of Code section 409A; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

ARTICLE IX

ADMINISTRATION

1. The Committee. This Supplemental Savings Plan shall be administered by the Management Development and Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this 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 and the Claims Administrator shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or the Claims Administrator shall be final and binding on all parties. Notwithstanding anything contained in the Plan or in any document issued under the Plan, it is intended that the Plan will at all times conform to the requirements of Code section 409A and any regulations or other guidance issued thereunder, and that the provisions of the Plan will be interpreted to meet such requirements. If any provision of the Plan is determined not to conform to such requirements, the Plan shall be interpreted to omit such offending provision.

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

3. Exculpation and Indemnity. Neither the Company nor any member of the Board or of the Committee, nor any other person participating in any determination of any question under this 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 person incapable of handling the disposition of his or her property is entitled to receive a benefit, make an application, or make an election hereunder, the Committee or the Claims Administrator may direct that such benefits be paid to, or such application or election be made by, the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. Any payment made, application allowed, or election implemented in accordance with this Section shall completely discharge the Company and the Committee (or the Claims Administrator) from all liability with respect thereto.

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

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

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

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

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

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

(e) If in the event that the reviewing committee must make a determination of disability in order to decide a claim, the reviewing committee shall follow the special claims procedures for disability benefits described in Department of Labor Regulation section 2560.503-1(d). The reviewing committee shall render a decision within a reasonable time (not to exceed 90 days) after the claimant's request for review, rather than within 120 days as set forth in the above paragraph.

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

ARTICLE X

GENERAL AND MISCELLANEOUS PROVISIONS

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 Deferral 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 Senior Vice President, Human Resources. Any written notice to a Participant shall be made by delivery to the Participant in person, through electronic transmission, or by mailing such notice to the Participant at his or her 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

EFFECTIVE DATE

This amendment and restatement of the Supplemental Savings Plan shall generally become effective on February 23, 2011. Subsequent amendments to the Supplemental Savings Plan are effective as of the date stated in the amendment or the adopting resolution.

APPENDIX A

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

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

ELECTION OF DEFERRED AMOUNT

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

MATCHING CREDITS

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

CREDITING OF ACCOUNTS

1. Crediting of Deferred Compensation. Deferred Compensation shall be 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 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 (or losses) shall be credited to a Participant's 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 (or losses) through the day on which the distribution is processed. The manner in which earnings (or losses) are credited under each of the Investment Options shall be determined in the same manner as under the Qualified Savings Plan.

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

(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 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 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 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

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This Supplemental Savings Plan constitutes a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this 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 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

AMENDMENT OR TERMINATION

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

ADMINISTRATION

1. The Committee. This Supplemental Savings Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this 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 and the Claims Administrator shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or Claims Administrator shall be final and binding on all parties.

2. Delegation and Reliance. The Committee may delegate to the officers or employees of the Company the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this 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 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 person incapable of handling the disposition of his or her property is entitled to receive a benefit, make an application, or make an election hereunder, the Committee or the Claims Administrator may direct that such benefits be paid to, or such application or election be made by, the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. Any payment made, application allowed, or election implemented in accordance with this Section shall completely discharge the Company and the Committee (or the Claims Administrator) from all liability with respect thereto.

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

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

(A) The Claims Administrator shall:

(i) notify the claimant within a reasonable time of such denial, setting forth the specific reasons therefore; 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 Claims Administrator shall take appropriate steps to review its decision in light of any further information or comments submitted by the claimant. The Claims Administrator may hold a hearing at which the claimant may present the basis of any claim for review.

(D) The Claims Administrator 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.

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

ARTICLE X

GENERAL AND MISCELLANEOUS PROVISIONS

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

EFFECTIVE DATE

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.

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

LOCKHEED MARTIN CORPORATION DEFERRED MANAGEMENT INCENTIVE COMPENSATION PLAN

(As Amended and Restated Effective December 14, 2012)

ARTICLE I

PURPOSES OF THE PLAN

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

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

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

The Deferral Plan was amended and restated, effective January 1, 2008 to modify the annual installment payment option to conform to other nonqualified plans maintained by the Company. The Deferral Plan and Appendix A were further amended and restated, effective January 1, 2008, to provide for new investment options in which Participants may invest their Account Balances, whether earned and vested before or after January 1, 2005. The addition of the new investment option in Appendix A is not intended to constitute a material modification within the meaning of Code section 409A.

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

The Deferral Plan was amended and restated, effective December 31, 2010, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A and to make other administrative clarifications. The Deferral Plan was amended and restated, effective October 25, 2011, to reflect changes to the administrative requirements for Company Deferrals for certain Long Term Incentive Awards issued in 2011 and later years and to permit participants in the Sandia National Laboratories, Inc. Long Term Incentive Performance Award Plan to defer cash awards to the Deferral Plan. The Deferral Plan was hereby amended and restated, effective January 26, 2012, to permit participants in the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan to defer cash awards to the Deferral Plan. The Plan is hereby amended and restated to permit participants in the Lockheed Martin Corporation Attorney Incentive Plan to defer cash awards to the Deferral 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 and earnings (or losses) attributable to the investment options selected by the Participant, and which is debited to reflect distributions and forfeitures; the portions of a Participant’s Account allocated to different investment options and the portions attributable to the deferral of Incentive Compensation awards, Long Term Incentive Award payments, and Death Benefit payments will be accounted for separately.

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

3. AWARD YEAR — As to Incentive Compensation, the calendar year with respect to which an Eligible Employee is awarded Incentive Compensation; as to a Long Term Incentive Award payment and the related Company Deferral, the first calendar year in the Performance Period for which the Long Term Incentive Award is effective with respect to an Eligible Employee.

4. BENEFICIARY — The person or persons (including a trust or trusts) validly designated by a Participant, on the form provided by the Company, to receive distributions of the Participant's Account Balance, if any, upon the Participant's death. In the absence of a valid designation, or if the designated Beneficiary has predeceased the Participant, the Participant's Beneficiary shall be the personal representative of the Participant's estate in the event of a Participant's death. A Participant may amend his or her Beneficiary designation at any time before the Participant's death.

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

6. CODE — the Internal Revenue Code of 1986, as amended from time to time, including the regulations and guidance of general applicability thereunder.

7. COMMITTEE — The committee described in Section 1 of Article VIII.

8. COMMON STOCK — The $1.00 par value common stock of the Company.

9. COMPANY — Lockheed Martin Corporation and its Subsidiaries.

10. COMPANY DEFERRALS — The amount deferred by the Company, and not at the election of the Participant, for a two-year (one-year, if applicable) period following the end of a Performance Period for a Long Term Incentive Award.

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

12. DEATH BENEFIT — The amount payable to an Eligible Employee pursuant to Article X, Section 1 of the Death Benefit Plan.

13. DEATH BENEFIT PLAN — The Lockheed Martin Corporation Post-Retirement Death Benefit Plan for Elected Officers.

14. DEFERRAL AGREEMENT — The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Incentive Compensation for an Award Year, a Long Term Incentive Award and any related Company Deferral for an Award Year, or a Death Benefit payable pursuant to the Death Benefit Plan. A Deferral Agreement made by June 30, 2012 by an employee whose participation in the Lockheed Martin Corporation Management Incentive Compensation Plan was transferred to the Lockheed Martin Corporation Attorney Incentive Plan shall continue to apply to any amount awarded the employee for 2012 under the Lockheed Martin Corporation Attorney Incentive Plan.

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

16. DEFERRED COMPENSATION — The amount of Incentive Compensation credited to a Participant's Account under the Deferral Plan, the amount of any Long Term Incentive Award payment credited to a Participant's Account under the Deferral Plan (other than Company Deferrals), and the amount of the Death Benefit payment credited to a Participant's Account under the Deferral Plan.

17. ELIGIBLE EMPLOYEE — An employee of the Company who is a participant in the MICP, who receives a Long Term Incentive Award under the Omnibus Plan, the IPA Plan, or the Sandia National Laboratories, Inc. Long Term Performance Award Plan, or who is eligible to receive a Death Benefit under the Death Benefit Plan, and who has satisfied such additional requirements for participation in this Deferral Plan as the Committee may from time to time establish. In the exercise of its authority under this provision, the Committee shall limit participation in the Plan to employees whom the Committee believes to be a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.

18. EXCHANGE ACT — The Securities Exchange Act of 1934.

19. INCENTIVE COMPENSATION — The MICP amount granted to an employee for an Award Year.

20 IPA PLAN — The Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan.

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

22. INVESTMENT FUND OPTION — The investment option under which earnings will be credited to a Participant's Account based on the market value and investment return of the investment options (including target date funds and core funds (and successor funds), and excluding the Company Stock Fund, ESOP Fund, and Self-Managed Account) that are available to participants pursuant to the terms of the Qualified Savings Plan, provided that the Committee retains the discretion to add certain funds to, or to exclude certain funds from, the Investment Fund Option.

23. LONG TERM INCENTIVE AWARD — A long term incentive performance award granted to an employee under the Omnibus Plan, the IPA Plan, or the Sandia National Laboratories, Inc. Long Term Incentive Award Plan.

24. MICP — The Lockheed Martin Corporation Management Incentive Compensation Plan,the 2006 Lockheed Martin Corporation Management Incentive Compensation Plan (for incentive compensation awarded after February 1, 2006), the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan (beginning with the 2012 Award Year), or the Lockheed Martin Corporation Attorney Incentive Plan (beginning with the 2013 Award Year).

