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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2020

or

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

For the transition period from ______ to ______

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**
(Address of principal executive offices)	(Zip Code)

(301) 897-6000
(Registrant's telephone number, including area code)

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non–accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 279,783,747 shares of our common stock, $1 par value per share, outstanding as of October 15, 2020.

Lockheed Martin Corporation
Form 10-Q
For the Quarterly Period Ended September 27, 2020
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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Net sales				
Products	**$ 13,869**	$ 12,728	**$ 40,607**	$ 36,701
Services	**2,626**	2,443	**7,759**	7,233
Total net sales	**16,495**	15,171	**48,366**	43,934
Cost of sales				
Products	**(12,370)**	(11,339)	**(36,204)**	(32,638)
Services	**(2,363)**	(2,211)	**(6,915)**	(6,452)
Other unallocated, net	**374**	442	**1,193**	1,400
Total cost of sales	**(14,359)**	(13,108)	**(41,926)**	(37,690)
Gross profit	**2,136**	2,063	**6,440**	6,244
Other (expense) income, net	**11**	42	**(85)**	152
Operating profit	**2,147**	2,105	**6,355**	6,396
Interest expense	**(145)**	(162)	**(442)**	(496)
Other non-operating income (expense), net	**54**	(162)	**135**	(491)
Earnings from continuing operations before income taxes	**2,056**	1,781	**6,048**	5,409
Income tax expense	**(303)**	(173)	**(952)**	(677)
Net earnings from continuing operations	**1,753**	1,608	**5,096**	4,732
Net loss from discontinued operations	**(55)**	—	**(55)**	—
Net earnings	**$ 1,698**	$ 1,608	**$ 5,041**	$ 4,732
Earnings (loss) per common share				
Basic				
Continuing operations	**$ 6.28**	$ 5.70	**$ 18.19**	$ 16.77
Discontinued operations	**(0.20)**	—	**(0.20)**	—
Basic earnings per common share	**$ 6.08**	$ 5.70	**$ 17.99**	$ 16.77
Diluted				
Continuing operations	**$ 6.25**	$ 5.66	**$ 18.12**	$ 16.66
Discontinued operations	**(0.20)**	—	**(0.20)**	—
Diluted earnings per common share	**$ 6.05**	$ 5.66	**$ 17.92**	$ 16.66
Cash dividends paid per common share	**$ 2.40**	$ 2.20	**$ 7.20**	$ 6.60

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

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

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Net earnings	**$ 1,698**	$ 1,608	**$ 5,041**	$ 4,732
Other comprehensive income, net of tax				
Recognition of previously deferred postretirement benefit plan amounts	**110**	227	**330**	681
Other, net	**34**	(41)	**(35)**	(13)
Other comprehensive income, net of tax	**144**	186	**295**	668
Comprehensive income	**$ 1,842**	$ 1,794	**$ 5,336**	$ 5,400

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

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

	September 27, 2020	December 31, 2019
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 3,585	$ 1,514
Receivables, net	2,480	2,337
Contract assets	10,388	9,094
Inventories	3,293	3,619
Other current assets	544	531
Total current assets	20,290	17,095
Property, plant and equipment, net	6,803	6,591
Goodwill	10,589	10,604
Intangible assets, net	3,013	3,213
Deferred income taxes	3,198	3,319
Other noncurrent assets	6,880	6,706
Total assets	$ 50,773	$ 47,528
Liabilities and equity		
Current liabilities		
Accounts payable	$ 1,491	$ 1,281
Contract liabilities	7,354	7,054
Salaries, benefits and payroll taxes	2,818	2,466
Current maturities of long-term debt	1,000	1,250
Other current liabilities	2,538	1,921
Total current liabilities	15,201	13,972
Long-term debt, net	11,675	11,404
Accrued pension liabilities	12,765	13,234
Other noncurrent liabilities	6,146	5,747
Total liabilities	45,787	44,357
Stockholders' equity		
Common stock, $1 par value per share	278	280
Additional paid-in capital	90	—
Retained earnings	19,844	18,401
Accumulated other comprehensive loss	(15,259)	(15,554)
Total stockholders' equity	4,953	3,127
Noncontrolling interests in subsidiary	33	44
Total equity	4,986	3,171
Total liabilities and equity	$ 50,773	$ 47,528

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

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

	Nine Months Ended	
	September 27, 2020	**September 29, 2019**
Operating activities		
Net earnings	**$ 5,041**	$ 4,732
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	**927**	867
Stock-based compensation	**182**	158
Equity method investment impairment	**128**	—
Tax resolution related to former IS&GS business	**55**	—
Gain on property sale	**—**	(51)
Changes in assets and liabilities		
Receivables, net	**(143)**	60
Contract assets	**(1,294)**	(1,532)
Inventories	**326**	(477)
Accounts payable	**247**	524
Contract liabilities	**300**	286
Postretirement benefit plans	**(130)**	828
Income taxes	**58**	(117)
Other, net	**679**	543
Net cash provided by operating activities	**6,376**	5,821
Investing activities		
Capital expenditures	**(1,044)**	(841)
Other, net	**27**	38
Net cash used for investing activities	**(1,017)**	(803)
Financing activities		
Dividends paid	**(2,036)**	(1,881)
Repurchases of common stock	**(1,100)**	(710)
Issuance of long-term debt, net of related costs	**1,131**	—
Repayments of current and long-term debt	**(1,150)**	—
Repayments of commercial paper, net	**—**	(600)
Other, net	**(133)**	(60)
Net cash used for financing activities	**(3,288)**	(3,251)
Net change in cash and cash equivalents	**2,071**	1,767
Cash and cash equivalents at beginning of period	**1,514**	772
Cash and cash equivalents at end of period	**$ 3,585**	$ 2,539

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

Lockheed Martin Corporation
Consolidated Statements of Equity
For the Quarters Ended September 27, 2020 and September 29, 2019
(unaudited; in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests in Subsidiary	Total Equity
Balance at June 28, 2020	**$ 278**	**$ —**	**$ 18,876**	**$ (15,403)**	**$ 3,751**	**$ 35**	**$ 3,786**
Net earnings	**—**	**—**	**1,698**	**—**	**1,698**	**—**	**1,698**
Other comprehensive income, net of tax	**—**	**—**	**—**	**144**	**144**	**—**	**144**
Repurchases of common stock	**—**	**(59)**	**—**	**—**	**(59)**	**—**	**(59)**
Dividends declared	**—**	**—**	**(730)**	**—**	**(730)**	**—**	**(730)**
Stock-based awards, ESOP activity and other	**—**	**149**	**—**	**—**	**149**	**—**	**149**
Net decrease in noncontrolling interests in subsidiary	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Balance at September 27, 2020	**$ 278**	**$ 90**	**$ 19,844**	**$ (15,259)**	**$ 4,953**	**$ 33**	**$ 4,986**
Balance at June 30, 2019	$ 281	$ —	$ 16,408	$ (13,839)	$ 2,850	$ 46	$ 2,896
Net earnings	—	—	1,608	—	1,608	—	1,608
Other comprehensive income, net of tax	—	—	—	186	186	—	186
Repurchases of common stock	—	(146)	(72)	—	(218)	—	(218)
Dividends declared	—	—	(679)	—	(679)	—	(679)
Stock-based awards, ESOP activity and other	—	146	—	—	146	—	146
Net decrease in noncontrolling interests in subsidiary	—	—	—	—	—	(2)	(2)
Balance at September 29, 2019	$ 281	$ —	$ 17,265	$ (13,653)	$ 3,893	$ 44	$ 3,937

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

Lockheed Martin Corporation
Consolidated Statements of Equity
For the Nine Months Ended September 27, 2020 and September 29, 2019
(unaudited; in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests in Subsidiary	Total Equity
Balance at December 31, 2019	**$ 280**	**$ —**	**$ 18,401**	**$ (15,554)**	**$ 3,127**	**$ 44**	**$ 3,171**
Net earnings	**—**	**—**	**5,041**	**—**	**5,041**	**—**	**5,041**
Other comprehensive income, net of tax	**—**	**—**	**—**	**295**	**295**	**—**	**295**
Repurchases of common stock	**(3)**	**(256)**	**(841)**	**—**	**(1,100)**	**—**	**(1,100)**
Dividends declared	**—**	**—**	**(2,757)**	**—**	**(2,757)**	**—**	**(2,757)**
Stock-based awards, ESOP activity and other	**1**	**346**	**—**	**—**	**347**	**—**	**347**
Net decrease in noncontrolling interests in subsidiary	**—**	**—**	**—**	**—**	**—**	**(11)**	**(11)**
Balance at September 27, 2020	**$ 278**	**$ 90**	**$ 19,844**	**$ (15,259)**	**$ 4,953**	**$ 33**	**$ 4,986**
Balance at December 31, 2018	$ 281	$ —	$ 15,434	$ (14,321)	$ 1,394	$ 55	$ 1,449
Net earnings	—	—	4,732	—	4,732	—	4,732
Other comprehensive income, net of tax	—	—	—	668	668	—	668
Repurchases of common stock	(2)	(366)	(350)	—	(718)	—	(718)
Dividends declared	—	—	(2,551)	—	(2,551)	—	(2,551)
Stock-based awards, ESOP activity and other	2	366	—	—	368	—	368
Net decrease in noncontrolling interests in subsidiary	—	—	—	—	—	(11)	(11)
Balance at September 29, 2019	$ 281	$ —	$ 17,265	$ (13,653)	$ 3,893	$ 44	$ 3,937

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

NOTE 1 – BASIS OF PRESENTATION

We prepared these consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of U.S. Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements.

In the opinion of management, these consolidated financial statements reflect all adjustments that are of a normal recurring nature necessary for a fair presentation of our results of operations, financial condition, and cash flows for the interim periods presented. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, accounting for sales and cost recognition, postretirement benefit plans, assets for the portion of environmental costs that are probable of future recovery and liabilities, evaluation of goodwill, investments and other assets for impairment, income taxes including deferred tax assets, fair value measurements and contingencies. The consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation.

We close our books and records on the last Sunday of the calendar quarter, which was on September 27 for the third quarter of 2020 and September 29 for the third quarter of 2019, to align our financial closing with our business processes. The consolidated financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods as our fiscal year ends on December 31.

We adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020 using the modified retrospective approach. The new standard changes how we account for credit losses for financial assets and certain other instruments, including trade receivables and contract assets, that are not measured at fair value through net income. Under legacy standards, we recognized an impairment of receivables when it was probable that a loss had been incurred. Under the new standard, we are required to recognize estimated credit losses expected to occur over the estimated life or remaining contractual life of an asset (which includes losses that may be incurred in future periods) using a broader range of information including reasonable and supportable forecasts about future economic conditions. The adoption of the standard did not have a significant impact on our results of operations, financial position or cash flows.

We adopted ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements For Defined Benefit Plans*, effective January 1, 2020. The new standard modifies the annual disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The guidance requires disclosure changes to be presented on a retrospective basis. As this standard relates only to financial disclosures, its adoption did not have an impact to our results of operations, financial position or cash flows.

The results of operations for the interim periods presented are not necessarily indicative of results to be expected for the full year or future periods. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a “per diluted share” basis. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019 (2019 Form 10-K).

NOTE 2 – EARNINGS PER COMMON SHARE

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

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Weighted average common shares outstanding for basic computations	**279.3**	282.0	**280.1**	282.2
Weighted average dilutive effect of equity awards	**1.3**	1.9	**1.2**	1.8
Weighted average common shares outstanding for diluted computations	**280.6**	283.9	**281.3**	284.0

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 also includes the dilutive effects for the assumed vesting of outstanding restricted stock units (RSUs) and performance stock units (PSUs) and exercise of outstanding stock options based on the treasury stock method. There were no significant anti-dilutive equity awards during the quarters and nine months ended September 27, 2020 or September 29, 2019.

NOTE 3 – INFORMATION ON BUSINESS SEGMENTS

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space. We organize our business segments based on the nature of products and services offered.

Net sales and operating profit of our business segments exclude intersegment sales, cost of sales, and profit as these activities are eliminated in consolidation. Business segment operating profit includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments.

Business segment operating profit also excludes the FAS/CAS operating adjustment described below, a portion of corporate costs not considered allowable or allocable to contracts with the U.S. Government under the applicable U.S. government cost accounting standards (CAS) or federal acquisition regulations (FAR), and other items not considered part of management's evaluation of segment operating performance such as a portion of management and administration costs, legal fees and settlements, environmental costs, stock-based compensation expense, retiree benefits, significant severance actions, significant asset impairments, gains or losses from significant divestitures, and other miscellaneous corporate activities.

Excluded items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See "Note 10 – Other" for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

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

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Net sales				
Aeronautics	**$ 6,680**	$ 6,178	**$ 19,552**	$ 17,312
Missiles and Fire Control	**2,971**	2,601	**8,391**	7,362
Rotary and Mission Systems	**3,998**	3,709	**11,783**	11,239
Space	**2,846**	2,683	**8,640**	8,021
Total net sales	**$ 16,495**	$ 15,171	**$ 48,366**	$ 43,934
Operating profit				
Aeronautics	**$ 705**	$ 665	**$ 2,116**	$ 1,842
Missiles and Fire Control	**405**	349	**1,171**	1,093
Rotary and Mission Systems	**404**	342	**1,209**	1,068
Space	**248**	309	**781**	931
Total business segment operating profit	**1,762**	1,665	**5,277**	4,934
Unallocated items				
FAS/CAS operating adjustment [(a)]	**469**	513	**1,407**	1,537
Stock-based compensation	**(67)**	(54)	**(182)**	(158)
Other, net [(b)]	**(17)**	(19)	**(147)**	83
Total unallocated items	**385**	440	**1,078**	1,462
Total consolidated operating profit	**$ 2,147**	$ 2,105	**$ 6,355**	$ 6,396
Intersegment sales				
Aeronautics	**$ 59**	$ 58	**$ 179**	$ 147
Missiles and Fire Control	**129**	107	**405**	372
Rotary and Mission Systems	**438**	473	**1,438**	1,433
Space	**83**	91	**296**	244
Total intersegment sales	**$ 709**	$ 729	**$ 2,318**	$ 2,196

(a) The FAS/CAS operating adjustment represents the difference between the service cost component of financial accounting standards (FAS) pension income (expense) and total pension costs recoverable on U.S. Government contracts as determined in accordance with CAS.

(b) Other, net for nine months ended September 27, 2020 includes a non-cash impairment charge of $128 million recognized in the second quarter of 2020 on our investment in the international equity method investee, Advanced Military Maintenance, Repair and Overhaul Center (AMMROC), which decreased net earnings from continuing operations by $96 million ($0.34 per share).

Our total net FAS/CAS pension adjustment for the quarters and nine months ended September 27, 2020 and September 29, 2019, including the service and non-service cost components of FAS pension income (expense) for our qualified defined benefit pension plans, were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Total FAS income (expense) and CAS costs				
FAS pension income (expense)	$ 29	$ (274)	$ 88	$ (820)
Less: CAS pension cost	494	642	1,483	1,924
Net FAS/CAS pension adjustment	$ 523	$ 368	$ 1,571	$ 1,104
Service and non-service cost reconciliation				
FAS pension service cost	$ (25)	$ (129)	$ (76)	$ (387)
Less: CAS pension cost	494	642	1,483	1,924
FAS/CAS operating adjustment	469	513	1,407	1,537
Non-operating FAS pension income (expense)	54	(145)	164	(433)
Net FAS/CAS pension adjustment	$ 523	$ 368	$ 1,571	$ 1,104

We recover CAS pension and other postretirement benefit plan cost through the pricing of our products and services on U.S. Government contracts and, therefore, recognize CAS cost in each of our business segment's net sales and cost of sales. Our consolidated financial statements must present FAS pension and other postretirement benefit plan expense calculated in accordance with FAS requirements under U.S. GAAP. The operating portion of the net FAS/CAS pension adjustment represents the difference between the service cost component of FAS pension income (expense) and total CAS pension cost. The non-service FAS pension income (expense) component is included in other non-operating income (expense), net in our consolidated statements of earnings. As a result, to the extent that CAS pension cost exceeds the service cost component of FAS pension income (expense), we have a favorable FAS/CAS operating adjustment.