25. OMNIBUS PLAN — The Lockheed Martin Corporation 1995 Omnibus Performance Award Plan.

26. PARTICIPANT — An Eligible Employee for whom Incentive Compensation, a Long Term Incentive Award payment, or a Death Benefit payment has been deferred for one or more years under this Deferral Plan; the term shall include a former employee whose Deferred Compensation has not been fully distributed.

27. PAYMENT DATE — As to any Participant, the January 15 or July 15 on or about on which payment to the Participant is to be made or to begin in accordance with Article V.

28. PERFORMANCE PERIOD — The period set forth in a Long Term Incentive Award over which the Company's performance is measured by reference to total stockholder return to determine whether any payment will be made under such Long Term Incentive Award.

29. QUALIFIED SAVINGS PLAN — The Lockheed Martin Corporation Salaried Savings Plan or any successor plan.

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

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

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

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

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

ARTICLE III

ELECTION OF DEFERRED AMOUNT

1. Timing of Deferral Elections.

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

CREDITING OF ACCOUNTS

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

2. Crediting of Earnings.

(a) General Rules.

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

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

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

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

(c) Company Stock Investment Option.

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

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

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

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

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

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

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

ARTICLE V

PAYMENT OF BENEFITS

1. General.

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

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

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

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

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

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

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

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

(a) A lump sum.

(b) Annual installment payments for a period of years designated by the Participant not to exceed:

(i) Fifteen (15) annual installments for distributions commencing prior to January 1, 2008:

(ii) Twenty (20) annual installments for distributions commencing on or after January 1, 2008 and prior to January 1, 2010:

(iii) Twenty-Five (25) annual installments for distributions commencing on or after January 1, 2010;

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

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

4. Prospective Change of Payment Elections.

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

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

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

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

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

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

5. Distribution upon Early Termination. Notwithstanding a Participant's payment elections under this Article V, subject to the requirements of Code section 409A, if the Participant terminates employment with the Company, other than by reason of death or disability (as defined in Section 8(b) of this Article V), and before the Participant has attained age 55, except as provided in Section 5 of Article III with respect to Company Deferrals, the Participant's Account Balance shall be distributed to him or her in a lump sum on or about the Payment Date next following the date of the Participant's Termination of Employment with the Company; provided, however, that if a distribution in accordance with the provisions of this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. Distributions under this Section 5 are subject to any delay in distribution required for Specified Employees as provided in Section 2 of this Article V.

6. Acceleration Upon Conflict of Interest. Notwithstanding a Participant's payment elections under this Article V, if following a Participant's termination of employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, except as provided in Section 5 of Article III with respect to Company Deferrals, then, to the extent reasonably necessary, the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical (but no later than 90 days) following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined or indicated that the conflict of interest may exist; provided, however, that if a distribution in accordance with the provisions of this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. This Section 6 of Article V shall apply, however, only to the extent that the accelerated payment upon a conflict of interest determination conforms to Code section 409A.

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

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

(a) Hardship Distributions. A Participant may apply for a hardship distribution pursuant to this Section 8(a) on such form and in such manner as the Committee shall prescribe and, subject to the last sentence of this Section 8(a) with respect to Section 16 Persons, the Committee shall have the power and discretion at any time to approve a payment to a Participant if the Committee determines that the Participant is suffering from an unforeseeable severe financial emergency (within the meaning of Code section 409A(A)(2)(A)(vi) and 409A(A)(2)((B)(ii)) caused by circumstances beyond the Participant's control which would cause a hardship to the Participant unless such payment were made.

Any such hardship payment will be in a lump sum and will not exceed the lesser of (i) the amount necessary to satisfy the financial emergency (taking account of the income tax liability associated with the distribution), or (ii) the Participant's Account Balance; provided, however, that if a distribution in accordance with the provisions of this Section 8(a) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. The Committee's determination under this Section 8(a) shall conform to the requirements of Code section 409A(a)(2)(B)(iv).

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

9. Acceleration upon Change in Control.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI

EXTENT OF PARTICIPANTS' RIGHTS

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

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

ARTICLE VII

AMENDMENT OR TERMINATION

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

2. Termination. The Board reserves the right to terminate this Plan at any time and to pay all Participants their Account Balances in any form and at such times that the Board reasonably determines in its discretion is appropriate and conforms to the requirements of Code section 409A; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to any Section

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

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

ARTICLE VIII

ADMINISTRATION

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

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

3. Exculpation and Indemnity. Neither the Company nor any member of the Board or of the Committee, nor any other person participating in any determination of any question under this Deferral Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this

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

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

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

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

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

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

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

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

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

ARTICLE IX

GENERAL AND MISCELLANEOUS PROVISIONS

1. No Guarantee of Employment or Award. Neither this Deferral Plan, a Company Deferral nor a Participant's Deferral Agreement, either singly or collectively, shall in

any way obligate the Company to continue the employment of a Participant with the Company, nor does either this Deferral Plan, a Company Deferral or a Deferral Agreement limit the right of the Company at any time and for any reason to terminate the Participant's employment. In no event shall this Deferral Plan, a Company Deferral or a Deferral Agreement, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Company and a Participant. In no event shall this Deferral Plan, a Company Deferral or a Deferral Agreement, either singly or collectively, by their terms or implications in any way obligate the Company to award Incentive Compensation, grant any award under the Omnibus Plan or IPA Plan, pay any Death Benefit, or make any Long Term Incentive Award payment to any Eligible Employee for any Award Year, whether or not the Eligible Employee is a Participant in the Deferral Plan for that Award Year, nor in any other way limit the right of the Company to change an Eligible Employee's compensation or other benefits.

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

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

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

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

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

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

8. Regulatory Requirements. This Deferral Plan and its operation, including but not limited to, the mechanics of deferral elections, the reallocation of all or a portion of a

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

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

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

11. Electronic Notice and Signatures. Whenever a signature notice or delivery of a document is required or appropriate under this Deferral Plan, signature, notice or delivery may be accomplished by paper or written format or, to the extent authorized by the Committee, by electronic means. In the event the Committee authorizes electronic means for the signature,

notice or delivery of a document under this Deferral Plan, the electronic record or confirmation of that signature, notice or delivery maintained by or on behalf of the Committee shall for purposes of this Deferral Plan be treated as if it was a written signature or notice and was delivered in the manner provided herein for a written document.

ARTICLE X

EFFECTIVE DATE

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

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

APPENDIX A

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

ARTICLE I

PURPOSES OF THE PLAN

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

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

ARTICLE II

DEFINITIONS

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

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

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

3. AWARD YEAR — As to Incentive Compensation, the calendar year with respect to which an Eligible Employee is awarded Incentive Compensation; as to a Long Term Incentive Award payment and the related Company Deferral, the first calendar year in the Performance Period for which the Long Term Incentive Award is effective with respect to an Eligible Employee.

4. BENEFICIARY — The person or persons (including a trust or trusts) validly designated by a Participant, on the form provided by the Company, to receive distributions of the Participant's Account Balance, if any, upon the Participant's death. In the absence of a valid designation, or if the designated Beneficiary has predeceased the Participant, the Participant's Beneficiary shall be the personal representative of the Participant's estate in the event of a Participant's death. A Participant may amend his or her Beneficiary designation at any time before the Participant's death.

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

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

7. COMMON STOCK — The $1.00 par value common stock of the Company.

8. COMPANY — Lockheed Martin Corporation and its subsidiaries.

9. COMPANY DEFERRALS — The amount deferred by the Company, and not at the election of the Participant, for the two-year period following the end of a Performance Period for a Long Term Incentive Award.

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

11. DEFERRAL AGREEMENT — The written agreement executed by an Eligible Employee on the form provided by the Company under which the Eligible Employee elects to defer Incentive Compensation for an Award Year, or a Long Term Incentive Award and any related Company Deferral for an Award Year.

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

13. DEFERRED COMPENSATION — The amount of Incentive Compensation credited to a Participant's Account under the Deferral Plan and the amount of any Long Term Incentive Award payment credited to a Participant's Account under the Deferral Plan (other than Company Deferrals).

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

15. EXCHANGE ACT — The Securities Exchange Act of 1934.

16. INCENTIVE COMPENSATION — The MICP amount granted to an employee for an Award Year.

17. IPA PLAN — The Lockheed Martin Corporation 2003 Incentive Performance Award Plan.

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

19. INVESTMENT FUND OPTION — The investment option under which earnings (or losses)will be credited to a Participant's Account based on the market value and investment return of the investment options (including target date funds and core funds (and successor funds), and excluding the Company Stock Fund, ESOP Fund, and Self-Managed Account) that are available to participants pursuant to the terms of the Qualified Savings Plan, provided that the Committee retains the discretion to add certain funds to, or to exclude certain funds from, the Investment Fund Option.

20. LONG TERM INCENTIVE AWARD — A long term incentive award granted to an employee under the Omnibus Plan or the IPA Plan.

21. MICP — The Lockheed Martin Corporation Management Incentive Compensation Plan.

22. OMNIBUS PLAN — The Lockheed Martin Corporation 1995 Omnibus Performance Award Plan.

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

24. PAYMENT DATE — As to any Participant, the January 15 or July 15 on or about on which payment to the Participant is to be made or to begin in accordance with Article V.

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

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

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

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

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

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

ARTICLE III

ELECTION OF DEFERRED AMOUNT

1. Timing of Deferral Elections.

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

CREDITING OF ACCOUNTS

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

2. Crediting of Earnings (Losses) and Reallocations.

(a) General Rules.

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

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

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

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

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

(c) Company Stock Investment Option.