We expect to have FAS pension income in 2020, compared to FAS pension expense in prior periods. We no longer have service cost for certain of our plans as a result of completing the planned freeze of our salaried pension plans effective January 1, 2020 that was previously announced on July 1, 2014. See "Note 6 – Postretirement Benefit Plans" for additional information regarding the corporation's FAS pension expense or income and CAS pension cost.

Net sales by products and services, contract type, customer, and geographic region were as follows (in millions):

	Quarter Ended September 27, 2020				
	Aeronautics	MFC	RMS	Space	Total
Net sales					
Products	$ 5,742	$ 2,614	$ 3,120	$ 2,393	$ 13,869
Services	938	357	878	453	2,626
Total net sales	$ 6,680	$ 2,971	$ 3,998	$ 2,846	$ 16,495
Net sales by contract type					
Fixed-price	$ 4,718	$ 2,034	$ 2,666	$ 516	$ 9,934
Cost-reimbursable	1,962	937	1,332	2,330	6,561
Total net sales	$ 6,680	$ 2,971	$ 3,998	$ 2,846	$ 16,495
Net sales by customer					
U.S. Government	$ 3,930	$ 2,206	$ 2,971	$ 2,463	$ 11,570
International [(a)]	2,729	764	914	381	4,788
U.S. commercial and other	21	1	113	2	137
Total net sales	$ 6,680	$ 2,971	$ 3,998	$ 2,846	$ 16,495
Net sales by geographic region					
United States	$ 3,951	$ 2,207	$ 3,084	$ 2,465	$ 11,707
Asia Pacific	1,099	70	383	21	1,573
Europe	1,141	208	191	360	1,900
Middle East	440	475	206	—	1,121
Other	49	11	134	—	194
Total net sales	$ 6,680	$ 2,971	$ 3,998	$ 2,846	$ 16,495

	Nine Months Ended September 27, 2020				
	Aeronautics	MFC	RMS	Space	Total
Net sales					
Products	$ 16,671	$ 7,311	$ 9,365	$ 7,260	$ 40,607
Services	2,881	1,080	2,418	1,380	7,759
Total net sales	$ 19,552	$ 8,391	$ 11,783	$ 8,640	$ 48,366
Net sales by contract type					
Fixed-price	$ 13,769	$ 5,629	$ 7,787	$ 1,518	$ 28,703
Cost-reimbursable	5,783	2,762	3,996	7,122	19,663
Total net sales	$ 19,552	$ 8,391	$ 11,783	$ 8,640	$ 48,366
Net sales by customer					
U.S. Government	$ 13,315	$ 6,259	$ 8,685	$ 7,479	$ 35,738
International [(a)]	6,182	2,123	2,780	1,131	12,216
U.S. commercial and other	55	9	318	30	412
Total net sales	$ 19,552	$ 8,391	$ 11,783	$ 8,640	$ 48,366
Net sales by geographic region					
United States	$ 13,370	$ 6,268	$ 9,003	$ 7,509	$ 36,150
Asia Pacific	2,447	217	1,165	65	3,894
Europe	2,595	546	528	1,072	4,741
Middle East	981	1,324	626	(6)	2,925
Other	159	36	461	—	656
Total net sales	$ 19,552	$ 8,391	$ 11,783	$ 8,640	$ 48,366

[(a)] International sales include foreign military sales (FMS) contracted through the U.S. Government and direct commercial sales to international governments and other international customers.

	Quarter Ended September 29, 2019				
	Aeronautics	MFC	RMS	Space	Total
Net sales					
Products	$ 5,340	$ 2,172	$ 2,982	$ 2,234	$ 12,728
Services	838	429	727	449	2,443
Total net sales	$ 6,178	$ 2,601	$ 3,709	$ 2,683	$ 15,171
Net sales by contract type					
Fixed-price	$ 4,567	$ 1,681	$ 2,536	$ 527	$ 9,311
Cost-reimbursable	1,611	920	1,173	2,156	5,860
Total net sales	$ 6,178	$ 2,601	$ 3,709	$ 2,683	$ 15,171
Net sales by customer					
U.S. Government	$ 3,509	$ 1,995	$ 2,763	$ 2,332	$ 10,599
International [(a)]	2,631	572	804	343	4,350
U.S. commercial and other	38	34	142	8	222
Total net sales	$ 6,178	$ 2,601	$ 3,709	$ 2,683	$ 15,171
Net sales by geographic region					
United States	$ 3,547	$ 2,029	$ 2,905	$ 2,340	$ 10,821
Asia Pacific	1,046	107	317	17	1,487
Europe	1,106	138	168	326	1,738
Middle East	455	318	206	—	979
Other	24	9	113	—	146
Total net sales	$ 6,178	$ 2,601	$ 3,709	$ 2,683	$ 15,171

	Nine Months Ended September 29, 2019				
	Aeronautics	MFC	RMS	Space	Total
Net sales					
Products	$ 14,876	$ 6,051	$ 9,064	$ 6,710	$ 36,701
Services	2,436	1,311	2,175	1,311	7,233
Total net sales	$ 17,312	$ 7,362	$ 11,239	$ 8,021	$ 43,934
Net sales by contract type					
Fixed-price	$ 12,777	$ 4,660	$ 7,681	$ 1,585	$ 26,703
Cost-reimbursable	4,535	2,702	3,558	6,436	17,231
Total net sales	$ 17,312	$ 7,362	$ 11,239	$ 8,021	$ 43,934
Net sales by customer					
U.S. Government	$ 10,420	$ 5,528	$ 8,113	$ 6,900	$ 30,961
International [(a)]	6,736	1,717	2,773	1,098	12,324
U.S. commercial and other	156	117	353	23	649
Total net sales	$ 17,312	$ 7,362	$ 11,239	$ 8,021	$ 43,934
Net sales by geographic region					
United States	$ 10,576	$ 5,645	$ 8,466	$ 6,923	$ 31,610
Asia Pacific	2,736	315	1,065	48	4,164
Europe	2,751	363	509	1,035	4,658
Middle East	1,127	1,003	738	15	2,883
Other	122	36	461	—	619
Total net sales	$ 17,312	$ 7,362	$ 11,239	$ 8,021	$ 43,934

(a) International sales include FMS contracted through the U.S. Government and direct commercial sales to international governments and other international customers.

Our Aeronautics business segment includes our largest program, the F-35 Lightning II Joint Strike Fighter, an international multi-role, multi-variant, stealth fighter aircraft. Net sales for the F-35 program represented approximately 28% of our total consolidated net sales for both the quarter and nine months ended September 27, 2020 and 28% and 27% of our total consolidated net sales for the quarter and nine months ended September 29, 2019.

Total assets for each of our business segments were as follows (in millions):

	September 27, 2020	December 31, 2019
Assets		
Aeronautics	**$ 10,434**	$ 9,109
Missiles and Fire Control	**5,112**	5,030
Rotary and Mission Systems	**18,244**	18,751
Space	**6,145**	5,844
Total business segment assets	**39,935**	38,734
Corporate assets [(a)]	**10,838**	8,794
Total assets	**$ 50,773**	$ 47,528

(a) Corporate assets primarily include cash and cash equivalents, deferred income taxes, assets for the portion of environmental costs that are probable of future recovery and investments held in a separate trust.

NOTE 4 – CONTRACT ASSETS AND LIABILITIES

Contract assets include unbilled amounts typically resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Contract liabilities include advance payments and billings in excess of revenue recognized. Contract assets and contract liabilities were as follows (in millions):

	September 27, 2020	December 31, 2019
Contract assets	**$ 10,388**	$ 9,094
Contract liabilities	**7,354**	7,054

Contract assets increased $1.3 billion during the nine months ended September 27, 2020, primarily due to the recognition of revenue related to the satisfaction or partial satisfaction of performance obligations during the nine months ended September 27, 2020 for which we have not yet billed our customers. There were no significant credit or impairment losses related to our contract assets during the quarters and nine months ended September 27, 2020 and September 29, 2019.

Contract liabilities increased $300 million during the nine months ended September 27, 2020, primarily due to payments received in excess of revenue recognized on these performance obligations. During the quarter and nine months ended September 27, 2020, we recognized $919 million and $3.5 billion of our contract liabilities that existed at December 31, 2019 as revenue. During the quarter and nine months ended September 29, 2019, we recognized $688 million and $3.6 billion of our contract liabilities at December 31, 2018 as revenue.

NOTE 5 – INVENTORIES

Inventories consisted of the following (in millions):

	September 27, 2020	December 31, 2019
Materials, spares and supplies	**$ 567**	$ 532
Work-in-process	**2,462**	2,783
Finished goods	**264**	304
Total inventories	**$ 3,293**	$ 3,619

Costs incurred to fulfill a contract in advance of the contract being awarded are included in inventories as work-in-process if we determine that those costs relate directly to a contract or to an anticipated contract that we can specifically identify and contract award is probable, the costs generate or enhance resources that will be used in satisfying performance obligations, and the costs are recoverable (referred to as pre-contract costs). Pre-contract costs that are initially capitalized in inventory are generally recognized as cost of sales consistent with the transfer of products and services to the customer upon the receipt of the anticipated contract. All other pre-contract costs, including start-up costs, are expensed as incurred. As of September 27, 2020 and December 31, 2019, $557 million and $493 million of pre-contract costs were included in inventories.

NOTE 6 – POSTRETIREMENT BENEFIT PLANS

Our pretax net periodic benefit (income) cost related to our qualified defined benefit pension plans and retiree medical and life insurance plans consisted of the following (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Qualified defined benefit pension plans				
Service cost	**$ 25**	$ 129	**$ 76**	$ 387
Interest cost	**385**	452	**1,154**	1,355
Expected return on plan assets	**(566)**	(575)	**(1,698)**	(1,725)
Recognized net actuarial losses	**213**	351	**637**	1,053
Amortization of prior service credits	**(86)**	(83)	**(257)**	(250)
Total net periodic benefit (income) cost	**$ (29)**	$ 274	**$ (88)**	$ 820
Retiree medical and life insurance plans				
Service cost	**$ 3**	$ 4	**$ 10**	$ 11
Interest cost	**18**	25	**53**	73
Expected return on plan assets	**(32)**	(28)	**(96)**	(83)
Recognized net actuarial losses	**(1)**	1	**(3)**	2
Amortization of prior service costs	**10**	10	**29**	31
Total net periodic benefit (income) cost	**$ (2)**	$ 12	**$ (7)**	$ 34

As previously announced on July 1, 2014, we completed the final step of the planned freeze of our qualified and nonqualified defined benefit pension plans for salaried employees effective January 1, 2020; the plans are now fully frozen. With the freeze complete, the majority of our salaried employees participate in an enhanced defined contribution retirement savings plan.

We record the service cost component of net periodic benefit cost (for our bargained plans beginning in 2020) as part of cost of sales and the non-service cost components of net periodic benefit cost as part of other non-operating income (expense), net in the consolidated statements of earnings.

The recognized net actuarial losses and amortization of prior service credits or costs in the table above, along with similar costs related to our other postretirement benefit plans ($4 million and $14 million for the quarter and nine months ended September 27, 2020, and $11 million and $31 million for the quarter and nine months ended September 29, 2019) were reclassified from accumulated other comprehensive loss (AOCL) and recorded as a component of net periodic benefit (income) cost for the periods presented. These costs totaled $140 million ($110 million, net of tax) and $420 million ($330 million, net of tax) during the quarter and nine months ended September 27, 2020, and $290 million ($227 million, net of tax) and $867 million ($681 million, net of tax) during the quarter and nine months ended September 29, 2019 and were recorded on our consolidated statements of comprehensive income as an increase to other comprehensive income.

The required funding of our qualified defined benefit 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), along with consideration of CAS and Internal Revenue Code rules. There were no contributions to our qualified defined benefit pension plans during the quarters and nine months ended September 27, 2020 and September 29, 2019.

NOTE 7 – LEGAL PROCEEDINGS AND CONTINGENCIES

We are a party to or have property subject to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment, and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described 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.

Although we cannot predict the outcome of legal or other proceedings with certainty, where there is at least a reasonable possibility that a loss may have been incurred, GAAP requires us to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made. We follow a thorough process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion of legal proceedings, a reasonably possible loss or range of loss associated with any individual legal proceeding cannot be estimated.

Legal Proceedings

As a result of our acquisition of Sikorsky Aircraft Corporation (Sikorsky), we assumed the defense of and any potential liability for two civil False Claims Act lawsuits pending in the U.S. District Court for the Eastern District of Wisconsin. In October 2014, the U.S. Government filed a complaint in intervention in the first suit, which was brought by qui tam relator Mary Patzer, a former Derco Aerospace (Derco) employee. In May 2017, the U.S. Government filed a complaint in intervention in the second suit, which was brought by qui tam relator Peter Cimma, a former Sikorsky Support Services, Inc. (SSSI) employee. In November 2017, the Court consolidated the cases into a single action for discovery and trial.

The U.S. Government alleges that Sikorsky and two of its wholly-owned subsidiaries, Derco and SSSI, violated the civil False Claims Act and the Truth in Negotiations Act in connection with a contract the U.S. Navy awarded to SSSI in June 2006 to support the Navy's T-34 and T-44 fixed-wing turboprop training aircraft. SSSI subcontracted with Derco, primarily to procure and manage spare parts for the training aircraft. The U.S. Government contends that SSSI overbilled the Navy on the contract as the result of Derco's use of prohibited cost-plus-percentage-of-cost pricing to add profit and overhead costs as a percentage of the price of the spare parts that Derco procured and then sold to SSSI. The U.S. Government also alleges that Derco's claims to SSSI, SSSI's claims to the Navy, and SSSI's yearly Certificates of Final Indirect Costs from 2006 through 2012 were false and that SSSI submitted inaccurate cost or pricing data in violation of the Truth in Negotiations Act for a sole-sourced, follow-on "bridge" contract. The U.S. Government's complaints assert common law claims for breach of contract and unjust enrichment.

The U.S. Government further alleged violations of the Anti-Kickback Act and False Claims Act based on a monthly "chargeback," through which SSSI billed Derco for the cost of certain SSSI personnel, allegedly in exchange for SSSI's permitting a pricing arrangement that was "highly favorable" to Derco. On January 12, 2018, the Corporation filed a partial motion to dismiss intended to narrow the U.S. Government's claims, including by seeking dismissal of the Anti-Kickback Act allegations. The Corporation also moved to dismiss Cimma as a party under the False Claims Act's first-to-file rule, which permits only the first relator to recover in a pending case. The District Court granted these motions, in part, on July 20, 2018, dismissing the Government's claims under the Anti-Kickback Act and dismissing Cimma as a party to the litigation.

The U.S. Government seeks damages of approximately $52 million, subject to trebling, plus statutory penalties. We believe that we have legal and factual defenses to the U.S. Government's remaining claims. Although we continue to evaluate our liability and exposure, we do not currently believe that it is probable that we will incur a material loss. If, contrary to our expectations, the U.S. Government prevails in this matter and proves damages at or near $52 million and is successful in having such damages trebled, the outcome could have an adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

On February 8, 2019, the Department of Justice (DOJ) filed a complaint in the U.S. District Court for the Eastern District of Washington alleging, among other counts, civil False Claims Act and civil Anti-Kickback Act violations against Mission Support Alliance, LLC (MSA), Lockheed Martin, Lockheed Martin Services, Inc. (LMSI) and a current Lockheed Martin vice president. The dollar amount of damages sought is not specified but DOJ seeks treble damages with respect to the False Claims Act and penalties that are subject to doubling under the Anti-Kickback Act. The allegations relate primarily to information technology services performed by LMSI under a subcontract to MSA and the pricing by MSA and LMSI of those services as well as Lockheed Martin's payment of standard incentive compensation to certain employees who were seconded to MSA, including the vice president. MSA is a joint venture that holds a prime contract to provide infrastructure support services at DOE's Hanford facility. On April 23, 2019, the parties each filed partial motions to dismiss the U.S. Government's False Claims Act and Anti-Kickback Act allegations. On January 13, 2020, the court dismissed the Anti-Kickback Act claim against all defendants with prejudice and denied the motions to dismiss the False Claims Act claims.

On August 16, 2016, we divested our former Information Systems & Global Solutions (IS&GS) business segment to Leidos Holdings, Inc. (Leidos) in a transaction that resulted in IS&GS becoming part of Leidos (the Transaction). In the Transaction, Leidos acquired IS&GS' interest in MSA and the liabilities related to Lockheed Martin's participation in MSA. Included within the liabilities assumed were those associated with this lawsuit. Lockheed Martin transferred to Leidos a reserve of approximately $38 million established by Lockheed Martin with respect to its potential liability and that of its affiliates and agreed to indemnify Leidos with respect to the liabilities assumed for damages to Leidos for 100% of amounts in excess of this reserve up to $64 million and 50% of amounts in excess of $64 million.

We cannot reasonably estimate our exposure at this time, but it is possible that a settlement by or judgment against any of the defendants could implicate Lockheed Martin's indemnification obligations as described above. At present, in view of what we believe to be the strength of the defenses, our belief that Leidos assumed the liabilities, and our view of the structure of the indemnity, we do not believe it probable that we will incur a material loss and have not taken any reserve.

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 the 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 primary damages sought by the MTA are the costs to complete the contract and potential re-procurement costs. While we are unable to estimate the cost of another contractor to complete the contract and the costs of re-procurement, we note that our contract with the MTA had a total value of $323 million, of which $241 million was paid to us, and that the MTA is seeking damages of approximately $190 million. We dispute the MTA's allegations and are defending against them. Additionally, following an investigation, our sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA's termination of the contract was improper. Finally, our declaratory judgment action was later amended to include claims for monetary damages against the MTA of approximately $95 million. This matter was taken under submission by the District Court in December 2014, after a five-week bench trial and the filing of post-trial pleadings by the parties. We continue to await a decision from the District Court. Although this matter relates to our former IS&GS business, we retained the litigation when we divested IS&GS in 2016.

Environmental Matters

We are involved in proceedings and potential proceedings relating to soil, sediment, surface water, and groundwater contamination, disposal of hazardous substances, and other environmental matters at several of our current or former facilities, facilities for which we may have contractual responsibility, and 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 assets 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 continually evaluate the recoverability of our assets for the portion of environmental costs that are probable of future recovery by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, our history of receiving reimbursement of such costs, and efforts by some U.S. Government representatives to limit such reimbursement. We include the portions of those environmental costs expected to be allocated to our non-U.S. Government contracts or determined not to be recoverable under U.S. Government contracts in our cost of sales at the time the liability is established.

At September 27, 2020 and December 31, 2019, the aggregate amount of liabilities recorded relative to environmental matters was $799 million and $810 million, most of which are recorded in other noncurrent liabilities on our consolidated balance sheets. We have recorded assets for the portion of environmental costs that are probable of future recovery totaling $694 million and $703 million at September 27, 2020 and December 31, 2019, most of which are recorded in other noncurrent assets on our consolidated balance sheets, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. We project costs and recovery of costs over approximately 20 years.

Environmental remediation activities usually span many years, which makes estimating liabilities a matter of judgment because of uncertainties with respect to assessing the extent of the contamination as well as such factors as changing remediation technologies and changing regulatory environmental standards. We are monitoring or investigating a number of former and present operating facilities for potential future remediation. We perform quarterly reviews of the status of our environmental remediation sites and the related liabilities and receivables. Additionally, in our quarterly reviews, we consider these and other factors in estimating the timing and amount of any future costs that may be required for remediation activities, and we record a liability when it is probable that a loss has occurred or will occur and the loss 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 cannot reasonably determine the extent of our financial exposure in all cases as, although a loss may be probable or reasonably possible, in some cases it is not possible at this time to estimate the reasonably possible loss or range of loss.

We also pursue claims for recovery of costs incurred or for contribution to site remediation costs against other PRPs, including the U.S. Government, and are conducting remediation activities under various consent decrees, orders, and agreements relating to soil, groundwater, sediment, or surface water contamination at certain sites of former or current operations. Under agreements related to certain sites in California, New York, United States Virgin Islands and Washington, the U.S. Government and/or a private party reimburses us an amount equal to a percentage, specific to each site, of expenditures for certain remediation activities in their capacity as PRPs under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

In addition to the proceedings and potential proceedings discussed above, California previously established a maximum level of the contaminant hexavalent chromium in drinking water of 10 parts per billion (ppb). This standard was successfully challenged by the California Manufacturers and Technology Association (CMTA) for failure to conduct the required economic feasibility analysis. In response to the court’s ruling, the State Water Resources Control Board (State Board), a branch of the California Environmental Protection Agency, withdrew the hexavalent chromium standard from the published regulations, leaving only the 50 ppb standard for total chromium. The State Board has indicated it will work to re-establish a hexavalent chromium standard. Further, the U.S. Environmental Protection Agency (U.S. EPA) is considering whether to regulate hexavalent chromium. California is also reevaluating its existing drinking water standard of 6 ppb for perchlorate. The U.S. EPA decided in June 2020 not to regulate perchlorate in drinking water at the federal level.

If substantially lower standards are adopted for perchlorate (in California) or for hexavalent chromium (in California or at the federal level), we 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 not to be recoverable under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

We also are evaluating the potential impact of existing and contemplated legal requirements addressing a class of compounds known generally as per- and polyfluoroalkyl compounds (PFAS). PFAS compounds have been used ubiquitously, such as in fire-fighting foams, manufacturing processes, and stain- and stick-resistant products (e.g., Teflon, stain-resistant fabrics). Because we have used products and processes over the years containing some of those compounds, they likely exist as contaminants at many of our environmental remediation sites. Governmental authorities have announced plans, and in some instances have begun, to regulate certain of these compounds at extremely low concentrations in drinking water, which could lead to increased cleanup costs at many of our environmental remediation sites.

Letters of Credit, Surety Bonds and Third-Party Guarantees

We have entered into standby letters of credit and surety bonds issued on our behalf by financial institutions, and we have directly issued guarantees to 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 $3.3 billion and $3.6 billion at September 27, 2020 and December 31, 2019. Third-party guarantees do not include guarantees issued on behalf of subsidiaries and other consolidated entities.

At September 27, 2020 and December 31, 2019, third-party guarantees totaled $846 million and $996 million, of which approximately 71% and 76% related to guarantees of contractual performance of joint ventures to which we currently are or previously were a party. These amounts represent our estimate of the maximum amounts we would expect to incur upon the contractual non-performance of the joint venture, joint venture partners or divested businesses. Generally, we also have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner.

In determining our exposures, we evaluate the reputation, performance on contractual obligations, technical capabilities and credit quality of our current and former joint venture partners and the transferee under novation agreements all of which include a guarantee as required by the FAR. At September 27, 2020 and December 31, 2019, there were no material amounts recorded in our financial statements related to third-party guarantees or novation agreements.

NOTE 8 – FAIR VALUE MEASUREMENTS

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

	September 27, 2020			December 31, 2019		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Assets						
Mutual funds	**$ 1,152**	**$ 1,152**	**$ —**	$ 1,363	$ 1,363	$ —
U.S. Government securities	**63**	**—**	**63**	99	—	99
Other securities	**373**	**161**	**212**	319	171	148
Derivatives	**42**	**—**	**42**	18	—	18
Liabilities						
Derivatives	**19**	**—**	**19**	23	—	23
Assets measured at NAV [(a)]						
Other commingled funds	**19**			19		

(a) Net Asset Value (NAV) is the total value of the fund divided by the number of the fund's shares outstanding.

Substantially all assets measured at fair value, other than derivatives, represent investments held in a separate trust to fund certain of our nonqualified deferred compensation plans and are recorded in other noncurrent assets on our consolidated balance sheets. The fair values of mutual funds and certain other securities 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 pricing models that use observable inputs (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. The fair values of derivative instruments, which consist of foreign currency forward contracts, including embedded derivatives, and interest rate swap contracts, are primarily 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.

The derivatives outstanding at both September 27, 2020 and December 31, 2019 consist of foreign currency forward contracts, interest rate swaps and foreign currency related contract embedded derivatives. We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency 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, the euro, the Canadian dollar and the Australian 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 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 also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to mitigate certain economic exposures.

The aggregate notional amount of our outstanding interest rate swaps was $572 million and $750 million at September 27, 2020 and December 31, 2019. The aggregate notional amount of our outstanding foreign currency hedges at September 27, 2020 and December 31, 2019 was $3.0 billion and $3.8 billion. The fair values of our outstanding interest rate swaps and foreign currency hedges at September 27, 2020 and December 31, 2019 were not significant. Derivative instruments did not have a material impact on net earnings and comprehensive income during the quarters and nine months ended September 27, 2020 and September 29, 2019. Substantially all of our derivatives are designated for hedge accounting.

In addition to the financial instruments listed in the table above, we hold other financial instruments, including cash and cash equivalents, receivables, accounts payable and debt. The carrying amounts for cash and cash equivalents, receivables and accounts payable approximated their fair values. The estimated fair value of our outstanding debt was $17.2 billion and $15.9 billion at September 27, 2020 and December 31, 2019. The outstanding principal amount of debt was $13.8 billion at both September 27, 2020 and December 31, 2019, excluding $1.1 billion and $1.2 billion of unamortized discounts and issuance costs at September 27, 2020 and December 31, 2019. The estimated fair values of our outstanding debt were determined based on observable inputs (Level 2).

NOTE 9 – STOCKHOLDERS' EQUITY

Repurchases of Common Stock

During the nine months ended September 27, 2020, we repurchased 3.0 million shares of our common stock for $1.1 billion under repurchase plans pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934 (Rule 10b5-1 plans) and an accelerated share repurchase (ASR) agreement. Under the Rule 10b5-1 plans, we repurchased 1.6 million shares for $600 million. Pursuant to the ASR agreement, during the first half of 2020 we repurchased 1.4 million shares for $500 million based on the volume-weighted average price (VWAP) of our common stock over the term of the agreement, less a negotiated discount.

The total remaining authorization for future common share repurchases under our share repurchase program was $3.0 billion as of September 27, 2020, including a $1.3 billion increase to the program authorized by our Board of Directors on September 25, 2020. 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. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings. During the three months ended September 27, 2020, we repurchased $59 million of our common shares, which were recognized as a reduction to common stock for the par value with the excess purchase price recorded as a reduction of additional paid-in capital.

Dividends

We declared cash dividends totaling $730 million ($2.60 per share) and $2.8 billion ($9.80 per share) during the quarter and nine months ended September 27, 2020. Dividends declared in the quarter ended September 27, 2020 represent our 2020 fourth quarter dividend payment, a per share increase of $0.20 over our 2020 third quarter dividend of $2.40 per share, which we declared in the second quarter of 2020. Our fourth quarter dividend will be paid in December 2020. We declared dividends totaling $679 million ($2.40 per share) and $2.6 billion ($9.00 per share) during the quarter and nine months ended September 29, 2019. During the quarter ended September 29, 2019, we declared our fourth quarter dividend of $2.40 per share, an increase of $0.20 over the third quarter 2019 dividend, which was declared during the second quarter of 2019.

Restricted Stock Unit Grants

During the nine months ended September 27, 2020, we granted certain employees approximately 0.5 million RSUs with a weighted average grant date fair value of $384.06 per RSU. The grant date fair value of these RSUs is equal to the closing market price of our common stock on the grant date less a discount to reflect the delay in payment of dividend-equivalent cash payments that are made only upon vesting, which is generally three years from the grant date. We recognize the grant date fair value of RSUs, less estimated forfeitures, as compensation expense ratably over the requisite service period, which is shorter than the vesting period if the employee is retirement eligible on the date of grant or will become retirement eligible before the end of the vesting period.

Accumulated Other Comprehensive Loss

Changes in the balance of AOCL, net of tax, consisted of the following (in millions):

	Postretirement Benefit Plans	Other, net	AOCL
Balance at December 31, 2019	**$ (15,528)**	**$ (26)**	**$ (15,554)**
Other comprehensive income before reclassifications	**—**	**(40)**	**(40)**
Amounts reclassified from AOCL			
Recognition of net actuarial losses [(a)]	**517**	**—**	**517**
Amortization of net prior service credits [(a)]	**(187)**	**—**	**(187)**
Other	**—**	**5**	**5**
Total reclassified from AOCL	**330**	**5**	**335**
Total other comprehensive income	**330**	**(35)**	**295**
Balance at September 27, 2020	**$ (15,198)**	**$ (61)**	**$ (15,259)**
Balance at December 31, 2018	$ (14,254)	$ (67)	$ (14,321)
Other comprehensive income before reclassifications	—	(30)	(30)
Amounts reclassified from AOCL			
Recognition of net actuarial losses [(a)]	861	—	861
Amortization of net prior service credits [(a)]	(180)	—	(180)
Other	—	17	17
Total reclassified from AOCL	681	17	698
Total other comprehensive income	681	(13)	668
Balance at September 29, 2019	$ (13,573)	$ (80)	$ (13,653)

(a) Reclassifications from AOCL related to our postretirement benefit plans were recorded as a component of net periodic benefit cost for each period presented (see “Note 6 – Postretirement Benefit Plans”). These amounts include $110 million and $227 million, net of tax, for the quarters ended September 27, 2020 and September 29, 2019, which are comprised of the recognition of net actuarial losses of $173 million and $287 million for the quarters ended September 27, 2020 and September 29, 2019, and the amortization of net prior service credits of $63 million and $60 million for the quarters ended September 27, 2020 and September 29, 2019.

NOTE 10 – OTHER

Changes in Estimates

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead, general and administrative and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset or localization agreements, required under certain contracts with international customers). 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 total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract, which decreases the estimated total costs to complete the contract or may increase the variable consideration we expect to receive on the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

In addition, comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit and margin may also be impacted favorably or unfavorably by other items, which may or may not impact sales. Favorable items may include the positive resolution of contractual matters, cost recoveries on severance and restructuring charges, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; restructuring charges, except for significant severance actions, which are excluded from segment operating results; reserves for disputes; certain asset impairments; and losses on sales of certain assets.

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters, increased segment operating profit by approximately $415 million and $1.4 billion during the quarter and nine months ended September 27, 2020 and $480 million and $1.5 billion during the quarter and nine months ended September 29, 2019. These adjustments increased net earnings by approximately $328 million ($1.17 per share) and $1.1 billion ($3.82 per share) during the quarter and nine months ended September 27, 2020 and $379 million ($1.33 per share) and $1.2 billion ($4.07 per share) during the quarter and nine months ended September 29, 2019. We recognized net sales from performance obligations satisfied in prior periods of approximately $487 million and $1.5 billion during the quarter and nine months ended September 27, 2020, and $495 million and $1.7 billion during the quarter and nine months ended September 29, 2019, which primarily relate to changes in profit booking rates that impacted revenue.

As previously disclosed in our 2019 Form 10-K, we are responsible for a program to design, develop and construct a ground-based radar at our RMS business segment. The program has experienced performance issues for which we have periodically accrued reserves. As of September 27, 2020, cumulative losses were approximately $250 million on this program. We may continue to experience issues related to customer requirements and our performance under this contract and have to record additional charges. However, based on the losses previously recorded and our current estimate of the sales and costs to complete the program, at this time we do not anticipate that additional losses, if any, would be material to our operating results or financial condition.

As previously disclosed in our 2019 Form 10-K, we have a program, EADGE-T, to design, integrate, and install an air missile defense command, control, communications, computers - intelligence (C4I) system for an international customer that has experienced performance issues and for which we have periodically accrued reserves at our RMS business segment. As of September 27, 2020, cumulative losses remained at approximately $260 million. We continue to monitor program requirements and our performance. At this time, we do not anticipate additional charges that would be material to our operating results or financial condition.