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

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

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

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

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

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

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

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

Reallocations to Interest Option (deleted effective September 30, 2004). If benefit payments to a Participant or Beneficiary are to be paid or commenced to be paid over a period that extends more than six months after the date of the Participant's termination of employment with the Company, the Participant or Beneficiary, as applicable, may make a one-time irrevocable election under this Section 5 at any time after the Participant's termination of employment and before the completion of benefit payments to have the portion of the Participant's Account that is allocated to the Company Stock Investment Option reallocated to the Interest Option. A reallocation under this Section 5 shall take effect as of the first Trading Day of the month following the month in which an executed reallocation election is delivered to the Company, provided an election by a Participant or Beneficiary who is a Section 16 Person on the date the election is delivered to the Company shall be effective only if such election satisfies on such date all the requirements of the exemption under Rule l6b-3 of the Exchange Act for a "discretionary transaction" or otherwise would not result in a short swing profit recovery pursuant to Rule 16b-3 under the Exchange Act. In the event such election does not satisfy the exemption pursuant to Rule l6b-3 under the Exchange Act for a "discretionary transaction" and if giving effect to the election would result in liability under Section 16(b) of the Exchange Act, the election shall not be given effect until the first Trading Day of the month following the month in which the election could be given effect without creating liability under Section 16(b) of the Exchange Act. Notwithstanding anything herein to the contrary, no election may be made under this Section 5 after September 15, 2004, and any such election made during September 2004 will be valued and take effect as of September 30, 2004.

5. One-Time Reallocation Right.

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

(b) Exception. If a Participant or a Beneficiary is a Section 16 Person on any date in a Reallocation Election Period and delivers an election to the Company in such period, such election shall have no force or effect under Section 6(a) unless such election complies with the exemption under Rule l6b-3 of the Exchange Act for a "discretionary transaction".

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

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

ARTICLE V

PAYMENT OF BENEFITS

1. General.

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

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

(c) Cash and Stock Payments. With respect to benefit payments made after September 30, 2004, all such benefit payments shall be made in cash to the extent a Participant's Account is allocated to the Interest Option or Investment Fund Option or is attributable to Company Deferrals and shall be made in whole shares of the Company's Common Stock to the extent that a Participant's Account is allocated to the Company Stock Investment Option (other than with respect to Company Deferrals) and, except as otherwise provided, shall reduce allocations to the Interest Option, the Investment Fund Option, and the Company Stock Investment Option in the same proportions that the Participant's Account Balance is allocated between those investment options at the end of the month preceding the date of distribution (for distributions occurring prior to June 16, 2008) or the Trading Day that is four (4) business days prior to the date of the distribution (for distributions occurring on or after June 16, 2008). Notwithstanding the foregoing, no amount of Deferred Compensation shall be distributed to a Section 16 Person under this Deferral Plan unless such amount was allocated to the Participant's Account in accordance with Section 1 of Article 4 at least six months prior to the date of distribution. At the Company's discretion a distribution of Common Stock may be made directly to a Participant or to a brokerage account opened in the name of the Participant. When an Account is distributed in a lump sum or, if an Account is distributed in installments, when the final installment is made, cash shall be distributed (or withheld for applicable taxes) at that time in lieu of any fractional share of Common Stock. The cash distribution in lieu of fractional shares shall be based on the published closing price of the Company's Common Stock on the last Trading Day preceding the date the distribution is scheduled to be made.

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

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

(b) Payment to begin on the first Payment Date of the year next following the year in which the Participant terminates employment with the Company for any reason.

(c) Payment to begin on the Payment Date next following the date on which the Participant has both terminated employment with the Company for any reason and attained the age designated by the Participant in the Deferral Agreement.

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

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

(A) A lump sum.

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

4. Prospective Change of Payment Elections.

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

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

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

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

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

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

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

7. Death Benefits.

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

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

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

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

(b) Withdrawal with Forfeiture. A Participant may elect on such form and in such manner as the Committee shall prescribe at any time to withdraw ninety percent (90%) of the amount credited to the Participant's Account. If such a withdrawal is made, the remaining ten percent (10%) of the Participant's Account shall be permanently forfeited, and the Participant will be prohibited from deferring any amount under the Deferral Plan for the Award Year in which the withdrawal is received (or the first Award Year in which any portion of the withdrawal is received); provided, however, that if a distribution in accordance with the provisions of this Section 8(b) from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to any Section 16 Person shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

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

9. Acceleration upon Change in Control.

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI

EXTENT OF PARTICIPANTS' RIGHTS

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

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

ARTICLE VII

AMENDMENT OR TERMINATION

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

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

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

ARTICLE VIII

ADMINISTRATION

1. The Committee. This Deferral Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this Deferral Plan to comply with the disinterested administration requirements of Rule 16b-3 of the Exchange Act. The members of

the Committee shall be designated by the Board. A majority of the members of the Committee (but not fewer than two) shall constitute a quorum. The vote of a majority of a quorum or the unanimous written consent of the Committee shall constitute action by the Committee. The Committee or its delegate shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or its delegate shall be final and binding on all parties.

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

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

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

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

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

ARTICLE IX

GENERAL AND MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE X

EFFECTIVE DATE AND SHAREHOLDER APPROVAL

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

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

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

Exhibit 10.21

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

LOCKHEED MARTIN CORPORATION
NONQUALIFIED CAPITAL ACCUMULATION PLAN

(Amended and Restated Generally Effective as of December 14, 2012)

ARTICLE I

PURPOSES OF THE PLAN

The purposes of the Lockheed Martin Corporation Nonqualified Capital Accumulation Plan (the "NCAP" or the "Plan") are (i) to provide contributions for certain key management employees of Lockheed Martin Corporation and its subsidiaries (the "Company") in circumstances where the Company cannot make contributions on behalf of employees under the Lockheed Martin Salaried Corporation Capital Accumulation Plan (the "Qualified CAP") because of the limitations of Code section 401(a)(17) or 415(c)(1)(A); and (ii) to provide a company contribution based on amounts awarded under Lockheed Martin Corporation Management Incentive Compensation Plan ("MICP"). This Plan is also intended to comply with the requirements of Code section 409A.

The Plan was amended and restated, effective January 1, 2008 to modify the annual installment payment option to conform to other nonqualified plans maintained by the Company. The Plan was amended and restated, effective June 26, 2008, to clarify certain provisions in accordance with the final Treasury regulations issued under Code section 409A, and to make other administrative changes.

The Plan was amended and restated, effective December 31, 2008, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A and to make other administrative clarifications. The Plan was amended and restated, effective December 31, 2010, to clarify additional provisions in accordance with the final Treasury regulations issued under Code section 409A and to make other administrative clarifications. The Plan was amended and restated, effective February 23, 2011, to make certain administrative changes. The Plan is hereby amended and restated to update the names of incentive plans that are treated as Incentive Compensation under the 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 Contributions made on behalf of the Participant, 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 CAP.

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 CAP for the common stock of the Company.

9. COMPENSATION — An employee's "Compensation" from the Company, as defined in the Qualified CAP.

10. CONTRIBUTIONS — Contributions made by the Company pursuant to Article IV of this NCAP.

11. DMICP — The Lockheed Martin Corporation Deferred Management Incentive Compensation Plan or any successor plan.

12. ELIGIBLE EMPLOYEE — An employee of the Company who participates in the Qualified CAP and either (i) accrues benefits under the Qualified CAP in excess of the Code section 415 limits for a Year; (ii) earns Compensation in excess of the Code section 401(a)(17) limit for a Year; or (iii) is eligible to receive Incentive Compensation with respect to a Year (which may be payable in the following Year); provided that such employee satisfies such additional requirements for participation in this NCAP as the Committee may from time to time establish; provided further that employees who are designated by the Company as eligible to participant in a defined benefit-type nonqualified deferred compensation plan or who are Section 16 Persons shall not be eligible to participate in this NCAP. 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 by the Company for an Award Year (as defined in the MICP), regardless of amounts deferred pursuant to the DMICP.

15. INVESTMENT OPTION — A measure of investment return pursuant to which Contributions credited to a Participant's Account shall be further credited with earnings (or losses). The Investment Options available under this NCAP shall correspond to the investment options available under the Qualified CAP (other than the ESOP Fund or the Self-Managed Account, which are not available under this Plan).

16. MICP — The Lockheed Martin Corporation Management Incentive Compensation Plan or the Lockheed Martin Corporation 2006 Management Incentive Compensation Plan (for Incentive Compensation awarded after February 1, 2006) or any successor plan, including the Lockheed Martin Corporation Attorney Incentive Plan and the Applied NanoStructured Solutions, LLC Management Incentive Compensation Plan.

17. NCAP — The Lockheed Martin Corporation Non-Qualified Capital Accumulation Plan, as adopted by the Board of Directors of Lockheed Martin Corporation, originally effective January 1, 2007, and as further amended from time to time.

18. PARTICIPANT — An employee of the Company who is an Eligible Employee and with respect to whom Contributions have been credited to his Account; the term shall include a former employee whose Account Balance has not been fully distributed.

19. QUALIFIED CAP — The Lockheed Martin Corporation Capital Accumulation Plan or any successor plan.

20. 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.

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

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

23. WEEKLY RATE OF COMPENSATION — A Participant's "Weekly Rate of Compensation" as defined in the Qualified CAP.

24. YEAR — The calendar year.

ARTICLE III

ELIGIBILITY

1. Commencement of Participation. An Eligible Employee of the Company shall become a Participant in the Plan effective on the first date a Contribution is credited to his account in accordance with Article IV(2).