As previously disclosed in our 2019 Form 10-K, we have two commercial satellite programs at our Space business segment for which we have experienced performance issues related to the development and integration of a modernized LM 2100 satellite platform. These programs are for the delivery of three satellites in total, including two that launched in 2019 and one that launched in February 2020. As of September 27, 2020, cumulative losses to complete these developmental commercial programs remained at approximately $410 million. During the third quarter of 2020, we retired all significant remaining risk to the programs and as a result, we anticipate that no additional losses will be incurred.

As previously disclosed in our 2019 Form 10-K, we are responsible for designing, developing and installing an upgraded turret for the Warrior Capability Sustainment Program. In 2018, we revised our estimated costs to complete the program as a consequence of performance issues, and recorded charges at our MFC business segment. As of September 27, 2020, cumulative losses remained at approximately $140 million on this program. We may continue to experience issues related to customer requirements and our performance under this contract and may have to record additional reserves. However, based on the losses already recorded and our current estimate of the sales and costs to complete the program, at this time we do not anticipate that additional losses, if any, would be material to our operating results or financial condition.

Investment in Advanced Military Maintenance, Repair and Overhaul Center LLC (AMMROC)

As of September 27, 2020, we owned 40% of AMMROC, a joint venture located in the United Arab Emirates. We account for our investment in AMMROC using the equity method. AMMROC provides maintenance, repair and overhaul (MRO) and support services for fixed and rotary wing military aircraft in the South Asia, Middle East and North Africa (SAMENA) region. To date, substantially all of AMMROC's business was dependent on a single customer contract to provide performance based logistics (PBL) services that was in the process of being re-competed. During the first half of 2020, the customer awarded the contract to a competitor. As a result of the loss of this customer contract, we performed a strategic review of AMMROC's business and evaluated various options for our investment. As a result of this evaluation, we executed an agreement to sell our investment in AMMROC to our joint venture partner for $307 million. Accordingly, in the second quarter of 2020, we adjusted the carrying value of our investment from $435 million to the expected selling price of $307 million, which resulted in the recognition of a noncash impairment charge of $128 million ($96 million, or $0.34 per share, after tax) in our results of operations. The transaction, which is subject to closing conditions, is currently expected to close by early 2021 and the purchase price will be paid in cash installments through September 2021.

Backlog

Backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. For our cost-reimbursable and fixed-priced-incentive contracts, the estimated consideration we expect to receive pursuant to the terms of the contract may exceed the contractual award amount. The estimated consideration is determined at the outset of the contract and is continuously reviewed throughout the contract period. In determining the estimated consideration, we consider the risks related to the technical, schedule and cost impacts to complete the contract and an estimate of any variable consideration. Periodically, we review these risks and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales. As of September 27, 2020, our ending backlog was $150.4 billion. We expect to recognize approximately 37% of our backlog over the next 12 months and approximately 61% over the next 24 months as revenue, with the remainder recognized thereafter.

Income Taxes

Our effective income tax rate was 14.7% and 15.7% for the quarter and nine months ended September 27, 2020, and 9.7% and 12.5% for the quarter and nine months ended September 29, 2019. The rate for the quarter ended September 29, 2019 was lower primarily due to a $62 million benefit, or $0.22 per share, of additional tax deductions for 2018 attributable to foreign derived intangible income treatment based on proposed tax regulations released on March 4, 2019, and a change in tax accounting method, reflecting a 2012 Court of Federal Claims decision, which held that the tax basis in certain assets should be increased and realized upon the assets' disposition.

The rates for all periods benefited from additional tax deductions based on proposed tax regulations released on March 4, 2019, which clarified that foreign military sales qualify for foreign derived intangible income treatment. On July 9, 2020, the U.S. Treasury Department issued final tax regulations related to foreign derived intangible income. The final tax regulations confirm foreign military sales qualify for foreign derived intangible income treatment. We continue to assess the other effects of the final regulations.

The rates for all periods also benefited from the research and development tax credit, dividends paid to the corporation's defined contribution plans with an employee stock ownership plan feature, and tax deductions for employee equity awards.

Net Loss on Discontinued Operations

During the third quarter of 2020, we recognized a $55 million ($0.20 per share) non-cash charge resulting from the resolution of certain tax matters related to the former IS&GS business divested in 2016.

May 2020 Debt Issuance

On May 20, 2020, we issued a total of $1.2 billion of senior unsecured notes, consisting of $400 million aggregate principal amount of 1.85% Notes due in 2030 (the “2030 Notes”) and $750 million aggregate principal amount of 2.80% Notes due in 2050 (the “2050 Notes” and, together with the 2030 Notes, the “Notes”). We may, at our option, redeem the Notes of any series in whole or in part at any time and from time to time at a redemption price equal to the greater of 100% of the principal amount of the notes to be redeemed or an applicable “make-whole” amount, plus accrued and unpaid interest to the date of redemption.

On June 16, 2020, we used the net proceeds from the offering plus cash on hand to redeem $750 million of the outstanding $1.25 billion in aggregate principal amount of our 2.50% Notes due in 2020, and $400 million of the outstanding $900 million in aggregate principal amount of our 3.35% Notes due in 2021 at their redemption price.

Sale of Customer Receivables

On occasion, our customers may seek deferred payment terms to purchase our products. In connection with these transactions, we may, at our customer’s request, enter into arrangements for the non-recourse sale of customer receivables to unrelated third-party financial institutions. For accounting purposes, these transactions are not discounted and are treated as a sale of receivables as we have no continuing involvement. The sale proceeds from the financial institutions are reflected in our operating cash flows on the statement of cash flows. We sold customer receivables of $160 million and $427 million during the quarter and nine months ended September 27, 2020 and $80 million and $280 million during the quarter and nine months ended September 29, 2019. There were no gains or losses related to sales of these receivables.

NOTE 11 – RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In 2017, the United Kingdom’s Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate (LIBOR) and other interbank offered rates, which have been widely used as reference rates for various securities and financial contracts, including loans, debt and derivatives. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Regulators in the U.S. and other jurisdictions have been working to replace these rates with alternative reference interest rates that are supported by transactions in liquid and observable markets, such as the Secured Overnight Financing Rate (SOFR). Currently, our credit facility and certain of our debt and derivative instruments reference LIBOR-based rates. The discontinuation of LIBOR will require these arrangements to be modified in order to replace LIBOR with an alternative reference interest rate, which could impact our future cost of funds. Our credit facility includes a provision for the determination of a successor LIBOR rate.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which temporarily simplifies the accounting for contract modifications, including hedging relationships, due to the transition from LIBOR and other interbank offered rates to alternative reference interest rates. For example, entities can elect not to remeasure the contracts at the modification date or reassess a previous accounting determination if certain conditions are met. Additionally, entities can elect to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain conditions are met. The new standard was effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. We are currently evaluating the impact of the transition from LIBOR to alternative reference interest rates, but do not expect a significant impact to our operating results, financial position or cash flows.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Lockheed Martin Corporation

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of Lockheed Martin Corporation (the Corporation) as of September 27, 2020, the related consolidated statements of earnings, comprehensive income and equity for the quarters and nine months ended September 27, 2020 and September 29, 2019 and consolidated statements of cash flows for the nine months ended September 27, 2020 and September 29, 2019, and the related notes (collectively referred to as the “consolidated interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Corporation as of December 31, 2019, the related consolidated statements of earnings, comprehensive income, cash flows and equity for the year then ended, and the related notes (not presented herein); and in our report dated February 7, 2020, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Corporation’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP

Tysons, Virginia
October 22, 2020

ITEM 2. 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, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. We serve both U.S. 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. During the nine months ended September 27, 2020, 74% of our $48.4 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 64% from the Department of Defense (DoD)), 25% 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 cybersecurity.

COVID-19

The global outbreak of the coronavirus disease 2019 (COVID-19) was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020 and has negatively affected the U.S. and global economies, disrupted global supply chains, resulted in significant travel and transport restrictions, including mandated closures and orders to "shelter-in-place" and quarantine restrictions, and created significant disruption of the financial markets. We have taken measures to protect the health and safety of our employees, work with our customers and suppliers to minimize disruptions and support our community in addressing the challenges posed by this ongoing global pandemic. The pandemic has presented unprecedented business challenges, and we have experienced impacts in each of our business areas related to COVID-19, primarily in increased coronavirus-related costs, delays in supplier deliveries, impacts of travel restrictions, site access and quarantine requirements, and the impacts of remote work and adjusted work schedules.

Despite these challenges, Lockheed Martin and the U.S. Government's pro-active efforts, especially with regard to the supply chain, helped to partially mitigate the disruptions caused by COVID-19 on our operations in the third quarter and nine months ended September 27, 2020. In addition, favorable contract award timing, strong operational performance and lower travel and overhead expenditures due to COVID-19 restrictions partially offset the impacts of COVID-19 on our financial results in the first nine months of 2020. However, the ultimate impact of COVID-19 on our operations and financial performance in 2020 and in future periods, including our ability to execute our programs in the expected timeframe, remains uncertain and will depend on future pandemic related developments, including the duration of the pandemic and any potential subsequent waves of COVID-19 infection, and related government actions to prevent and manage disease spread, all of which are uncertain and cannot be predicted. The long-term impacts of COVID-19 on government budgets and other funding priorities, including international priorities, that impact demand for our products and services and our business are also difficult to predict but could negatively affect our future results of operations. For additional risks to the corporation related to the COVID-19 pandemic, see "Part II, Item 1A. Risk Factors."

In accordance with the Department of Homeland Security's identification of the Defense Industrial Base as a critical infrastructure sector in March 2020, our U.S. production facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. Government and the U.S. military. Although we are designated as a critical infrastructure workforce, operations have been adjusted in response to the pandemic, including, most significantly, a reduction in the F-35 production rate primarily due to supplier delays. The reduction is expected to delay 2020 F-35 deliveries by 18-24 aircraft. Due to the supplier delays, we implemented a temporary schedule adjustment for the F-35 production workforce in Fort Worth, Texas. While the F-35 production workforce resumed their pre-COVID-19 work schedule in the third quarter, staffing levels at our facilities, our customer facilities, and our supplier facilities have and could continue to fluctuate as a result of COVID-19, which could negatively impact our business. In addition, countries other than the U.S. have different responses to the pandemic that can affect our international operations and the operations of our suppliers and customers. Base closures, travel restrictions, and quarantine requirements both within and outside the U.S. have affected our normal operations and resulted in some schedule delays and future or prolonged occurrences of these could adversely affect our ability to achieve future contract milestones and our results of operations.

The U.S. Government has taken actions in response to COVID-19 to increase the progress payment rates in new and existing contracts and accelerate contract awards to provide cash flow and liquidity for companies in the Defense Industrial Base, including large prime contractors like Lockheed Martin and smaller suppliers. We continue to proactively monitor our supply chain and have implemented multiple actions to help mitigate the effects of COVID-19, including accelerating payments to suppliers within our global supply base as a result of the actions taken by the DoD in changing the progress payment policy. We plan to continue to accelerate payments to the supply chain for the remainder of the year in order to mitigate COVID-19 risks, prioritizing impacted suppliers and small businesses. As described in Item 1A, Risk Factors of our Annual Report on Form 10-K, we rely on other companies and the U.S. Government to provide materials, major components and products, and to perform a portion of the services that are provided to our customers under the terms of most of our contracts. Many of these suppliers also supply parts for commercial aviation businesses which have been more significantly impacted by the pandemic due to the impacts on these markets. Global supply chain disruption caused by the response to COVID-19 has impacted some of our programs and could impact our ability to perform on our contracts. We have identified a number of suppliers that have had potential delivery impacts due to COVID-19 and are working to manage those impacts. However, if we are not able to implement alternatives or other mitigations, deliveries and other milestones on affected programs could be adversely impacted.

Our work in production facilities and labs has continued throughout the pandemic, consistent with guidance from federal, state and local officials to minimize the spread of COVID-19. We have taken actions to equip employees with personal protective equipment, establish minimum staffing and social distancing policies, sanitize workspaces more frequently, adopt alternate work schedules and institute other measures aimed to sustain production and related services while minimizing the transmission of COVID-19. In addition, we have implemented a flexible teleworking policy for employees who can meet our customer commitments remotely, and a significant portion of our workforce is currently teleworking. It remains uncertain when and on what scale teleworking employees will return to work in person. We have not previously experienced such a significant portion of our workforce working remotely for a prolonged period, so its effects on our long-term operations are unknown.

Coronavirus-related costs for us and our suppliers are significant and we are seeking reimbursement of coronavirus-related costs under our U.S. Government contracts through a combination of equitable adjustments to the contract price and reimbursement of the costs under Section 3610 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which allows federal agencies to reimburse contractors at the minimum applicable contract billing rate for costs arising from certain paid leave, including sick leave, a contractor provides to keep its employees or subcontractors in a ready state, as well as to protect the life and safety of government and contractor personnel from March 27, 2020 through December 11, 2020. Reimbursement of any costs under Section 3610 of the CARES Act increases sales, but is not expected to be at a profit or fee and so would have the effect of reducing our margins in future periods. These cost increases, including costs for employees whose jobs cannot be performed remotely and for certain costs incurred prior to March 27, 2020, may not be fully recoverable under our contracts, particularly fixed-price contracts, or adequately covered by insurance. We also have no assurance that Congress will appropriate funds to cover the reimbursement of defense contractors authorized by the CARES Act, which could reduce funds available for other U.S. Government defense priorities. We also are deferring certain payroll taxes as provided for in the CARES Act, which has the effect of increasing our cash from operations in 2020, but reducing cash from operations in 2021 and 2022.

We continue to work with our customers, employees, suppliers and communities to address the impacts of COVID-19 and to take actions in an effort to mitigate adverse consequences.

2020 Financial Outlook

We expect our 2020 net sales to increase to approximately $65.3 billion. The projected growth is driven by the F-35 program at Aeronautics, increased production rate volume in the tactical and strike missiles and integrated air and missile defense businesses at MFC, Sikorsky volume at RMS, and Next Generation Overhead Persistent Infrared (Next Gen OPIR) and hypersonics volume at Space. Total business segment operating profit margin in 2020 is expected to be approximately 10.9%; and cash from operations is expected to be greater than or equal to $8.0 billion. Changes in circumstances may require us to revise our assumptions, which could materially change our current estimate of 2020 net sales, operating margin and cash flows.

Given our current position and expectations for the remainder of 2020, we are updating our 2020 guidance as described above to reflect the recent performance across all four business areas. However, the ultimate impact of COVID-19 in future periods remains uncertain. Our 2020 outlook and 2021 financial trends discussed below assume, among other things, that our production facilities continue to operate and we do not experience significant work stoppages or closures, we are able to mitigate any supply chain disruptions and these do not worsen, and we are able to recover our costs under U.S. Government contracts and government funding priorities do not change. While these are our current assumptions for our 2020 outlook, they could change as described above. Risk related to these items are described above and under Item 1A, Risk Factors.

2021 Financial Trends

We expect our 2021 net sales to increase to greater than or equal to $67 billion. Total business segment operating margin in 2021 is expected to be in the 10.9% to 11.1% range and cash from operations is expected to be greater than or equal to $8.1 billion, net of $1.0 billion of planned pension contributions. The preliminary outlook for 2021 assumes continued support and funding of our programs, including recovery of COVID-19 cost impacts, and a statutory tax rate of 21%. Additionally, the preliminary outlook for 2021 assumes that there will not be significant reductions in customer budgets, changes in funding priorities and that the U.S. Government will not continue to operate under a continuing resolution for an extended period in which new contract and program starts are restricted. Changes in circumstances may require us to revise our assumptions, which could materially change our current estimate of 2021 net sales, operating margin and cash flows.