2. Cessation of Eligibility While Still An Employee. A Participant who has not terminated employment with the Company will nevertheless cease to be an Eligible Employee on the first to occur of (i) the employee is no longer eligible to participate in the Qualified CAP; (ii) the employee is designated by the Company as eligible to participate in a defined benefit-type nonqualified deferred compensation plan; or (iii) the employee becomes a Section 16 Person. Following cessation of eligibility, the employee will continue to be a Participant in the NCAP but will no longer be eligible to be credited with Contributions under Article IV.

ARTICLE IV

CONTRIBUTIONS

1. Amount of Contributions. The Company shall make annual Contributions on behalf of a Participant equal to:

a. an amount based on the same percentage of the Participant's Weekly Rate of Compensation that would have been contributed to the Qualified CAP on behalf of the Participant for the previous Year if not for the application of the limits under Code sections 415 and 401(a)(17) for the previous Year; and

b. an amount equal to a Participant's Incentive Compensation paid during the Year multiplied by the percentage that is used for calculating Company contributions to the Participant's account in the Qualified CAP in the Year in which the Incentive Compensation is earned (as opposed to paid).

2. Crediting of Contributions. Contributions made pursuant to Article IV(1)(a)) shall be credited to an Account for the Eligible Employee no later than March 15 of the Year following the Year in which the Eligible Employee's Qualified CAP contributions reached the applicable Code limits. Contributions made pursuant to Article IV(1)(b) shall be credited to a an Account for the Eligible Employee no later than March 15 following the date the Incentive Compensation is paid to the Eligible Employee.

3. Vesting of Contributions. A Participant shall be vested in the following percentage of his Account based on his "Years of Service," based upon the definition of "Years of Service" in the Qualified CAP applicable to the Participant, including those Years of Service prior to the Year in which the employee became a Participant**:**

Less than 3 Years of Service	0%
At least 3 Years of Service	100%

Notwithstanding the foregoing, a Participant shall be 100% vested in his Account upon his termination of employment after age 55, layoff, on account of death or permanent disability, or termination of employment on account of the divestiture or sale of the assets of a business unit or portion of a business unit of the Corporation. A Participant shall be permanently disabled if the Participant would be considered disabled for purposes of qualifying for long term disability benefits under the Company's long term disability plan in which the Participant is eligible to participate A Participant shall be considered to have been laid off if the Participant's employment is terminated by the Company due to lack of work and the Participant is considered to have experienced a "separation from service" under Code section 409A(a)(2)(a)(i). In the event legislative changes require the vesting of account balances in the Qualified CAP in a period shorter than three Years of Service, then the period required to vest under the NCAP shall be shortened so as to be consistent with the vesting period in the Qualified CAP applicable to the Participant.

4. Crediting of Earnings. Earnings (or losses) shall be credited to a Participant's 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 (or losses) through the date that is four (4) business days before the date on which the distribution is processed. The manner in which earnings (or losses) are credited under each of the Investment Options shall be determined in the same manner as under the Qualified CAP.

5. Selection of Investment Options. A Participant may elect to allocate his or her Account among the Investment Options available under the Qualified CAP (other than the options designated as the ESOP Fund or the Self Managed Account). The procedures for directing allocation and reallocations among the Investment Options in the NCAP shall be the same as the procedures for making allocations under the Qualified CAP. In the event a

Participant does not make an investment allocation for the NCAP, his elections will be deemed to be the elections made by the Participant in the Qualified CAP (except that an election for the ESOP Fund or the Self Managed Account shall be disregarded), or, if no such election exists, the default investment option designated under the Qualified CAP, and such amounts shall be allocated to the default investment option in the Qualified CAP), or, if no such election exists, the default investment option designated under the Qualified CAP, until reallocated by the Participant. Notwithstanding the foregoing, no investment election by a Section 16 Person to re-allocate all or a portion of his or her Account to, or from, a Company stock investment option shall be effective unless the reallocation would be exempt from the short-swing profit recovery rules of Section 16 of the Exchange Act.

ARTICLE V

PAYMENT OF BENEFITS

1. General. The Company's liability to pay benefits to a Participant or Beneficiary under this NCAP 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 (but no more than 90 days) following the Participant's Termination of Employment with the Company. In the event that a Participant has a Termination of Employment prior to the date a Contribution is credited to his Account under Article IV(2) for any Year, the Contribution shall be credited to such Participant's Account in accordance with Article IV and shall be distributed to the Participant in accordance with his valid election within as soon as administratively feasible (but no more than 90 days) after March 15th of the Year in which the Contribution was credited to his Account. Notwithstanding the foregoing, (i) benefits paid under this Plan to a Participant who is reasonably determined by the Company to be a "specified employee" within the meaning of Code section 409A(2)(B)(i), shall not commence before six (6) months following the month in which the Participant terminates employment; and (ii) benefits payable to a Section 16 Person that would result in a nonexempt short-swing transaction under Section 16 of the Exchange Act shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution would not result in a nonexempt short-swing transaction.

3. Form of Payment. Within 30 days of the date on which an Eligible Employee becomes a Participant in the Plan, 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) for a period of years not to exceed 25 years (or 25 annual installments). 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.

Such election shall be irrevocable except as provided in Section 4 of this Article VI. Such election shall be made in writing in the form and manner designated by the Company. Notwithstanding the foregoing, if the Account Balance of a Participant who is entitled to begin payment equals $10,000 or less, the Participant's Account Balance shall be paid in a single lump sum payment in full discharge of all liabilities with respect to such benefits.

4. Prospective Change of Payment Election.

(a) In the event a Participant does not make a valid election with respect to the form of benefit, the Participant will be deemed to have elected that payment of benefits be made in a lump sum.

(b) A Participant's election (including a "deemed election" in accordance with the preceding paragraph) shall remain in effect unless and until such election is modified by a subsequent election in accordance with (c) below.

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

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

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

5. 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. Such lump sum shall be paid as soon as administratively practicable (but no later than 90 days) after the death of the Participant.

6. Acceleration Upon Conflict of Interest. Notwithstanding a Participant's form of payment election under Section 3 of this Article V, if following a Participant's Termination of Employment with the Company, the Participant takes a position (or accepts a position) with a governmental entity, agency, or instrumentality and that employer has determined or indicated that the Participant's continued participation in the Plan may constitute a conflict of interest precluding the Participant from continuing in his position (or from accepting an offered position) with that employer or subjecting the Participant to penalty, sanction, or otherwise limiting the Participant's responsibilities for that employer, then to the extent reasonably necessary, the Participant's Account Balance shall be distributed to him or her in a lump sum as soon as practical (but no less than 90 days) following the later of (i) the date on which the Participant commences employment with the government employer; or (ii) the date on which it is determined that the conflict of interest may exist; provided, however, that if a distribution in accordance with the provisions of this Section 6 from the portion of the Participant's Account allocated to the Company Stock Investment Option would otherwise result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, the date of distribution with respect to such portion to such Section 16 Person shall be delayed until the earliest date upon which the Company reasonably anticipates that the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act. This Section 6 of Article V shall apply, however, only to the extent that the accelerated payment upon a conflict of interest determination conforms to Code section 409A

7. Acceleration upon Change in Control.

(a) Notwithstanding any other provision of this NCAP, 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 NCAP, 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.

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

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

9. Change of Law. Notwithstanding anything herein to the contrary, if the Committee determines in good faith, based on consultation with counsel and in accordance with the requirements of Code section 409A, that the Federal income tax treatment or legal status of this NCAP 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 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 Contributions 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 VI

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This NCAP constitutes a mere contractual promise by the Company to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Company. No Participant shall have any beneficial interest in any specific assets that the Company may hold or set aside in connection with this NCAP. Notwithstanding the foregoing, to assist the Company in meeting its obligations under this NCAP, 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 NCAP be satisfied by payments out of such trust or trusts. It is the Company's intention that this NCAP be unfunded for federal income tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

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

ARTICLE VII

AMENDMENT OR TERMINATION

1. Amendment. The Board or its authorized delegate may amend, modify, suspend or discontinue this NCAP 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 Plan at any time and to pay all Participants their Account Balances in any form and at such times that the Board reasonably determines in its discretion is appropriate and conforms to the requirements of Code section 409A; provided, however, that if a distribution in accordance with the provisions of this Section 2 would otherwise result in a nonexempt 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 VIII

ADMINISTRATION

1. The Committee. This NCAP shall be administered by the Management Development and Compensation Committee of the Board or such other committee of the Board as may be designated by the Board and constituted so as to permit this NCAP 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 and the Claims Administrator (identified in Section 6 below) shall have full authority to interpret the Plan, and interpretations of the Plan by the Committee or the Claims Administrator shall be final and binding on all parties. Notwithstanding anything contained in the Plan or in any document issued under the Plan, it is intended that the Plan will at all times conform to the requirements of Code section 409A and any regulations or other guidance issued thereunder, and that the provisions of the Plan will be interpreted to meet such requirements. If any provision of the Plan is determined not to conform to such requirements, the Plan shall be interpreted to omit such offending provision.

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

3. Exculpation and Indemnity. Neither the Company nor any member of the Board or of the Committee, nor any other person participating in any determination of any question under this NCAP, 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 NCAP or for the failure of the NCAP or any Participant's rights under the NCAP to achieve intended tax consequences, to qualify for exemption or relief under Section 16 of the Exchange Act and the rules thereunder, or to comply with any other law, compliance with which is not required on the part of the Company.