We currently expect a total net FAS/CAS pension benefit of approximately $2.1 billion in 2021. This estimate assumes a 2.50% discount rate (a 75 basis point decrease from the end of 2019), a 7.00% return on plan assets in 2020, and a 7.00% expected long-term rate of return on plan assets in future years, among other assumptions. A change of plus or minus 25 basis points to the assumed discount rate, with all other assumptions held constant, would result in an incremental increase or decrease of approximately $15 million to the estimated net 2021 FAS/CAS pension benefit. A change of plus or minus 100 basis points to the return on plan assets in 2020 only, with all other assumptions held constant, would result in an incremental increase or decrease of approximately $15 million to the estimated net 2021 FAS/CAS pension benefit. We expect to make contributions of approximately $1.0 billion to our qualified defined benefit pension plans in 2021 and anticipate recovering approximately $2.1 billion of CAS pension cost. We will complete the annual remeasurement of our postretirement benefit plans and update our estimated 2021 FAS/CAS pension adjustment on December 31, 2020. The final assumptions and actual investment return for 2020 may differ materially from those discussed above.

The following discussion is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and notes thereto and with our Annual Report on Form 10-K for the year ended December 31, 2019 (2019 Form 10-K).

INDUSTRY CONSIDERATIONS

U.S. Government Funding

On February 10, 2020, the Administration submitted the fiscal year (FY) 2021 President’s Budget, requesting $1.34 trillion in total discretionary funding (a U.S. Government fiscal year starts on October 1 and ends on September 30). The FY 2021 budget requests $672 billion for base discretionary national defense spending, the maximum permitted under the Bipartisan Budget Act of 2019 (BBA-19). The total national defense request is $741 billion, which includes $69 billion requested for Overseas Contingency Operations (OCO). OCO funding does not count toward discretionary spending caps.

The FY 2021 budget requests $705 billion for the DoD, including $636 billion for the base budget and $69 billion for OCO. The DoD request is only $800 million above the FY 2020 enacted level for both base national defense spending and OCO.

Between March and July 2020, Congress enacted eight pieces of legislation related to the COVID-19 pandemic and the economic impacts, authorizing roughly $3.7 trillion of fiscal support. The CARES Act, signed by the President on March 27, 2020, provided relief aimed at helping American workers and businesses impacted by the COVID-19 pandemic. The bill included $10.4 billion for DoD to fund COVID-19 response related expenses in defense health programs, operations, and the Defense Procurement Act fund. The funding is identified as emergency and is exempt from the discretionary spending limits of the Budget Control Act of 2011 (BCA).

On October 1, 2020, the President signed a continuing resolution to continue funding federal agencies at FY 2020 levels until December 11, 2020. Unless specifically exempted, under a continuing resolution there can be no new program starts or increases in procurement quantities. Under the continuing resolution, Section 3610 of the CARES Act, which was passed on March 27, 2020 to provide authorization for federal contractors to continue to support government initiatives despite COVID-19 disruption, was also extended through December 11, 2020. U.S. Government agencies may be subject to a government shutdown if new appropriations are not passed prior to the expiration of the current continuing resolution.

Our key programs continue to be supported and funded despite the continuing resolution financing mechanism. However, during periods covered by continuing resolutions or in the event of a government shutdown, we may experience delays in procurement of products and services due to lack of funding, and those delays may affect our results of operations.

See also the discussion of U.S. Government funding risks within “Item 1A. Risk Factors” included in our 2019 Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

Our operating cycle is primarily long-term and involves many types of contracts for the design, development and manufacture of products and related activities with varying delivery schedules. Consequently, the results of operations of a particular period, or period-to-period comparisons of sales and profits, may not be indicative of future operating results. The following discussions of comparative results among periods should be reviewed 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):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Net sales	**$ 16,495**	$ 15,171	**$ 48,366**	$ 43,934
Cost of sales	**(14,359)**	(13,108)	**(41,926)**	(37,690)
Gross profit	**2,136**	2,063	**6,440**	6,244
Other (expense) income, net	**11**	42	**(85)**	152
Operating profit	**2,147**	2,105	**6,355**	6,396
Interest expense	**(145)**	(162)	**(442)**	(496)
Other non-operating income (expense), net	**54**	(162)	**135**	(491)
Earnings from continuing operations before income taxes	**2,056**	1,781	**6,048**	5,409
Income tax expense	**(303)**	(173)	**(952)**	(677)
Net earnings from continuing operations	**1,753**	1,608	**5,096**	4,732
Net loss from discontinued operations	**(55)**	—	**(55)**	—
Net earnings	**$ 1,698**	$ 1,608	**$ 5,041**	$ 4,732
Diluted earnings per common share				
Continuing operations	**$ 6.25**	$ 5.66	**$ 18.12**	$ 16.66
Discontinued operations	**(0.20)**	—	**(0.20)**	—
Total diluted earnings per common share	**$ 6.05**	$ 5.66	**$ 17.92**	$ 16.66

Certain amounts reported in other (expense) income, net, primarily our share of earnings or losses from equity method investees, are included in the operating profit of our business segments. Accordingly, such amounts are included in the discussion of our business segment results of operations.

Net Sales

We generate sales from the delivery of products and services to our customers. Our consolidated net sales were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	**September 27, 2020**	September 29, 2019
Products	**$ 13,869**	$ 12,728	**$ 40,607**	$ 36,701
% of total net sales	**84.1 %**	83.9 %	**84.0 %**	83.5 %
Services	**2,626**	2,443	**7,759**	7,233
% of total net sales	**15.9 %**	16.1 %	**16.0 %**	16.5 %
Total net sales	**$ 16,495**	$ 15,171	**$ 48,366**	$ 43,934

Substantially all of our contracts are accounted for using the percentage-of-completion cost-to-cost method. Under the percentage-of-completion cost-to-cost method, we record net sales on contracts over time 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 subsequent discussion of changes in our consolidated cost of sales and our business segment results of operations because changes in our sales are typically accompanied by a corresponding change in our cost of sales due to the nature of the percentage-of-completion cost-to-cost method.

Product Sales

Product sales increased $1.1 billion, or 9%, during the quarter ended September 27, 2020 compared to the same period in 2019. The increase in product sales was primarily due to higher product sales of approximately $440 million at MFC, $400 million at Aeronautics, $160 million at Space and $135 million at RMS. The increase in product sales at MFC was primarily due to increased volume for tactical and strike missile programs (primarily Guided Multiple Launch Rocket System (GMLRS) and High-Mobility Artillery Rocket Systems (HIMARS)) and increased volume for integrated air and missile defense programs (primarily Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD)). The increase in product sales at Aeronautics was primarily due to higher production volume for the F-35 program and classified development contracts. The increase in product sales at Space was primarily due to higher volume for government satellite programs (primarily Next Gen OPIR) and strategic and missile defense programs (primarily hypersonic development programs). The increase in product sales at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily Seahawk and VH-92A production contracts) and for integrated warfare systems and sensors (IWSS) programs (primarily Aegis Combat System (Aegis)), partially offset by lower volume on Littoral Combat Ship (LCS).

Product sales increased $3.9 billion, or 11%, during the nine months ended September 27, 2020 compared to the same period in 2019. The increase in product sales was primarily due to higher product sales of approximately $1.8 billion at Aeronautics, $1.3 billion at MFC, $550 million at Space and $300 million at RMS. The increase in product sales at Aeronautics was primarily due to higher production volume for the F-35 program and classified development contracts. The increase in product sales at MFC was primarily due to increased volume for integrated air and missile defense programs (primarily PAC-3 and THAAD) and tactical and strike missile programs (primarily GMLRS and HIMARS). The increase in product sales at Space was primarily due to higher volume for government satellite programs (primarily Next Gen OPIR) and strategic and missile defense programs (primarily hypersonic development programs). The increase in product sales at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily Seahawk and Combat Rescue Helicopter (CRH) production contracts), C6ISR (command, control, communications, computers, cyber, combat systems, intelligence, surveillance, and reconnaissance) programs, and IWSS programs (primarily Aegis).

Service Sales

Service sales increased $183 million, or 7%, during the quarter ended September 27, 2020 compared to the same period in 2019. The increase in service sales was primarily due to higher sales of approximately $155 million at RMS and $100 million at Aeronautics, partially offset by lower sales of $70 million at MFC. The increase in service sales at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily a Seahawk sustainment program) and various training and logistics solutions (TLS) programs. The increase in service sales at Aeronautics was primarily due to higher sustainment volume for the F-35, F-22 and F-16 programs. The decrease in service sales at MFC was primarily due to lower volume on energy programs due to the divestiture of the Distributed Energy Solutions business in November 2019.

Service sales increased $526 million, or 7%, during the nine months ended September 27, 2020 compared to the same period in 2019. The increase in service sales was primarily due to higher sales of approximately $445 million at Aeronautics and $245 million at RMS, partially offset by lower sales of $230 million at MFC. The increase in service sales at Aeronautics was primarily due to higher sustainment volume for the F-35, F-22 and F-16 programs. The increase in service sales at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily a Seahawk sustainment program) and various TLS programs. The decrease in service sales at MFC was primarily due to lower volume on energy programs due to the divestiture of the Distributed Energy Solutions business and sensors and global sustainment programs (primarily Apache sensors program and Special Operations Forces Global Logistics Support Services (SOF GLSS)).

Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, subcontracting costs, an allocation of indirect costs (overhead and general and administrative), as well as the costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers. 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 to complete the contract. Our consolidated cost of sales were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	**September 27, 2020**	September 29, 2019
Cost of sales – products	**$ (12,370)**	$ (11,339)	**$ (36,204)**	$ (32,638)
% of product sales	**89.2 %**	89.1 %	**89.2 %**	88.9 %
Cost of sales – services	**(2,363)**	(2,211)	**(6,915)**	(6,452)
% of service sales	**90.0 %**	90.5 %	**89.1 %**	89.2 %
Other unallocated, net	**374**	442	**1,193**	1,400
Total cost of sales	**$ (14,359)**	$ (13,108)	**$ (41,926)**	$ (37,690)

The following discussion of material changes in our consolidated cost of sales for products and services should be read in tandem with the preceding discussion of changes in our consolidated net sales and our business segment results of operations. Except for impacts of COVID-19; potential impacts to our programs, including the F-35 program, resulting from U.S. Government actions related to Turkey; and projected FAS pension income in 2020 as a result of completing the planned freeze of our salaried pension plans effective January 1, 2020, we have not identified any additional developing trends in cost of sales for products and services that would have a material impact on our future operations (see "Other Matters" discussion below for further discussion).

Product Costs

Product costs increased $1.0 billion, or 9%, during the quarter ended September 27, 2020 compared to the same period in 2019. The increase in product costs was primarily due to higher product costs of approximately $390 million at MFC, $380 million at Aeronautics and $170 million at Space. The increase in product costs at MFC was primarily due to increased volume for tactical and strike missile programs (primarily GMLRS and HIMARS) and integrated air and missile defense programs (primarily PAC-3 and THAAD). The increase in product costs at Aeronautics was primarily due to higher production volume for the F-35 program and classified contracts. The increase in product costs at Space was primarily due to increased volume for government satellite programs (primarily Next Gen OPIR) and strategic and missile defense programs (primarily hypersonic development programs).

Product costs increased $3.6 billion, or 11%, during the nine months ended September 27, 2020 compared to the same period in 2019. The increase in product costs was primarily due to higher product costs of approximately $1.6 billion at Aeronautics, $1.1 billion at MFC and $610 million at Space. The increase in product costs at Aeronautics was primarily due to higher production volume for the F-35 program and classified contracts. The increase in product costs at MFC was primarily due to increased volume for integrated air and missile defense programs (primarily PAC-3 and THAAD) and tactical and strike missile programs (primarily GMLRS and HIMARS). The increase in product costs at Space was primarily due to increased volume for government satellite programs (primarily Next Gen OPIR) and strategic and missile defense programs (primarily hypersonic development programs).

Service Costs

Service costs increased $152 million, or 7%, during the quarter ended September 27, 2020 compared to the same period in 2019. The increase in service costs was primarily due to higher service costs of approximately $125 million at RMS and $85 million at Aeronautics, partially offset by lower service costs of approximately $60 million at MFC. The increase in service costs at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily a Seahawk sustainment program) and various TLS programs. The increase in service costs at Aeronautics was primarily due to higher sustainment volume for the F-35, F-22 and F-16 programs. The decrease in service costs at MFC was primarily due to lower volume on energy programs due to the divestiture of the Distributed Energy Solutions business.

Service costs increased $463 million, or 7%, during the nine months ended September 27, 2020 compared to the same period in 2019. The increase in service costs was primarily due to higher service costs of approximately $395 million at Aeronautics and $160 million at RMS, partially offset by lower service costs of approximately $160 million at MFC. The increase in service costs at RMS was primarily due to higher volume for Sikorsky helicopter programs (primarily a Seahawk sustainment program). The increase in service costs at Aeronautics was primarily due to higher sustainment volume for the F-35, F-22 and F-16 programs. The decrease in service costs at MFC was primarily due to lower volume on energy programs due to the divestiture of the Distributed Energy Solutions business and sensors and global sustainment programs (primarily Apache sensors program and SOF GLSS).

Other Unallocated, Net

Other unallocated, net primarily includes the FAS/CAS operating adjustment (which represents the difference between cost accounting standards (CAS) pension cost recorded in our business segment's results of operations and the service cost component of FAS pension income (expense)), stock-based compensation expense and other corporate costs. These items are not allocated to the business segments and, therefore, are not allocated to cost of sales for products or services. Other unallocated, net reduced cost of sales by $374 million and $1.2 billion during the quarter and nine months ended September 27, 2020, compared to $442 million and $1.4 billion during the quarter and nine months ended September 29, 2019. Other unallocated, net during the quarter and nine months ended September 27, 2020 was lower primarily due to a decrease in our FAS/CAS operating adjustment (see "Business Segment Results of Operations" discussion below for more detail).

Other (Expense) Income, Net

Other income, net during the quarter ended September 27, 2020, was $11 million and other expense, net during the nine months ended September 27, 2020 was $85 million, compared to other income, net of $42 million and $152 million during the quarter and nine months ended September 29, 2019. Other expense, net during the nine months ended September 27, 2020 included a non-cash asset impairment charge of $128 million ($96 million, or $0.34 per share, after tax) recognized in the second quarter of 2020 for our international equity method investee, Advanced Military Maintenance, Repair and Overhaul Center LLC (AMMROC). Other income, net during the nine months ended September 29, 2019, included a previously deferred gain of approximately $51 million ($38 million, or $0.13 per share, after tax) related to properties sold in 2015 as a result of completing our remaining obligations.

As of September 27, 2020, we owned 40% of AMMROC, a joint venture located in the United Arab Emirates. We account for our investment in AMMROC using the equity method. AMMROC provides maintenance, repair and overhaul (MRO) and support services for fixed and rotary wing military aircraft in the South Asia, Middle East and North Africa (SAMENA) region. To date, substantially all of AMMROC's business was dependent on a single customer contract to provide performance based logistics (PBL) services that was in the process of being re-competed. During the first half of 2020, the customer awarded the contract to a competitor. As a result of the loss of this customer contract, we performed a strategic review of AMMROC's business and evaluated various options for our investment. As a result of this evaluation, we executed an agreement to sell our investment in AMMROC to our joint venture partner for $307 million. Accordingly, in the second quarter of 2020, we adjusted the carrying value of our investment from $435 million to the expected selling price of $307 million, which resulted in the recognition of a noncash impairment charge of $128 million ($96 million, or $0.34 per share, after tax) in our results of operations. The transaction, which is subject to closing conditions, is currently expected to close by early 2021 and the purchase price will be paid in cash installments through September 2021.

Other Non-operating Income (Expense), Net

Other non-operating income (expense), net primarily includes the non-service cost components of FAS pension and other postretirement benefit plan income (expense) (i.e., interest cost, expected return on plan assets, net actuarial gains or losses, and amortization of prior service cost or credits). During the quarter and nine months ended September 27, 2020, other non-operating income, net was $54 million and $135 million, compared to other non-operating expense, net of $162 million and $491 million during the quarter and nine months ended September 29, 2019. The increase during the quarter and nine months ended September 27, 2020 was primarily due to a reduction in non-service FAS pension expense for our qualified defined benefit pension plans.