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

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

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

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

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

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

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

(e) If in the event that the reviewing committee must make a determination of disability in order to decide a claim, the reviewing committee shall follow the special claims procedures for disability benefits described in Department of Labor Regulation section 2560.503-1(d). The reviewing committee shall render a decision within a reasonable time (not to exceed 90 days) after the claimant's request for review, rather than within 120 days as set forth in the above paragraph.

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

ARTICLE IX

GENERAL AND MISCELLANEOUS PROVISIONS

1. Neither this NCAP nor a Participant's elections under this NCAP, 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 NCAP or a Participant's elections 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 Participant's elections, 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 Participant's elections, 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 NCAP 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 Senior Vice President, Human Resources. Any written notice to a Participant shall be made by delivery to the Participant in person, through electronic transmission, or by mailing such notice to the Participant at his or her 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 NCAP.

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 NCAP and all actions or decisions made by the Company, the Board, or Committee with regard to the NCAP.

6. The provisions of this NCAP 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 NCAP 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 NCAP 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 NCAP and its operation, including but not limited to, the mechanics of payment 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 NCAP 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 NCAP 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 NCAP 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 NCAP, the provisions of this NCAP may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of this NCAP are applicable solely to Section 16 Persons. Notwithstanding any other provision of this NCAP 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 NCAP 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 X

EFFECTIVE DATE

This amendment and restatement of the NCAP shall generally become effective on February 23, 2011. Subsequent amendments to the NCAP are effective as of the date stated in the amendment or the adopting resolution.

Lockheed Martin Corporation
Severance Benefit Plan For Certain Management Employees
Originally Effective January 1, 2008
Amended and Restated Effective June 26, 2008
Amended and Restated Effective December 31, 2010
Amended and Restated Effective April 3, 2012
Amended and Restated Effective September 18, 2012
Amended and Restated Effective December 14, 2012

This document sets forth the terms of the Lockheed Martin Corporation Severance Benefit Plan for Certain Management Employees (the “Plan”). The Plan provides benefits to Eligible Employees who leave the employment of the Corporation as a result of an Executive Layoff Event and otherwise satisfy the eligibility requirements of the Plan. The Plan is intended to constitute an employee welfare benefit plan under the Employee Retirement Income Security Act of 1974 (“ERISA”) that provides severance benefits to a select group of management or highly compensated employees.

1. **Definitions.** The following terms when capitalized have the following meaning:

(a) **Affiliate** - 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 corporations), is owned or controlled (directly or indirectly) by the Company or by one or more of its Affiliates, or by a combination thereof.

(b) **Annual Base Pay** - An amount equal to fifty-two (52) weeks of Base Pay.

(c) **Base Pay** - The Employee’s weekly salary at the time of the Employee’s Termination of Employment. Base Pay shall not include management incentive compensation, overtime or any other additions to salary.

(d) **Basic Severance Benefit** - The benefit payable under Section 5(a) of the Plan.

(e) **Cause** - Any of the following: (i) Commission of a crime that the Company determines could harm the Company’s reputation or financial prospects or could subject the Company to penalties or sanctions; (ii) A violation of any of the Company’s corporate policy statements that involve compliance with law which violation the Company determines could harm the Company’s reputation or financial prospects; (iii) A violation of the Company’s Code of Ethics and Business Conduct that the Company determines could harm the Company’s reputation or financial prospects; (iv) Refusal to cooperate with the Company in a Company investigation; or (v) Any similar conduct with respect to which the Company determines in its sole discretion that the payment of a benefit under the Plan would not be in the Company's best interest.

(f) **Claims Administrator** - The Committee, in the case of an Officer, and the Savings Plan Administrative Committee, in the case of any other Employee.

(g) **Committee** - The Management Development and Compensation Committee of the Company's Board of Directors.

(h) **Company** - Lockheed Martin Corporation. For the purposes of the Plan, the term "Company" shall include any successor entity (by merger or otherwise).

(i) **Eligible Employee** - An Employee who satisfies the requirements for eligibility for coverage under Section 3 and who is not covered by any of the exceptions described in Section 4.

(j) **Employee** - An individual who is employed by the Company and is treated on the Company's payroll records as a salaried employee of the Company. The term "Employee" includes an Officer but does not include anyone who is not a citizen or resident of the United States and whose duties are primarily performed outside the United States.

(k) **Executive Layoff Event** - Termination of Employment of an Eligible Employee that is (i) initiated by the Company (including under a separation window program offered by the Company that incorporates the terms of this Plan or a portion thereof and that meets the applicable exception from Code section 409A and the accompanying Treasury Regulations) for reasons other than for Cause; and (ii) designated by the Board of Directors in the case of an Officer, or the Senior Vice President, Human Resources in the case of any Eligible Employee other than an Officer, as an Executive Layoff Event. An Executive Layoff Event does not include a termination that is described in Section 4.

(l) **Follow-on Benefits** - A payment equal to the cost to the Eligible Employee of continuing for one year his or her coverage under the Company's medical, dental and vision plans under the plans and with the same level of coverage as elected by the Eligible Employee during open enrollment for the Plan Year in which the Executive Layoff Event occurs (but excluding flexible spending account plans). The amount will be equal to the cost charged Employees for coverage provided by the Company pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1987 (COBRA coverage).

(m) **Full Bonus Equivalent** - An amount equal to an Eligible Employee's Annual Base Pay multiplied by the target level assigned to the Eligible Employee under Paragraph B of Exhibit A to the Lockheed Martin Corporation 2006 Management Incentive Compensation Plan (Performance-Based) or any successor plan.

(n) **Long Term Incentive Performance Award** - A cash award under the Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan or any successor plan that measures performance over a three year cycle.

(o) **Officer** - An Employee who is elected as an officer of the Company by the Board of Directors.

(p) **Plan Administrator** - Lockheed Martin Corporation.

(q) **Plan Year** - The 12-month period beginning on January 1 each year and ending on the following December 31.

(r) **Prorated Bonus Equivalent** - (1) An amount equal to (i) an Eligible Employee's Base Pay multiplied by the target percentage assigned to the Eligible Employee under Paragraph B of Exhibit A to the Lockheed Martin Corporation 2006 Management Incentive Compensation Plan (2006) (or any successor plan) ("MICP") and (ii) then multiplying the product obtained under (i) by the number of weeks in the Plan Year in which the Executive Layoff Event occurs for which the Eligible Employee was paid by the Company for at least one day.

(2) Notwithstanding the foregoing, with respect to Eligible Employees who are not Officers, the Prorated Bonus Equivalent shall be the greater of (i) the amount described in (r)(1) above, and (ii) an amount equal to (a) an Eligible Employee's Base Pay multiplied by the target percentage assigned to the Eligible Employee under Paragraph B of Exhibit A of the MICP, and (b) then multiplying (in the manner described in under Exhibit A of the MICP) the product obtained under (a) by the most recent organizational and individual factors that were approved by the Company's Board of Directors under the MICP prior to the Executive Layoff Event, and (c) then multiplying the product obtained under (b) by the number of weeks in the Plan Year in which the Executive Layoff Event occurs for which the Eligible Employee was paid by the Company for at least one day.. For the purposes of this Section 1(r), no week may be counted twice.

(s) **Salaried Employee Plan** - The Severance Benefit Plan for Employees of Lockheed Martin Corporation or any successor plan that provides benefits in the case of a layoff or reduction in force to salaried employees of the Company or its Affiliates.

(t) **Severance Benefit** - **Benef**its payable under the Plan which could be a Basic Severance Benefit or a Supplemental Severance Benefit.

(u) **Supplemental Severance Benefit** - The benefit payable under Section 5(b) of the Plan.

(v) **Termination of Employment** - A **separation from ser**vice as such term is defined in Code section 409A and the regulations thereunder.

(w) **Years of Service** - The number of consecutive calendar months from (and including) the month of the Eligible Employee's date of hire through and including the month in which the applicable Employee's Executive Layoff Event occurs, divided by 12, subject to the following:

(i) Service Limited to Whole Years. Fractional Years of Service will be disregarded, so that only full Years of Service will be recognized. The only exception relating to fractional years of service pertains to Eligible Employees who have more than six months of service, but less than a full year of service, in which case the Years of Service will be calculated as one year.

(ii) Certain Periods of Leave. Time periods of leave during the Employee's employment that do not or would not qualify for credited service under the pension plan applicable to the Eligible Employee will be deducted from the total period of employment to calculate the Eligible Employee's Years of Service;

(iii) An Eligible Employee's Years of Service under the foregoing rules shall never exceed the actual number of full years worked by the Employee for the Company.

2. **Effective Date.** The Plan shall be effective with respect to Executive Layoff Events that occur and are announced on or after January 1, 2008.

3. **Eligibility for Coverage.** An Employee shall be eligible for coverage under the Plan if the Employee satisfies all of the following:

(a) At the time of the Executive Layoff Event, the Employee is either

(i) an Officer,

(ii) an Employee who has been granted a Long Term Incentive Performance Award for which a performance cycle is still ongoing; or

(iii) an Employee who is designated in writing by the Senior Vice President, Human Resources to participate in the Plan.

(b) The Employee has not waived coverage under the Plan;

(c) The Employee is not receiving a benefit under the Salaried Employee Plan and is not a party to another plan, agreement or arrangement providing severance or similar benefits on account of termination of employment;

(d) The Employee is not disqualified for a Severance Benefit because the Employee's Termination of Employment is on account of one of the exceptions set forth in Section 4; and

(e) The Senior Vice President, Human Resources determines in his or her sole discretion that the Employee's employment has terminated or will terminate on account of Executive Layoff Event (including acceptance of a separation window program offered by the Company that incorporates this Plan or a portion thereof by reference). In the case of an Officer, this determination will be made by the Committee in its sole discretion.