Income Tax Expense

Our effective income tax rate was 14.7% and 15.7% for the quarter and nine months ended September 27, 2020, and 9.7% and 12.5% for the quarter and nine months ended September 29, 2019. The rate for the quarter ended September 29, 2019 was lower primarily due to a $62 million benefit, or $0.22 per share, of additional tax deductions for 2018 attributable to foreign derived intangible income treatment based on proposed tax regulations released on March 4, 2019, and a change in tax accounting method, reflecting a 2012 Court of Federal Claims decision, which held that the tax basis in certain assets should be increased and realized upon the assets' disposition.

The rates for all periods benefited from additional tax deductions based on proposed tax regulations released on March 4, 2019, which clarified that foreign military sales qualify for foreign derived intangible income treatment. On July 9, 2020, the U.S. Treasury Department issued final tax regulations related to foreign derived intangible income. The final tax regulations confirm foreign military sales qualify for foreign derived intangible income treatment. We continue to assess the other effects of the final regulations.

The rates for all periods also benefited from the research and development tax credit, dividends paid to the corporation's defined contribution plans with an employee stock ownership plan feature, and tax deductions for employee equity awards.

On March 27, 2020, President Trump signed into law the CARES Act, which, along with earlier issued IRS guidance, provides for deferral of certain taxes. The CARES Act, among other things, also contains numerous other provisions which impact Lockheed Martin. The CARES Act and the projected annual financial impact of COVID-19 did not have a material impact on our effective tax rate for the quarter and nine months ended September 27, 2020.

Changes in U.S. federal or foreign tax laws and regulations, or their interpretation and application, including those with retroactive effect, including the amortization for research or experimental expenditures, could significantly impact our provision for income taxes, the amount of taxes payable, our deferred tax asset and liability balances, and stockholders’ equity. The amount of net deferred tax assets will change periodically based on several factors, including the measurement of our postretirement benefit plan obligations, actual cash contributions to our postretirement benefit plans, and future changes in tax laws. In addition, we are regularly under audit or examination by tax authorities, including foreign tax authorities (including in, amongst others, Australia, Canada, India, Italy, Japan, Poland, and the United Kingdom). The final determination of tax audits and any related litigation could similarly result in unanticipated increases in our tax expense and affect profitability and cash flows.

Net Earnings from Continuing Operations

We reported net earnings from continuing operations of $1.8 billion ($6.25 per share) and $5.1 billion ($18.12 per share) during the quarter and nine months ended September 27, 2020, compared to $1.6 billion ($5.66 per share) and $4.7 billion ($16.66 per share) during the quarter and nine months ended September 29, 2019. Both net earnings and earnings per share were affected by the factors mentioned above. Earnings per share also benefited from a net decrease of approximately 2.5 million shares outstanding from September 29, 2019 to September 27, 2020 as a result of share repurchases, partially offset by share issuance under our stock-based awards and certain defined contribution plans.

Net Loss from Discontinued Operations

During the third quarter of 2020, we recognized a $55 million ($0.20 per share) non-cash charge resulting from the resolution of certain tax matters related to the former Information Systems & Global Solutions business divested in 2016.

BUSINESS SEGMENT RESULTS OF OPERATIONS

We operate in four business segments: Aeronautics, MFC, RMS and Space. We organize our business segments based on the nature of products and services offered.

Net sales and operating profit of our business segments exclude intersegment sales, cost of sales, and profit as these activities are eliminated in consolidation. Business segment operating profit includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments.

Business segment operating profit also excludes the FAS/CAS operating adjustment described below, a portion of corporate costs not considered allowable or allocable to contracts with the U.S. Government under the applicable U.S. government cost accounting standards (CAS) or federal acquisition regulations (FAR), and other items not considered part of management's evaluation of segment operating performance such as a portion of management and administration costs, legal fees and settlements, environmental costs, stock-based compensation expense, retiree benefits, significant severance actions, significant asset impairments, gains or losses from significant divestitures, and other miscellaneous corporate activities.

Excluded items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See "Note 10 – Other" included in our Notes to Consolidated Financial Statements for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

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

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Net sales				
Aeronautics	**$ 6,680**	$ 6,178	**$ 19,552**	$ 17,312
Missiles and Fire Control	**2,971**	2,601	**8,391**	7,362
Rotary and Mission Systems	**3,998**	3,709	**11,783**	11,239
Space	**2,846**	2,683	**8,640**	8,021
Total net sales	**$ 16,495**	$ 15,171	**$ 48,366**	$ 43,934
Operating profit				
Aeronautics	**$ 705**	$ 665	**$ 2,116**	$ 1,842
Missiles and Fire Control	**405**	349	**1,171**	1,093
Rotary and Mission Systems	**404**	342	**1,209**	1,068
Space	**248**	309	**781**	931
Total business segment operating profit	**1,762**	1,665	**5,277**	4,934
Unallocated items				
FAS/CAS operating adjustment [(a)]	**469**	513	**1,407**	1,537
Stock-based compensation	**(67)**	(54)	**(182)**	(158)
Other, net [(b)]	**(17)**	(19)	**(147)**	83
Total unallocated items	**385**	440	**1,078**	1,462
Total consolidated operating profit	**$ 2,147**	$ 2,105	**$ 6,355**	$ 6,396

(a) The FAS/CAS operating adjustment represents the difference between the service cost component of financial accounting standards (FAS) pension income (expense) and total pension costs recoverable on U.S. Government contracts as determined in accordance with CAS.

(b) Other, net for the nine months ended September 27, 2020 includes a non-cash impairment charge of $128 million ($96 million, or $0.34 per share, after tax) recognized on our investment in the international equity method investee, AMMROC.

Our total net FAS/CAS pension adjustment for the quarters and nine months ended September 27, 2020 and September 29, 2019, including the service and non-service cost components of FAS pension income (expense) for our qualified defined benefit pension plans, were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Total FAS income (expense) and CAS costs				
FAS pension income (expense)	**$ 29**	$ (274)	**$ 88**	$ (820)
Less: CAS pension cost	**494**	642	**1,483**	1,924
Net FAS/CAS pension adjustment	**$ 523**	$ 368	**$ 1,571**	$ 1,104
Service and non-service cost reconciliation				
FAS pension service cost	**$ (25)**	$ (129)	**$ (76)**	$ (387)
Less: CAS pension cost	**494**	642	**1,483**	1,924
FAS/CAS operating adjustment	**469**	513	**1,407**	1,537
Non-operating FAS pension income (expense)	**54**	(145)	**164**	(433)
Net FAS/CAS pension adjustment	**$ 523**	$ 368	**$ 1,571**	$ 1,104

We recover CAS pension and other postretirement benefit plan cost through the pricing of our products and services on U.S. Government contracts and, therefore, recognize CAS cost in each of our business segment's net sales and cost of sales. Our consolidated financial statements must present FAS pension and other postretirement benefit plan expense calculated in accordance with FAS requirements under U.S. GAAP. The operating portion of the net FAS/CAS pension adjustment represents the difference between the service cost component of FAS pension income (expense) and total CAS pension cost. The non-service FAS pension income (expense) component is included in other non-operating income (expense), net in our consolidated statements of earnings. As a result, to the extent that CAS pension cost exceeds the service cost component of FAS pension income (expense), we have a favorable FAS/CAS operating adjustment.

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 throughout the 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 a customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) and for services would align to the type of work being performed (such as aircraft sustainment). Our contracts generally allow 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 total costs to provide the product or service. This approach for negotiating contracts with our U.S. Government customers generally allows for recovery of our actual costs plus a reasonable profit margin. 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 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 (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). 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 total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total 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 recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied.

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

In addition, comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts for which we recognize revenue over time using the percentage-of-completion cost-to-cost method to measure progress towards completion. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate. Increases or decreases in profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. Segment operating profit and margin may also be impacted favorably or unfavorably by other items, which may or may not impact sales. Favorable items may include the positive resolution of contractual matters, cost recoveries on severance and restructuring charges, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; restructuring charges, except for significant severance actions, which are excluded from segment operating results; reserves for disputes; certain asset impairments; and losses on sales of certain assets.

As previously disclosed in our 2019 Form 10-K, we are responsible for a program to design, develop and construct a ground-based radar at our RMS business segment. The program has experienced performance issues for which we have periodically accrued reserves. As of September 27, 2020, cumulative losses were approximately $250 million on this program. We may continue to experience issues related to customer requirements and our performance under this contract and have to record additional charges. However, based on the losses previously recorded and our current estimate of the sales and costs to complete the program, at this time we do not anticipate that additional losses, if any, would be material to our operating results or financial condition.

As previously disclosed in our 2019 Form 10-K, we have a program, EADGE-T, to design, integrate, and install an air missile defense command, control, communications, computers - intelligence (C4I) system for an international customer that has experienced performance issues and for which we have periodically accrued reserves at our RMS business segment. As of September 27, 2020, cumulative losses remained at approximately $260 million. We continue to monitor program requirements and our performance. At this time, we do not anticipate additional charges that would be material to our operating results or financial condition.

As previously disclosed in our 2019 Form 10-K, we have two commercial satellite programs at our Space business segment for which we have experienced performance issues related to the development and integration of a modernized LM 2100 satellite platform. These programs are for the delivery of three satellites in total, including two that launched in 2019 and one that launched in February 2020. As of September 27, 2020, cumulative losses to complete these developmental commercial programs remained at approximately $410 million. During the third quarter of 2020, we retired all significant remaining risk to the programs and as a result, we anticipate that no additional losses will be incurred.

As previously disclosed in our 2019 Form 10-K, we are responsible for designing, developing and installing an upgraded turret for the Warrior Capability Sustainment Program. In 2018, we revised our estimated costs to complete the program as a consequence of performance issues, and recorded charges at our MFC business segment. As of September 27, 2020, cumulative losses remained at approximately $140 million on this program. We may continue to experience issues related to customer requirements and our performance under this contract and may have to record additional reserves. However, based on the losses already recorded and our current estimate of the sales and costs to complete the program, at this time we do not anticipate that additional losses, if any, would be material to our operating results or financial condition.

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters, increased segment operating profit by approximately $415 million and $1.4 billion during the quarter and nine months ended September 27, 2020 and $480 million and $1.5 billion during the quarter and nine months ended September 29, 2019.

Aeronautics

Summary operating results for our Aeronautics business segment were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
Net sales	**$ 6,680**	$ 6,178	**$ 19,552**	$ 17,312
Operating profit	**705**	665	**2,116**	1,842
Operating margin	**10.6 %**	10.8 %	**10.8 %**	10.6 %

Aeronautics' net sales during the quarter ended September 27, 2020 increased $502 million, or 8%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $325 million for the F-35 program due to increased volume on development, sustainment, and production contracts; and about $130 million for higher volume on classified development contracts.

Aeronautics' operating profit during the quarter ended September 27, 2020 increased $40 million, or 6%, compared to the same period in 2019. Operating profit increased approximately $65 million for the F-35 program due to higher volume on production, development, and sustainment contracts and higher risk retirements on production contracts. This increase was partially offset by a decrease of approximately $20 million for the F-16 program due to lower risk retirements on sustainment contracts. Adjustments not related to volume, including net profit booking rate adjustments, were comparable during the quarter ended September 27, 2020 compared to the same period in 2019.

Aeronautics' net sales during the nine months ended September 27, 2020 increased $2.2 billion, or 13%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $1.7 billion for the F-35 program due to increased volume on production, sustainment, and development contracts; and about $325 million for higher volume on classified development contracts.

Aeronautics' operating profit during the nine months ended September 27, 2020 increased $274 million, or 15%, compared to the same period in 2019. Operating profit increased approximately $275 million for the F-35 program due to higher volume and risk retirements on production, development, and sustainment contracts. Adjustments not related to volume, including net profit booking rate adjustments, were $80 million higher during the nine months ended September 27, 2020 compared to the same period in 2019.

We currently expect Aeronautics' 2020 net sales to increase in the low-double digit percentage range from 2019 levels driven by increased volume on the F-35 program. Operating profit is also expected to increase in the low-double digit percentage range above 2019 levels. Operating profit margin for 2020 is expected to be slightly higher than 2019 levels.

Missiles and Fire Control

Summary operating results for our MFC business segment were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	**September 27, 2020**	September 29, 2019
Net sales	**$ 2,971**	$ 2,601	**$ 8,391**	$ 7,362
Operating profit	**405**	349	**1,171**	1,093
Operating margin	**13.6 %**	13.4 %	**14.0 %**	14.8 %

MFC's net sales during the quarter ended September 27, 2020 increased $370 million, or 14%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $250 million for tactical and strike missile programs due to increased volume (primarily GMLRS and HIMARS); and about $200 million for integrated air and missile defense programs due to increased volume (primarily PAC-3 and THAAD). These increases were partially offset by lower net sales of approximately $60 million for sensors and global sustainment programs due to lower volume on the Apache sensors program; and about $35 million due to the divestiture of the Distributed Energy Solutions business.

MFC's operating profit during the quarter ended September 27, 2020 increased $56 million, or 16%, compared to the same period in 2019. Operating profit increased approximately $50 million for integrated air and missile defense programs due to increased volume and higher risk retirements on international contracts (primarily PAC-3); and about $45 million for tactical and strike missile programs due to higher volume (primarily GMLRS and HIMARS) and higher risk retirements (primarily Long Range Standoff Weapon (LRSO)). These increases were partially offset by a decrease of approximately $40 million for sensors and global sustainment programs due primarily to lower risk retirements and a reduction in the profit booking rate on the Apache sensors program. Adjustments not related to volume, including net profit booking rate adjustments, were $25 million lower during the quarter ended September 27, 2020 compared to the same period in 2019.

MFC's net sales during the nine months ended September 27, 2020 increased $1.0 billion, or 14%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $620 million for integrated air and missile defense programs due to increased volume (primarily PAC-3 and THAAD); and about $575 million for tactical and strike missile programs due to increased volume (primarily GMLRS and HIMARS). These increases were partially offset by a decrease of approximately $70 million for sensors and global sustainment programs due to lower volume on the Apache sensors program; and about $100 million as a result of the divestiture of the Distributed Energy Solutions business.

MFC's operating profit during the nine months ended September 27, 2020 increased $78 million, or 7%, compared to the same period in 2019. Operating profit increased approximately $70 million for tactical and strike missile programs due to higher volume (primarily GMLRS, HIMARS and hypersonics) and higher risk retirements (primarily LRSO); and about $30 million for integrated air and missile defense programs due to higher risk retirements on PAC-3 contracts partially offset by lower risk retirements on THAAD contracts. These increases were partially offset by a decrease of approximately $30 million for sensors and global sustainment programs due primarily to lower risk retirements and a reduction in the profit booking rate on the Apache sensors program. Adjustments not related to volume, including net profit booking rate adjustments, were $55 million lower during the nine months ended September 27, 2020 compared to the same period in 2019.

We continue to expect MFC's 2020 net sales to increase in the low-double digit percentage range in 2020 as compared to 2019 driven by higher volume in the tactical and strike missiles and air and missile defense businesses, partially offset by a decrease in sales as a result of the divestiture of our Distributed Energy Solutions business. Operating profit is expected to increase in the mid-to-high-single digit percentage range in 2020 as compared to 2019 driven by the increase in sales volume. Operating profit margin for 2020 is expected to be lower than 2019 levels.

Rotary and Mission Systems

Summary operating results for our RMS business segment were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	**September 27, 2020**	September 29, 2019
Net sales	**$ 3,998**	$ 3,709	**$ 11,783**	$ 11,239
Operating profit	**404**	342	**1,209**	1,068
Operating margin	**10.1 %**	9.2 %	**10.3 %**	9.5 %

RMS' net sales during the quarter ended September 27, 2020 increased $289 million, or 8%, compared to the same period in 2019. Net sales increased approximately $180 million for Sikorsky helicopter programs due to higher volume primarily on production contracts (primarily Seahawk, VH-92A, and CRH); about $55 million for various TLS programs due to higher volume; and about $35 million for IWSS programs due to higher volume primarily on the Aegis partially offset by lower volume on LCS.