4. **Exceptions To Coverage As An Executive Layoff Event.** Notwithstanding Section 3 or anything else to the contrary, an Employee's termination of employment will not be considered to have occurred on account of an Executive Layoff Event and the Employee will not be entitled to a Severance Benefit if:

(a) the Employee is transferred to or assumes another position within the Company or with any Affiliate;

(b) the Employee is transferred to, assumes, or is offered a job or position with (A) a purchaser of stock of the Company, or of assets of the Company, or of a business unit(s) of the Company, or of stock or other equity interests or assets of an Affiliate(s) or of a business unit(s) of an Affiliate; (B) the surviving entity following a merger or consolidation of the Company or an Affiliate(s) with another entity; (C) an entity serving as a contractor or a succeeding contractor (including a subcontractor or outsourcer) for business or functions performed by the Company; (D) an entity including but not limited to a joint venture, limited liability company or partnership to whom control of a business unit, organization or function within the Company or a business unit of the Company or of an Affiliate, or contract is transferred, whether by a stock or asset sale or other means; or (E) an affiliate of any such purchaser, contractor, succeeding contractor, subcontractor, outsourcer or entity;

(c) the Employee is terminated for Cause; or

(d) the Employee (i) terminates employment on his or her own initiative including retirement, resignation, failure to return from leave of absence or disability, or (ii) dies. If an Employee elects to retire concurrent with an Executive Layoff Event, then the Employee will not fall within this exception to coverage.

5. **Calculation of Severance Benefit.**

(a) Basic Severance Benefit Applicable to all Eligible Employees. The Basic Severance Benefit payable to an Eligible Employee shall equal two weeks of the Eligible Employee's Base Pay.

(b) Supplemental Severance Benefit. The following Supplemental Severance Benefits are in addition to the Basic Severance Benefit and are available only to Eligible Employees who within 45 calendar days of the Eligible Employee's Termination of Employment as a result of an Executive Layoff Event execute (i) a valid and binding written release of the Company and its directors, officers and Employees of claims of any kind or nature in respect of the Employee's employment with the Company and any predecessor employer (and each of their affiliates) in the form supplied by the Company; and do not revoke any such release of claims within any revocation period provided for in the release of claims, and, (ii) except where prohibited under applicable law, a Post-Employment Conduct Agreement substantially in the form attached to the Plan as Exhibit A and as amended to reflect specific jurisdictional or other requirements.

i. For the Chief Executive Officer - a lump sum payment equal to the sum of 2.99 times Annual Base Pay plus 2.99 times Full Bonus Equivalent plus Follow-on Benefits.

ii. For an Officer other than the Chief Executive Officer - a lump sum payment equal to the sum of Annual Base Pay plus Full Bonus Equivalent plus Follow-on Benefits.

iii. For an Eligible Employee who has received a Long Term Incentive Performance Award for which the performance period has not concluded or any other Eligible Employee and is not covered by Section 5(b)(i) or (ii) above – a lump sum payment equal to the sum of (a) the product of the number of full Years of Service (up to a maximum of 26) credited to the Eligible Employee multiplied by the Eligible Employee's weekly rate of Base Pay at the time of termination of employment, plus (b) the Eligible Employee's Pro Rata Bonus Equivalent, plus (c) Follow-on Benefits. Notwithstanding the foregoing, the Supplemental Severance Benefit for an Eligible Employee who is not an Officer shall be no less than 13 times the Eligible Employee's weekly rate of Base Pay at the time of termination of employment.

iv. In addition to the applicable amount specified in Section (b) (i), (ii), or (iii) above, an Eligible Employee who is receiving a Supplemental Severance Benefit also will be eligible to receive (a) outplacement services for one year (or, with respect to Eligible Employees who are not Officers, the cash value of the outplacement services as set forth in Section 5(c)(iii)(1), if applicable); and (b) if the Eligible Employee relocated in order to fill the position held by the Eligible Employee at the time of the Executive Layoff Event, he or she will also be eligible for relocation services in accordance with CPS 538 (or, with respect to Eligible Employees who are not Officers and who relocated pursuant to CPS 538 within 60 months prior to their Executive Layoff Event , the cash payment set forth in Section 5(c)(iii)(2), if applicable).

(c) Timing of Payment of Severance Benefit - The amount of the Severance Benefit payable under Section 5(a) and Section 5 (b)(i), (ii) or (iii) above will be paid in a lump sum, less applicable tax withholdings as follows:

i. In the case of payment of a Basic Severance Benefit, as soon as practicable following the Eligible Employee's Executive Layoff Event (and the expiration of any applicable revocation period thereunder without revocation of such release of claims), but in no event later than the March 15 immediately following the year in which the Eligible Employee's Executive Layoff Event; and

ii. In the case of payment of a Supplemental Severance Benefit, as soon as practicable following the Eligible Employee's (a) Executive Layoff Event, and (b) execution of a release of claims following such Executive Layoff Event, but in no event later than the March 15 immediately following the year in which the Eligible Employee's Executive Layoff Event occurs. Outplacement and relocation expenses paid as part of the Supplemental Severance Benefit will be provided by a third party provider selected by the Company. Outplacement or relocation expenses will be paid by the Company to the third party providing the services following billing to the Company and must be incurred no later than December 31 of the second year following the year in which the Eligible Employee's Executive Layoff Event occurred and paid by the Company no later than December 31 of the third year following the year in which the Eligible Employee's termination of employment occurred.

iii. Notwithstanding the foregoing:

1. an Eligible Employee other than an Officer may elect to receive (in lieu of outplacement services) a cash payment equal to $10,000 for Level 7 Directors and $15,000 for Level 8 Vice Presidents.

2. an Eligible Employee who is not an Officer and who relocated pursuant to CPS 538 within 60 months prior to his or her Executive Layoff Event may elect to receive (in lieu of relocation services) a cash payment in the amount of $75,000.

(d) The cash payments described in Section 5(c)(iii) will be paid (less applicable tax withholdings) on the same terms and conditions as the Supplemental Severance Benefit within 90 days following the Eligible Employee's (a) Executive Layoff Event, and (b) execution of a release of claims following such Executive Layoff Event, but in no event later than the March 15 immediately following the year in which the Eligible Employee's Executive Layoff Event occurs; provided that, to the extent that a payment is subject to Code section 409A, if the payment period or the period during which the employee may consider whether to execute the release spans two taxable years, the payment shall be made in the later taxable year. The elections described in this Section 5(c)(iii) shall be made at such time and in such manner as determined by the Company in its sole discretion. If no such election is made, the Eligible Employee shall remain eligible for outplacement and relocation services as set forth in Section 5(c)(ii), and the amounts paid by the Company for such services shall be reported as taxable income to the Eligible Employee.

(e) Maximum Benefit Payable - Notwithstanding anything in the Plan to the contrary, if the total amount of benefits, including Plan benefits, provided to an Eligible Employee would result in an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended**,** the Company, in its sole discretion, may reduce the benefits provided under the Plan so that the total payment will not result in an excess parachute payment to the Eligible Employee.

(f) Specified Employees - The benefits under this Plan are intended to meet the exceptions under Code section 409A for short term deferrals, involuntary severance payments, and/or benefits payable within a limited time after separation from service. However, to the extent any benefit payable under this Plan to an Eligible Employee who is a "specified employee" (as defined in Code section 409A) is subject to Code section 409A, such benefit payment shall be delayed until 6 months following the month in which the Eligible Employee has a Termination of Employment from the Company.

6. **Further Conditions on Payment of Severance Benefit.**

(a) The Company retains the right to condition payment of a Basic Severance Benefit or Supplemental Severance Benefit upon the Eligible Employee maintaining fully satisfactory work performance until the effective date of the Eligible Employee's Executive Layoff Event as agreed to by the Company, including the Eligible Employee's faithful performance of any remaining obligations the Eligible Employee may owe to the Company such as prompt reimbursement to the Company for cash advances and debit balances and the return of all Company property. To the extent the Eligible Employee fails to maintain fully satisfactory work performance until the effective date of the Eligible Employee's Executive Layoff Event, such Eligible Employee shall forfeit his or her Basic Severance Benefit and/or Supplemental Severance Benefit, in their entirety, to the extent of any such benefit.

(b) In the event an Eligible Employee who is entitled to a Supplemental Severance Benefit becomes employed by the Company (or an Affiliate) prior to the first anniversary of his or her Executive Layoff Event, the Eligible Employee shall be obligated to repay to the Company an amount equal to the amount of the Employee's Supplemental Severance Benefit multiplied by a fraction, the numerator of which is the number of weeks (capped at 52) in the one-year period following the Employee's termination of employment during which the Employee is employed by the Company and the denominator of which is (i) fifty-two (52), in the case of an Officer; and (ii) twenty-six (26) in the case of any other Eligible Employee.

(c) If an Eligible Employee dies after his or her Termination of Employment, but before payment of a Basic Severance Benefit is made, the Basic Severance Benefit will be paid to his or her estate. If an Eligible Employee dies after he or she has signed the release of claims and the release of claims is delivered to the Company within the time limit provided in Section 5(b) of the Plan, then the Supplemental Severance Benefit will be paid to his or her estate in accordance with the timing rules in Section 5(d).