RMS' operating profit during the quarter ended September 27, 2020 increased $62 million, or 18%, compared to the same period in 2019. Operating profit increased approximately $30 million for Sikorsky helicopter programs due to higher volume on production contracts (primarily VH-92A and CRH), customer mix, and better cost performance on international military aircraft programs; and about $30 million for IWSS programs due to higher risk retirements (primarily Radar Surveillance Systems and Aegis). Adjustments not related to volume, including net profit booking rate adjustments, were $15 million lower in the quarter ended September 27, 2020 compared to the same period in 2019.

RMS' net sales during the nine months ended September 27, 2020 increased $544 million, or 5%, compared to the same period in 2019. Net sales increased approximately $355 million for Sikorsky helicopter programs due to higher volume (primarily Seahawk, VH-92A, and CRH production contracts) partially offset by lower volume on Black Hawk production; about $120 million for C6ISR programs due to higher volume (primarily on undersea combat systems programs); and about $45 million for IWSS programs due to higher volume primarily on Aegis.

RMS' operating profit during the nine months ended September 27, 2020 increased $141 million, or 13%, compared to the same period in 2019. Operating profit increased approximately $95 million for Sikorsky helicopter programs due to higher volume (primarily VH-92A and CRH production contracts), customer mix, and better cost performance and higher volume on international military aircraft programs; and about $85 million for TLS programs due to $70 million in charges for an army sustainment program in 2019 not repeated in 2020. These increases were partially offset by a $20 million decrease for C6ISR programs due to higher charges (primarily undersea combat systems programs); and about $15 million for IWSS programs due to lower risk retirements (primarily Aegis). Adjustments not related to volume, including net profit booking rate adjustments, were $20 million lower during the nine months ended September 27, 2020 compared to the same period in 2019.

We continue to expect RMS' 2020 net sales to increase in the mid-single digit percentage range above 2019 levels driven primarily by Sikorsky. Operating profit is expected to increase in the low-double digit percentage range above 2019 levels driven by the increase in sales volume and improved performance at Sikorsky and training and logistics solutions. Operating profit margin for 2020 is expected to be higher than 2019 levels.

Space

Summary operating results for our Space business segment were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	**September 27, 2020**	September 29, 2019
Net sales	**$ 2,846**	$ 2,683	**$ 8,640**	$ 8,021
Operating profit	**248**	309	**781**	931
Operating margin	**8.7 %**	11.5 %	**9.0 %**	11.6 %

Space's net sales during the quarter ended September 27, 2020 increased $163 million, or 6%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $90 million for government satellite programs due to higher volume (primarily Next Gen OPIR); and about $60 million for strategic and missile defense programs due to higher volume (primarily hypersonic development programs).

Space's operating profit during the quarter ended September 27, 2020 decreased $61 million, or 20%, compared to the same period in 2019. Operating profit decreased approximately $50 million due to lower equity earnings from the corporation's investment in United Launch Alliance (ULA); about $15 million for government satellite programs due to lower risk retirements (primarily Advanced Extremely High Frequency (AEHF)); and about $15 million for strategic and missile defense programs due to lower risk retirements (primarily Fleet Ballistic Missiles). These decreases were partially offset by an increase of approximately $15 million for commercial satellite programs due to charges recorded for performance matters in 2019 not repeated in 2020. Adjustments not related to volume, including net profit booking rate adjustments, were $25 million lower in the quarter ended September 27, 2020 compared to the same period in 2019.

Space's net sales during the nine months ended September 27, 2020 increased $619 million, or 8%, compared to the same period in 2019. The increase was primarily attributable to higher net sales of approximately $325 million for strategic and missile defense programs due to higher volume (primarily hypersonic development programs); and about $280 million for government satellite programs due to higher volume (primarily Next Gen OPIR).

Space's operating profit during the nine months ended September 27, 2020 decreased $150 million, or 16%, compared to the same period in 2019. Operating profit decreased approximately $90 million for government satellite programs due to lower risk retirements (primarily AEHF) partially offset by higher volume (primarily Next Gen OPIR); and about $95 million due to lower equity earnings from ULA. These decreases were partially offset by an increase of $35 million for commercial satellite programs for charges recorded for performance matters in 2019 not repeated in 2020. Adjustments not related to volume, including net profit booking rate adjustments, were $110 million lower during the nine months ended September 27, 2020 compared to the same period in 2019.

Total equity earnings recognized by Space (primarily ULA) represented approximately $5 million, or 2% and approximately $45 million, or 6% of Space's operating profit during the quarter and nine months ended September 27, 2020, compared to approximately $55 million, or 18% and $140 million, or 15% during the quarter and nine months ended September 29, 2019.

We currently expect Space's 2020 net sales to increase in the high-single digit percentage range from 2019 levels largely driven by Next Gen OPIR and hypersonics. Operating profit in 2020 is expected to decrease in the low-single digit percentage range as compared to 2019 driven by lower profit rate adjustments in government satellites largely driven by AEHF and lower equity earnings in 2020 compared to 2019. As a result, operating profit margin in 2020 is expected to decrease from 2019 levels.

FINANCIAL CONDITION

Liquidity and Cash Flows

As of September 27, 2020, we had a cash balance of $3.6 billion and no borrowings outstanding under our $2.5 billion revolving credit facility (the credit facility), which is also available for borrowings in the event of a lack of short-term commercial paper availability. To date, the effects of COVID-19 have not had a significant negative impact on our liquidity, cash flows or capital resources. Actions taken by the U.S. Government to increase the rate of progress payments had the effect of increasing our cash from operations, but we used all of this benefit to accelerate payments to our suppliers. The effects of COVID-19 have led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources and liquidity in the future. The economic impacts of COVID-19 have also caused volatility in the equity capital markets and investment return on our pension assets. As described in Item 1A, Risk Factors of our Annual Report on Form 10-K, changes in returns on plan assets may affect our plan funding, cash flows and stockholders' equity. Differences between the actual plan asset return and the expected long-term rate of return on plan assets (7.00% as of December 31, 2019) impact the measurement of the following year's Financial Accounting Standards (FAS) pension expense and pension funding requirements.

The CARES Act, provides a deferral of payroll tax payments from which we benefited by deferring cash outlays of $315 million during the nine months ended September 27, 2020. This will have the effect of increasing cash outlays for payroll taxes during 2021 and 2022. Earlier issued IRS guidance provided that the April and June 2020 federal estimated income tax payments were extended to July 15, 2020; thus, in the third quarter of 2020, we paid $400 million of estimated income tax amount deferred from second quarter to the third quarter. The CARES Act, among other things, also contains numerous other provisions which may impact Lockheed Martin. We continue to refine the effect of the CARES Act and ongoing government guidance related to COVID-19 that may be issued.

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 continued to invest in our business, including capital expenditures, independent research and development, and selective business acquisitions and investments; returned cash to stockholders through dividends and share repurchases; and actively managed our debt levels and maturities, interest rates, and pension obligations.

We have generated strong operating cash flows, which have been the primary source of funding for our operations, capital expenditures, debt service and repayments, dividends, share repurchases and postretirement benefit plan contributions. The total remaining authorization for future common share repurchases under our share repurchase program was $3.0 billion as of September 27, 2020.

Currently, we expect our cash from operations will continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. We also have access to credit markets, if needed, for liquidity or general corporate purposes, and letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts. See our “Capital Resources” section below for a discussion on financial resources available to us.

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

	Nine Months Ended	
	September 27, 2020	**September 29, 2019**
Cash and cash equivalents at beginning of year	**$ 1,514**	$ 772
Operating activities		
Net earnings	**5,041**	4,732
Non-cash adjustments	**1,292**	974
Changes in working capital	**(564)**	(1,139)
Other, net	**607**	1,254
Net cash provided by operating activities	**6,376**	5,821
Net cash used for investing activities	**(1,017)**	(803)
Net cash used for financing activities	**(3,288)**	(3,251)
Net change in cash and cash equivalents	**2,071**	1,767
Cash and cash equivalents at end of period	**$ 3,585**	$ 2,539

Operating Activities

Net cash provided by operating activities increased $555 million during the nine months ended September 27, 2020 compared to the same period in 2019. The increase was primarily due to a lower use of cash related to working capital, and the deferral of tax payments. The $575 million improvement in cash flows related to working capital (defined as receivables, contract assets, and inventories less accounts payable and contract liabilities) was primarily attributable to liquidation of inventories (primarily classified programs at Aeronautics and Sikorsky helicopter programs at RMS), and timing of production and billing cycles affecting contract assets and contract liabilities (primarily the integrated air and missile defense programs at MFC and the F-35 program at Aeronautics), partially offset by timing of cash payments for accounts payable (primarily RMS). During the nine months ended September 27, 2020, we made net cash tax payments of approximately $865 million compared to net cash tax payments of approximately $690 million for the nine months ended September 29, 2019.

In addition, net cash provided by operating activities for the nine months ended September 27, 2020 included the receipt of approximately $1.1 billion of net accelerated progress payments due to the U.S. Government's increase in the progress payment rate from 80% to 90%, and the deferral of $315 million for the employer portion of payroll taxes to 2021 and 2022 pursuant to the CARES Act. We used the accelerated progress payments from the U.S. Government plus cash on hand to accelerate $1.8 billion of payments to our suppliers as of September 27, 2020 that are due by their terms in future periods.

Investing Activities

Net cash used for investing activities increased $214 million during the nine months ended September 27, 2020 compared to the same period in 2019. Capital expenditures totaled $1.0 billion and $841 million during the nine months ended September 27, 2020 and September 29, 2019. The majority of our capital expenditures were for equipment and facilities infrastructure that generally are incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use software.

Financing Activities

Net cash used for financing activities was $3.3 billion during the nine months ended September 27, 2020, compared to $3.3 billion during the same period in 2019. Net cash used for financing activities during the nine months ended September 27, 2020 was primarily driven by dividend payments and share repurchases. During the nine months ended September 29, 2019 we also made net repayments of $600 million for commercial paper.

On May 20, 2020, we received net cash proceeds of $1.1 billion from issuance of senior unsecured notes, consisting of $400 million aggregate principal amount of 1.85% Notes due in 2030 and $750 million aggregate principal amount of 2.80% Notes due in 2050. On June 16, 2020, we used the net proceeds from the offering plus cash on hand to redeem $750 million of the outstanding $1.25 billion in aggregate principal amount of our 2.50% Notes due in 2020 and $400 million of the outstanding $900 million in aggregate principal amount of our 3.35% Notes due in 2021, each at their redemption price.

During the nine months ended September 27, 2020 and September 29, 2019, we paid dividends totaling $2.0 billion ($7.20 per share) and $1.9 billion ($6.60 per share). In addition, we repurchased 3.0 million shares of our common stock during the nine months ended September 27, 2020 for $1.1 billion, which includes the $500 million paid in the first quarter of 2020 to repurchase 1.4 million shares pursuant to the accelerated share repurchase (ASR) agreement. During the nine months ended September 29, 2019, we purchased 2.2 million shares of our common stock for $718 million, some of which was settled subsequent to the end of the third quarter.

Capital Resources

At September 27, 2020, we held cash and cash equivalents of $3.6 billion that was generally available to fund ordinary business operations without significant legal, regulatory, or other restrictions.

At September 27, 2020, we also had a $2.5 billion revolving credit facility with various banks that is available for general corporate purposes with an expiration date of August 24, 2024. The undrawn portion of the credit facility also serves as a backup facility for the issuance of commercial paper. The total amount outstanding at any point in time under the combination of our commercial paper program and the credit facility cannot exceed the amount of the credit facility. We may request and the banks may grant, at their discretion, an increase in the borrowing capacity under the credit facility of up to an additional $500 million. There were no borrowings outstanding under the credit facility at September 27, 2020.

We have agreements in place with financial institutions to provide for the issuance of commercial paper. The outstanding balance of commercial paper can fluctuate daily and the amount outstanding during the period may be greater than or less than the amount reported at the end of the period. There were no commercial paper borrowings outstanding as of September 27, 2020 and December 31, 2019. We may, as conditions warrant, from time to time issue commercial paper backed by our credit facility to manage the timing of cash flows. However, as described under Item 1A, Risk Factors, depending on market conditions, commercial paper may not be available on favorable terms or at all.

Our outstanding debt, net of unamortized discounts and issuance costs was $12.7 billion as of September 27, 2020 and mainly is in the form of publicly-issued notes that bear interest at fixed rates. The outstanding debt at September 27, 2020 is inclusive of the issuance of $1.2 billion in aggregate principal amount of senior unsecured notes in May 2020 and the June 2020 redemption of $750 million of the outstanding $1.25 billion in aggregate principal amount of our 2.50% Notes due 2020 and $400 million of the outstanding $900 million in aggregate principal amount of our 3.35% Notes due 2021, as described in “Note 10 – Other” included in our Notes to Consolidated Financial Statements. As of September 27, 2020, we had $500 million of borrowings scheduled to mature in November 2020 and an additional $500 million of borrowings scheduled to mature in September 2021 with the remainder of our debt due from 2022 to 2052. On September 16, 2020 we gave notice of the early redemption of the outstanding $500 million of 2.50% Notes due November 2020 at par on October 23, 2020 as permitted by the terms of the Notes. As of September 27, 2020, we were in compliance with all covenants contained in our debt and credit agreements. Other than the debt issuance and redemption, described in “Note 10 – Other” included in our Notes to Consolidated Financial Statements, there were no material changes during the quarter or nine months ended September 27, 2020 to our contractual commitments as presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2019 Form 10-K that were outside the ordinary course of our business.

On occasion, our customers may seek deferred payment terms to purchase our products. In connection with these transactions, we may, at our customer’s request, enter into arrangements for the non-recourse sale of customer receivables to unrelated third-party financial institutions. For accounting purposes, these transactions are not discounted and are treated as a sale of receivables as we have no continuing involvement. The sale proceeds from the financial institutions are reflected in our operating cash flows on the statement of cash flows. We sold customer receivables of $160 million and $427 million during the quarter and nine months ended September 27, 2020 and $80 million and $280 million during the quarter and nine months ended September 29, 2019. There were no gains or losses related to sales of these receivables.

Our total equity was $5.0 billion at September 27, 2020, an increase of $1.8 billion from December 31, 2019. The increase was primarily attributable to net earnings of $5.0 billion and amortization of $330 million in pension and other postretirement benefit plan expense. These increases were partially offset by dividends declared of $2.8 billion and the repurchase of 3.0 million shares for $1.1 billion.

OTHER MATTERS

Status of the F-35 Program

The F-35 program primarily consists of production contracts, sustainment activities, and new development efforts. Production of the aircraft is expected to continue for many years given the U.S. Government’s current inventory objective of 2,456 aircraft for the U.S. Air Force, U.S. Marine Corps, and U.S. Navy; commitments from our seven international partner countries and five international customers; as well as expressions of interest from other countries.

During the first half of 2020, the F-35 program completed several milestones both domestically and internationally. The U.S. Government continued testing the aircraft, including ship trials, mission and weapons systems evaluations, and the F-35 fleet recently surpassed 325,000 flight hours. During the third quarter of 2020, the U.S. Government awarded the production of 18 F-35 Block Buy aircraft in addition to the 448 aircraft previously awarded. Since program inception, we have delivered 569 production F-35 aircraft, demonstrating the F-35 program’s continued progress and longevity. The first 569 F-35 aircraft delivered to U.S. and international customers include 404 F-35A variants, 121 F-35B variants, and 43 F-35C variants. The full-rate production decision, also known formally as Milestone C, is expected to be delayed by the DoD until Initial Operational Test and Evaluation (IOT&E) activities are complete in the Naval Air Systems Command (NAVAIR)-led Joint Simulation Environment (JSE). The JSE is used to conduct simulated evaluations of the F-35 in a range of high-threat scenarios. The data will be utilized by the U.S. Government as part of their evaluation to transition the F-35 program from Low Rate Initial Production (LRIP) into full-rate production.