(d) The benefits under the Plan are in lieu of, and not in addition to, any other severance or similar benefits for which the Eligible Employee may be eligible under any Company plan, policy, agreement or arrangement (including but not limited to the Salaried

Employee Plan). As a condition to receiving a benefit under the Plan, the Company may require that the Eligible Employee waive rights under all other plans, policies, agreements or arrangements providing severance or similar benefits or may reduce the amount payable under the Plan by the amount payable under any other such plan policy, agreement or arrangement. In no event shall the Company's administration of the Plan in accordance with the preceding sentence operate to delay payment of a benefit under the Plan to an Eligible Employee beyond March 15th immediately following the year in which such Eligible Employee's Executive Layoff Event occurs.

7. **Administration.** The Company may appoint or employ such persons as it deems necessary to render advice with respect to any responsibility of the Company under the Plan. The Committee, with respect to Officers, and the Savings Plan Administrative Committee, with respect to all other Employees shall determine the eligibility of any Employee to participate in the Plan and the right of any Employee to any benefit and the amount of any benefit payable under the Plan to any individual. The Committee and the Savings Plan Administrative Committee shall have the discretionary authority to interpret any term of the Plan.

8. **Claims Procedure.**

(a) The Senior Vice President, Human Resources shall notify each Eligible Employee who has been determined to have incurred an Executive Layoff Event and who is eligible to receive benefits under the Plan and shall provide any forms required in connection with application for such benefits. If any Employee disagrees with determination of his or her benefits, the Employee may submit a written statement to the Claims Administrator describing the basis of the claim for benefits, together with any forms required in connection with application for a benefit, at any time within the 120 day period following the date on which the Employee claims to have become entitled to the Basic Severance Benefits or the Supplemental Severance Benefits.

(b) The procedures when a claim under the Plan is wholly or partially denied are as follows:

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

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

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

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

(v) In filing a claim or appeal under this Section 8, an Employee at his or her option may act through an authorized representative.

9. **Funding**. The Plan shall not be funded through a trust, insurance contract or otherwise, and all benefit payments from the Plan shall be made from the general assets of the Company. Accordingly, an Employee shall not have any claim against specific assets of the Company, and shall be only a general creditor, with respect to any rights he/she may have under the Plan.

10. **Amendment and Termination of Plan**. The Plan may be amended, in whole or in part, at any time by action of the Committee or by any authorized delegate, without notice, except that any amendment that would change the eligibility requirements or the amount of benefits payable under the Plan must be approved by the Committee. The Plan may be terminated by action of the Committee at any time. Upon termination of the Plan, the Company shall have no further liability hereunder, and all Plan benefits (including any amounts payable to Employees who separated from service before the date of Plan termination) shall cease.

11. **No Assignment.** No Basic Severance Benefit or Supplemental Severance Benefit payable under the Plan may be assigned, transferred, pledged as a security for indebtedness or otherwise encumbered, or subjected to any legal process for the payment of any claim against an Employee.

12. **Relationship to Other Benefits.** An Employee's Basic Severance Benefit or Supplemental Severance Benefit shall not be taken into account to increase any benefits provided (or to continue coverage) under any other plan, policy, or arrangement of the Company or any Affiliate, except as otherwise expressly provided in writing in the other plan, policy, or arrangement, including accelerating vesting or other rights under the Lockheed Martin Corporation Amended and Restated Incentive Performance Award Plan (or any successor plan).

13. **Governing Law.** Except to the extent preempted by Federal law, the Plan shall be construed, administered and enforced according to the laws of the State of Maryland, without regard to its conflict of laws provisions. Notwithstanding anything herein to the contrary, payments under this Award Agreement shall be made at a time and in a manner that satisfies the requirements of Internal Revenue Code Section 409A.

The Plan has been approved by the Management Development and Compensation Committee and is effective as of January 1, 2008. Amendments to the Plan are effective as of the date(s) set forth above.

LOCKHEED MARTIN CORPORATION

By: ______________________

John T. Lucas
Senior Vice President, Human Resources

Date: ______________________

Exhibit A

Post-Employment Conduct Agreement

[Will vary by state and current legal and professional requirements at time of termination – applicable provisions may be incorporated into the release of claims agreement in lieu of a separate PECA]

This Post Employment Conduct Agreement dated [ ] (this "PECA"), together with the Release of Claims being entered into contemporaneous with this PECA, is entered into in consideration of the payment ("Severance Payment") to be made to me under the Lockheed Martin Corporation Severance Benefit Plan for Certain Management Employees ("Severance Plan"). By signing below, I agree as follows:

(1) Restrictions Following Termination of Employment.

(a) Covenant Not To Compete – **[NOT APPLICABLE IN CALIFORNIA OR FOR ATTORNEYS]** Without the express written consent of the **[Chief Executive Officer/Senior Vice President, Human Resources]**[1] of the Company, during the **[two/one]**[2] -year period following the date of my termination of employment with the Company ("Termination Date"), I will not, directly or indirectly, be employed by, provide services to, or advise a "Restricted Company" (as defined in Section 6 below), whether as an employee, advisor, director, officer, partner or consultant, or in any other position, function or role that, in any such case,

(i) oversees, controls or affects the design, operation, research, manufacture, marketing, sale or distribution of "Competitive Products or Services" (as defined in Section 6 below) of or by the Restricted Company, or

(ii) would involve a substantial risk that the "Confidential or Proprietary Information" (as defined in Section 1(c) below) of the Company (including but not limited to technical information or intellectual property, strategic plans, information relating to pricing offered to the Company by vendors or suppliers or to prices charged or pricing contemplated to be charged by the Company, information relating to employee performance, promotions or identification for promotion, or information relating to the Company's cost base) could be used to the disadvantage of the Company.

(b) Non-Solicit – Without the express written consent of the **[Chief Executive Officer/Senior Vice President, Human Resources]**[1] of the Company, during the **[two/one]**[2] -year period following the Termination Date, I will not (i) interfere with any contractual relationship between the Company and any customer, supplier, distributor or manufacturer of or to the Company to the detriment of the Company or (ii) induce or attempt to induce any person who is an employee of the Company to perform work or services for any entity other than the Company.

[1] CEO for elected officers; SVP HR for others.

[2] Two years for elected officers; one year for others.

(c) Protection of Proprietary Information – Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar agreements that I signed while employed by the Company committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Company or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such agreements. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Company or others to which I had access or that I was responsible for creating or overseeing during my employment with the Company. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Company's Senior Vice President and General Counsel as to the existence of the obligation and will cooperate with any reasonable request by the Company for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Company shall be and remain the property of the Company. For purposes of this PECA, "Confidential or Proprietary Information" means Proprietary Information within the meaning of CPS 710 (a copy of which has been made available to me), including but not limited to information that a person or entity desires to protect from unauthorized disclosure to third parties that can provide the person or entity with a business, technological, or economic advantage over its competitors, or which, if known or used by third parties or if used by the person's or entity's employees or agents in an unauthorized manner, might be detrimental to the person's or entity's interests. Confidential or Proprietary Information may include, but is not limited to:

(i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or

(ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

(d) No disparagement – Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Company or its stockholders, directors, officers, employees, agents, attorneys, representatives, technology, products or services with respect to any matter whatsoever.

(e) Cooperation in Litigation and Investigations – Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Company, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

2. Consideration and Release of Claims. I acknowledge and agree that the Severance Payment being made to me is in addition to the payments or benefits that otherwise are or would be owed to me by the Company and that the Severance Benefit being provided to me is in consideration for my entering into this PECA and the Release of Claims attached to this PECA. I acknowledge that the scope and duration of the restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the payments being made to me. I further acknowledge and agree that as a result of the high level executive and management positions I have held within the Company and the access to and extensive knowledge of the Company's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Company's legitimate business interests.

3. Remedies For Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) I agree, upon demand by the Company, to repay the Severance Payment to the Company in the event any of the following occur:

(i) I breach any of the covenants in Section 1;

(ii) The Company determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person's intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Company, contributed to the Company having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission; or

(iii) The Company determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report the acts of another person of which I had knowledge during the period I was employed by the Company) contributed to another person's fraud, bribery or other illegal act, which in any such case adversely affected the Company's financial position or reputation.

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Company for any of the conduct described in Section 3(a) and shall not limit the Company from seeking damages or injunctive relief.

4. Injunctive Relief. I acknowledge that the Company's remedies at law may be inadequate to protect the Company against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to

the Company at law or in equity (including but not limited to, an action under Section 3(a), the Company shall be entitled to the granting of injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

6. Definitions. Capitalized terms not defined in this PECA have the meaning given to them in the Severance Plan, as applicable. For purposes of this PECA, the following terms have the meanings given below:

(a) “Restricted Company” means The Boeing Company, General Dynamics Corporation, Northrop Grumman Corporation, the Raytheon Company, United Technologies Corporation, Honeywell International Inc., BAE Systems Inc., L-3 Communications Corporation, the Harris Corporation, Thales, EADS North America and (i) any entity directly or indirectly controlling, controlled by, or under common control with any of the foregoing, and (ii) any successor to all or part of the business of any of the foregoing as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) “Competitive Products or Services” means products or services that compete with, or are an alternative or potential alternative to, products sold or services provided by a subsidiary, business area, division or operating unit or business of the Company as of the Termination Date and at any time within the two-year period ending on the Termination Date; provided, that, (i) if I had direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Company at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided during that two-year period by the subsidiary, business area, division or operating unit of the Company for which I had responsibility, and (ii) if I did not have direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Company at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided by a subsidiary, business area, division or operating unit of the Company for which I had access (or was required or permitted such access in the performance of my duties or responsibilities with the Company) to Confidential or Proprietary Information of the Company at any time during the two-year period ending on the Termination Date.

7. Miscellaneous

(a) The Severance Plan, this PECA with the attached Release of Claims constitute the entire agreement governing the terms of the Severance Payment and supersede all other prior agreements and understandings, both written and oral, between me and the Company or any employee, officer or director of the Company concerning payments on account of my termination of employment.

(b) This PECA shall be governed by Maryland law, without regard to its provisions governing conflicts of law.

(c) This PECA shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without my consent.

SIGNED this day of , 2 .

____
(Signature)

____
(Printed Name)

____
(Title)

FOR LOCKHEED MARTIN CORPORATION:

____
(Signature)

____
(Printed Name)

____
(Title)

____
(Date)

[Release – Will Vary By State and Current Legal Requirements at Time of Termination]

Exhibit 12

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

	Years ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Earnings					
Earnings from continuing operations before income taxes	**$4,072**	$3,631	$3,778	$4,182	$4,564
Interest expense	**383**	354	345	308	332
Undistributed earnings from equity investees, net	**20**	(104)	(81)	(60)	(43)
Portion of rents representative of the interest factor	**48**	59	48	53	48
Earnings from continuing operations before income taxes, as adjusted	**$4,523**	$3,940	$4,090	$4,483	$4,901
Fixed Charges					
Interest expense	**$ 383**	$ 354	$ 345	$ 308	$ 332
Portion of rents representative of the interest factor	**48**	59	48	53	48
Total fixed charges	**$ 431**	$ 413	$ 393	$ 361	$ 380
Ratio of Earnings to Fixed Charges	**10.5**	**9.5**	**10.4**	**12.4**	**12.9**

Exhibit 21

Subsidiaries of Lockheed Martin Corporation

Name of Subsidiary	Place of Formation
Lockheed Martin Aerospace Systems Integration Corporation	Delaware
Lockheed Martin Australia Pty Limited	Australia
Lockheed Martin Canada Inc.	Canada
Lockheed Martin Desktop Solutions, Inc.	Virginia
Lockheed Martin Engine Investments, LLC	Delaware
Lockheed Martin Global, Inc.	Delaware
Lockheed Martin Integrated Systems, Inc.	Delaware
Lockheed Martin Integrated Technology, LLC	Delaware
Lockheed Martin International Service Corporation	Delaware
Lockheed Martin Investments Inc.	Delaware
Lockheed Martin Logistics Management, Inc.	Oklahoma
Lockheed Martin Operations Support, Inc.	Delaware
Lockheed Martin Services, Inc.	Delaware
Lockheed Martin Space Alliance Company	Delaware
Lockheed Martin UK Ampthill Limited	United Kingdom
Lockheed Martin UK Limited	United Kingdom
QTC Holdings Inc.	Delaware
Sandia Corporation (d/b/a Sandia National Laboratories)	Delaware

We have additional operating subsidiaries that, if considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

All of the above listed subsidiaries have been consolidated in our consolidated financial statements.

Consent of Ernst & Young LLP,
Independent Registered Public Accounting Firm

We consent to the incorporation by reference of our reports dated February 28, 2013, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of Lockheed Martin Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2012, filed with the U.S. Securities and Exchange Commission, in the following Registration Statements of Lockheed Martin Corporation:

- 33-58073, 33-58077, and 33-58079 on Form S-8, each dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
- 333-20117 and 333-20139 on Form S-8, each dated January 22, 1997;
- 333-27309 on Form S-8, dated May 16, 1997;
- 333-37069 on Form S-8, dated October 2, 1997;
- 333-40997 on Form S-8, dated November 25, 1997;
- 333-58069 on Form S-8, dated June 30, 1998;
- 333-69295 on Form S-8, dated December 18, 1998;
- 333-92197 on Form S-8, dated December 6, 1999;
- 333-92363 on Form S-8, dated December 8, 1999;
- 333-78279 on Form S-8 (Post-Effective Amendments No. 2 and 3), each dated August 3, 2000;
- 333-56926 on Form S-8, dated March 12, 2001;
- 333-84154 on Form S-8, dated March 12, 2002;
- 333-105118 on Form S-8, dated May 9, 2003;
- 333-113769, 333-113770, 333-113771, 333-113772, and 333-113773 on Form S-8, each dated March 19, 2004;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-127084 on Form S-8, dated August 1, 2005;
- 333-146963 on Form S-8, dated October 26, 2007;
- 333-155684 and 333-155687 on Form S-8, each dated November 25, 2008;
- 333-162716 on Form S-8, dated October 28, 2009;
- 333-176440 on Form S-8, dated August 23, 2011; and
- 333-178173 on Form S-3, dated November 23, 2011.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

The undersigned hereby constitutes and appoints Maryanne R. Lavan, Marian S. Block, David A. Dedman, and Stephen M. Piper, and each of them, jointly and severally, his lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, including, but not limited to, that listed below, to execute and file, or cause to be filed, with exhibits thereto and other documents in connection therewith, the Lockheed Martin Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), with the Securities and Exchange Commission ("Commission") under the Securities Exchange Act of 1934, as amended, and amendments thereto, with exhibits and other documents in connection therewith, and all matters required by the Commission in connection with such Form 10-K.

Further, the undersigned grants unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and each of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Nolan D. Archibald
NOLAN D. ARCHIBALD
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

The undersigned hereby constitutes and appoints Maryanne R. Lavan, Marian S. Block, David A. Dedman, and Stephen M. Piper, and each of them, jointly and severally, his lawful attorney-in-fact and agent, with full power of substitution, for her and in her name, place and stead, in any and all capacities, including, but not limited to, that listed below, to execute and file, or cause to be filed, with exhibits thereto and other documents in connection therewith, the Lockheed Martin Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), with the Securities and Exchange Commission ("Commission") under the Securities Exchange Act of 1934, as amended, and amendments thereto, with exhibits and other documents in connection therewith, and all matters required by the Commission in connection with such Form 10-K.

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/s/ Rosalind G. Brewer
ROSALIND G. BREWER
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ David B. Burritt
DAVID B. BURRITT
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ James O. Ellis, Jr.
JAMES O. ELLIS, JR.
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Thomas J. Falk
THOMAS J. FALK
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Gwendolyn S. King
GWENDOLYN S. KING
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ James M. Loy
JAMES M. LOY
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Douglas H. McCorkindale
DOUGLAS H. McCORKINDALE
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Joseph W. Ralston
JOSEPH W. RALSTON
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Anne Stevens
ANNE STEVENS
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

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/s/ Marillyn A. Hewson
MARILLYN A. HEWSON
Chief Executive Officer, President and
Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

The undersigned hereby constitutes and appoints Maryanne R. Lavan, Marian S. Block, David A. Dedman, and Stephen M. Piper, and each of them, jointly and severally, his lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, including, but not limited to, that listed below, to execute and file, or cause to be filed, with exhibits thereto and other documents in connection therewith, the Lockheed Martin Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), with the Securities and Exchange Commission ("Commission") under the Securities Exchange Act of 1934, as amended, and amendments thereto, with exhibits and other documents in connection therewith, and all matters required by the Commission in connection with such Form 10-K.

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/s/ Robert J. Stevens
ROBERT J. STEVENS
Executive Chairman and Director

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

The undersigned hereby constitutes and appoints Maryanne R. Lavan, Marian S. Block, David A. Dedman, and Stephen M. Piper, and each of them, jointly and severally, his lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, including, but not limited to, that listed below, to execute and file, or cause to be filed, with exhibits thereto and other documents in connection therewith, the Lockheed Martin Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), with the Securities and Exchange Commission ("Commission") under the Securities Exchange Act of 1934, as amended, and amendments thereto, with exhibits and other documents in connection therewith, and all matters required by the Commission in connection with such Form 10-K.

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/s/ Bruce L. Tanner
BRUCE L. TANNER
Executive Vice President and Chief
Financial Officer

February 27, 2013

POWER OF ATTORNEY

LOCKHEED MARTIN CORPORATION

The undersigned hereby constitutes and appoints Maryanne R. Lavan, Marian S. Block, David A. Dedman, and Stephen M. Piper, and each of them, jointly and severally, his lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, including, but not limited to, that listed below, to execute and file, or cause to be filed, with exhibits thereto and other documents in connection therewith, the Lockheed Martin Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), with the Securities and Exchange Commission ("Commission") under the Securities Exchange Act of 1934, as amended, and amendments thereto, with exhibits and other documents in connection therewith, and all matters required by the Commission in connection with such Form 10-K.

Further, the undersigned grants unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and each of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Christopher J. Gregoire
CHRISTOPHER J. GREGOIRE
Vice President and Controller
(Chief Accounting Officer)

February 27, 2013

Exhibit 31.1

I, Marillyn A. Hewson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lockheed Martin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Marillyn A. Hewson

Marillyn A. Hewson
Chief Executive Officer and President

Date: February 28, 2013

Exhibit 31.2

I, Bruce L. Tanner, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lockheed Martin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bruce L. Tanner

Bruce L. Tanner
Executive Vice President and Chief Financial Officer

Date: February 28, 2013

Exhibit 32.1

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

In connection with the Annual Report of Lockheed Martin Corporation (the Corporation) on Form 10-K for the period ended December 31, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Marillyn A. Hewson, Chief Executive Officer and President of the Corporation, and I, Bruce L. Tanner, Executive Vice President and Chief Financial Officer of the Corporation, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Marillyn A. Hewson

Marillyn A. Hewson
Chief Executive Officer and President

/s/ Bruce L. Tanner

Bruce L. Tanner
Executive Vice President and Chief Financial Officer

Date: February 28, 2013

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