During the third quarter of 2020, we delivered 31 production aircraft to our U.S. and international partner countries, and we have 398 production aircraft in backlog, including orders from our international partner countries.

In response to COVID-19 F-35 supplier delays and in conjunction with the F-35 Joint Program Office, we have tapered our production rate, and we anticipate resuming a pre-COVID-19 production rate in 2021. We estimate production delays of approximately 18-24 aircraft in 2020. See the discussion in Business Overview - COVID-19 and Item 1A, Risk Factors.

On July 17, 2019, the U.S. Government suspended Turkey's participation in the F-35 program and initiated the process to formally remove Turkey from the program as a result of Turkey accepting delivery of the Russian S-400 air and missile defense system. To date, the Administration has not imposed sanctions on Turkish entities involved in the S-400 procurement, although sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA) remain a risk. Additionally, sanctions could be imposed against Turkey as a result of future legislation. We are monitoring developments in Congress and the potential impacts of any sanctions and other actions regarding Turkey on the F-35 program and on our other programs involving Turkey. Depending on the scope and applicability of any sanctions or other actions, the impact could be material to our operations, operating results, financial position or cash flows. Turkey previously committed to purchase up to 100 F-35 aircraft, of which six have completed production.

Turkish suppliers also produce component parts for the F-35 program, many of which are single-sourced. To minimize the risks of disruption of our supply chain and ensure continuity of F-35 production, we have been working closely with the DoD and supporting activities to identify and engage alternate suppliers for the component parts produced by Turkish suppliers. We have made significant progress toward this end, but due to the procedure to qualify new parts and suppliers, this collaborative process between DoD and Lockheed Martin is ongoing. Earlier this year, the DoD publicly confirmed that Turkey would be permitted to provide certain components for the F-35 through 2022. While the transition timeline is an important first step, it is equally important that our replacement capacity is re-established so that production is not impacted. Efforts to date have significantly reduced our risk, but final resolution on a limited number of remaining components could affect F-35 deliveries, and any accelerated work stoppage would impact cost. International sales of the F-35 are negotiated between the U.S. Government and international governments and the process that formally removed Turkey from the F-35 program is a government-to-government matter. We will continue to follow official U.S. Government guidance as it relates to completed Turkish aircraft and the export and import of component parts from the Turkish supply chain.

The effects of potential U.S. Government sanctions on Turkey, and Turkey's removal from the F-35 program do not appear to be significant at this time. However, unforeseen actions could impact the timing of orders, disrupt the production of aircraft, delay delivery of aircraft, disrupt delivery of sustainment components produced in Turkey and impact funding on the F-35 program to include the result of any reprogramming of funds that may be necessary to mitigate the impact of alternate sources for component parts made in Turkey. While, in the case of the F-35 program, we expect that these costs ultimately would be recovered from the U.S. Government, the availability or timing of any recovery could adversely affect our cash flows and results of operations. For additional discussion, including the risk of sanctions on other programs involving sales to Turkey or work with Turkish industry, see Item 1A - Risk Factors of our 2019 Annual Report on Form 10-K.

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 partner countries' oversight and budgeting processes. Current program challenges include, but are not limited to, supplier and partner performance, software development, level of cost associated with life cycle operations and sustainment and warranties, receiving funding for production contracts on a timely basis, executing future flight tests, and findings resulting from testing and operating the aircraft.

Contingencies

See "Note 7 – Legal Proceedings and Contingencies" included in our Notes to Consolidated Financial Statements for information regarding our contingent obligations, including off-balance sheet arrangements.

Critical Accounting Policies

There have been no significant changes to the critical accounting policies disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Annual Report on Form 10-K.

Postretirement Benefit Plans

We measure our net obligations related to our postretirement benefit plans annually at year end, which are largely dependent upon several key economic and actuarial assumptions. If we assume a discount rate at the end of 2020 of 2.50% (a 75 basis point decrease from the end of 2019), a 7.00% return on plan assets in 2020, and a 7.00% expected long-term rate of return on plan assets in future years among other assumptions, we expect the total net 2021 FAS/CAS pension benefit to be approximately $2.1 billion. With these assumptions, we expect the amount of the
qualified defined benefit pension plan obligation to be recorded at the end of 2020 to increase, resulting in a non-cash, after-tax decrease in stockholders' equity of approximately $3.9 billion.

A change of plus or minus 25 basis points to the assumed discount rate, with all other assumptions held constant, would result in an incremental non-cash, after-tax increase or decrease to equity at the end of 2020 of approximately $1.3 billion, with a corresponding incremental increase or decrease of approximately $15 million to the estimated net 2021 FAS/CAS pension benefit.

A change of plus or minus 100 basis points to the return on plan assets in 2020 only, with all other assumptions held constant, would result in an incremental non-cash, after-tax increase or decrease to equity at the end of 2020 of approximately $280 million, with a corresponding incremental increase or decrease of approximately $15 million to the estimated net 2021 FAS/CAS pension benefit.

We expect to make contributions of approximately $1.0 billion to our qualified defined benefit pension plans in 2021 and anticipate recovering approximately $2.1 billion of CAS pension cost.

Accounting for postretirement benefit plans under GAAP requires that the amounts we record are computed using actuarial valuations. These valuations utilize many assumptions, including those we make regarding financial markets and other economic conditions and longevity. Changes in those annual assumptions can impact our total equity at any given year end, and the amount of expense we record for our postretirement benefits plans in the following year. We will finalize the postretirement benefit plan assumptions and determine the 2020 actual return on plan assets on December 31, 2020. The final assumptions and the actual investment returns for 2020 may differ materially from those discussed above.

Please refer to our critical accounting policies under the caption "Postretirement Benefit Plans" in our 2019 Annual Report on Form 10-K for a more detailed discussion of the significant assumptions we must make, in addition to information regarding our ability to recover our pension costs in the pricing of our contracts.

Goodwill and Intangible Assets

The carrying value of our Sikorsky reporting unit included goodwill of $2.7 billion, an indefinite-lived trademark intangible asset of $887 million, and finite-lived customer program intangible assets of $2.1 billion as of September 27, 2020. In the fourth quarter of 2019, we performed our annual impairment test for goodwill and indefinite-lived trademark intangible asset. We were not required to test the finite-lived program intangible asset because there were no indicators of a possible impairment. As of the date of our 2019 annual impairment test, we estimated that the fair value of our Sikorsky reporting unit exceeded its carrying value for goodwill by a margin of approximately 40% and the fair value of the intangible asset exceeded its carrying value by a margin of approximately 10%.

The fair values and carrying values of our goodwill and indefinite-lived trademark intangible asset at our Sikorsky business are closely aligned. Therefore, any business deterioration, contract cancellations or terminations, or changes in expected future orders could cause our sales, earnings and cash flows to decline below current projections and could cause goodwill and intangible assets to be impaired. Similarly, market factors utilized in the impairment analysis, including long-term growth rates and discount rates could negatively impact the fair value of our reporting units. As previously disclosed, based on our assessment of these circumstances, we have determined that goodwill and indefinite-lived trademark intangible assets at our Sikorsky business are at risk for impairment should there be deterioration of projected cash flows. While we do not currently anticipate any material impairments on our assets as a result of COVID-19, any business deterioration, contract cancellations or terminations, or market pressures could cause our sales, earnings and cash flows to decline below our current projections and could cause goodwill and intangibles to be impaired. See Item 1A, Risk Factors for a discussion of the potential impacts of COVID-19 on the fair value of our assets.

Recent Accounting Pronouncements

See Note 1 – Basis of Presentation and "Note 11 – Recent Accounting Pronouncements Not Yet Adopted" included in our Notes to Consolidated Financial Statements for information related to new accounting standards.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2019, 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 other exposures to market risk have not changed materially since December 31, 2019. See "Note 8 – Fair Value Measurements" included in our Notes to Consolidated Financial Statements for additional discussion.

ITEM 4. Controls and Procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of September 27, 2020. 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 September 27, 2020.

There were no changes in our internal control over financial reporting during the quarter ended September 27, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Statements

This Form 10-Q contains statements that, to the extent 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. These statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially due to factors such as:

- the impact of the COVID-19 disease or future epidemics on our business, including the potential for facility closures or work stoppages, supply chain disruptions, program delays, our ability to recover our costs under contracts, changing government funding and acquisition priorities and payment policies and regulations; and potential impacts to the fair value of our assets;
- our reliance on contracts with the U.S. Government, which are conditioned upon the availability of funding and can be terminated by the U.S. Government for convenience, and our ability to negotiate favorable contract terms;
- budget uncertainty, affordability initiatives or the risk of future budget cuts;
- risks related to the development, production, sustainment, performance, schedule, cost and requirements of complex and technologically advanced programs including our largest, the F-35 program;
- planned production rates for significant programs; compliance with stringent performance and reliability standards; materials availability;
- the performance and financial viability of key suppliers, teammates, joint ventures, joint venture partners, subcontractors and customers;
- economic, industry, business and political conditions including their effects on governmental policy and government actions that disrupt our supply chain or prevent the sale or delivery of our products (such as delays in obtaining Congressional approvals for exports requiring Congressional notification and export license delays due to COVID-19);
- trade policies or sanctions (including potential Chinese sanctions on us or our suppliers, teammates or partners; Turkey's removal from the F-35 program and potential U.S. Government sanctions on Turkey and the Kingdom of Saudi Arabia);
- our success expanding into and doing business in adjacent markets and internationally and the differing risks posed by international sales;
- changes in foreign national priorities and foreign government budgets;

- the competitive environment for our products and services, including increased pricing pressures, aggressive pricing in the absence of cost realism evaluation criteria, competition from outside the aerospace and defense industry, and bid protests;
- the timing and customer acceptance of product deliveries;
- our ability to continue to innovate and develop new products and to attract and retain key personnel and transfer knowledge to new personnel; the impact of work stoppages or other labor disruptions;
- the impact of cyber or other security threats or other disruptions to our businesses;
- our ability to implement and continue, and the timing and impact of, capitalization changes such as share repurchases and dividend payments;
- our ability to recover costs under U.S. Government contracts and changes in contract mix;
- the accuracy of our estimates and projections and the potential impact of changes in U.S. or foreign tax laws;
- timing and estimates regarding pension funding and movements in interest rates and other changes that may affect pension plan assumptions, stockholders' equity, the level of the FAS/CAS adjustment and actual returns on pension plan assets;
- the successful operation of joint ventures that we do not control and our ability to recover our investments;
- realizing the anticipated benefits of acquisitions or divestitures, joint ventures, teaming arrangements or internal reorganizations;
- our efforts to increase the efficiency of our operations and improve the affordability of our products and services;
- the risk of an impairment of our assets, including the potential impairment of goodwill, intangible assets and inventory recorded as a result of the acquisition of the Sikorsky business;
- the availability and adequacy of our insurance and indemnities;
- our ability to benefit fully from or adequately protect our intellectual property rights;
- procurement and other regulations and policies affecting our industry, including federal rules prohibiting the use of certain Chinese telecommunications equipment, export of our products, cost allowability or recovery, preferred contract type, and performance and progress payments policy, including a reversal or modification to the DoD's increase to the progress payment rate in response to COVID-19;
- the effect of changes in accounting, taxation, or export laws, regulations, and policies and their interpretation or application; and
- the outcome of legal proceedings, bid protests, environmental remediation efforts, audits, government investigations or government allegations that we have failed to comply with law, other contingencies and U.S. Government identification of deficiencies in our business systems.

These are only some of the factors that may affect the forward-looking statements contained in this Form 10-Q. For a discussion identifying additional important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, see our filings with the U.S. Securities and Exchange Commission (SEC) including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and subsequent Quarterly Reports on Form 10-Q. Our filings may be accessed through the Investor Relations page of our website, www.lockheedmartin.com/investor, or through the website maintained by the SEC at www.sec.gov.

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are a party to or have property subject to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to protection of the environment, and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each 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 interim reporting period. We cannot predict the outcome of legal or other proceedings with certainty. These matters include the proceedings summarized in “Note 7 – Legal Proceedings and Contingencies” included in our Notes to Consolidated Financial Statements and “Note 14 – Legal Proceedings, Commitments and Contingencies” in our Annual Report on Form 10-K for the year ended December 31, 2019 (2019 Form 10-K) filed with the U.S. Securities and Exchange Commission.

We are subject to federal, state, local and foreign requirements for the protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to the complexity and pervasiveness of these requirements, we are a party to or have property subject to various lawsuits, proceedings and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding the matters discussed above, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see “Note 7 – Legal Proceedings and Contingencies” included in our Notes to Consolidated Financial Statements. See also “Critical Accounting Policies – Environmental Matters” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Note 14 – Legal Proceedings, Commitments and Contingencies”, each in our 2019 Form 10-K, for a description of previously reported matters.

As a U.S. Government contractor, we are subject to various audits and investigations by the U.S. Government to determine 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, suspension, proposed debarment, debarment from eligibility for future U.S. Government contracting or suspension of export privileges. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. Government. U.S. Government investigations often take years to complete and many result in no adverse action against us. We also provide products and services to customers outside of the U.S., which are subject to U.S. and foreign laws and regulations and foreign procurement policies and practices. Our compliance with local regulations or applicable U.S. Government regulations also may be audited or investigated.

ITEM 1A. Risk Factors

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. “Item 1A. Risk Factors” of our 2019 Form 10-K describes some of the risks and uncertainties associated with our business, including U.S. Government funding, as further described in the “Industry Considerations” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q. These risks and uncertainties have the potential to materially affect our business, results of operations, financial condition, cash flows, projected results and future prospects. Except for the risk factors discussed below, we do not believe that there have been any material changes to the risk factors disclosed in our 2019 Form 10-K.

The effects of COVID-19 and other potential future public health crises, epidemics, pandemics or similar events on our business, operating results and cash flows are uncertain.

The global outbreak of the coronavirus disease 2019 (COVID-19) was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020 and has negatively affected the U.S. and global economies, disrupted global supply chains, resulted in significant travel and transport restrictions, including mandated closures and orders to “shelter-in-place” and quarantine restrictions, and created significant disruption of the financial markets. The pandemic has presented unprecedented business challenges, and we have experienced impacts in each of our business areas related to COVID-19, primarily in increased coronavirus-related costs, delays in supplier deliveries, impacts of travel restrictions, site access and quarantine requirements, and the impacts of remote work and adjusted work schedules. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our programs in the expected timeframe, remains uncertain and will depend on future pandemic related developments, including the duration of the pandemic and any potential subsequent waves of COVID-19 infection, and related government actions to prevent and manage disease spread, all of which are uncertain and cannot be predicted. The long-term impacts of COVID-19 on government budgets and other funding priorities, including international priorities, that impact demand for our products and services and our business are also difficult to predict.

In accordance with the Department of Homeland Security's identification of the Defense Industrial Base as a critical infrastructure sector in March 2020, our U.S. production facilities have continued to operate in support of essential products and services required to meet national security commitments to the U.S. Government and the U.S. military. Although we are designated as a critical infrastructure workforce, operations have been adjusted in response to the pandemic, including, most significantly, a reduction in the F-35 production rate primarily due to supplier delays. The reduction is expected to delay 2020 F-35 deliveries by 18-24 aircraft. Due to the supplier delays, we implemented a temporary schedule adjustment for the F-35 production workforce in Fort Worth, Texas. While the F-35 production workforce resumed their pre-COVID-19 work schedule in the third quarter, staffing levels at our facilities, our customer facilities, and our supplier facilities have and could continue to fluctuate as a result of COVID-19, which could negatively impact our business. In addition, countries other than the U.S. have different responses to the pandemic that can affect our international operations and the operations of our suppliers and customers. Base closures, travel restrictions, and quarantine requirements both within and outside the U.S. have affected our normal operations and resulted in some schedule delays and future or prolonged occurrences of these could adversely affect our ability to achieve future contract milestones and our results of operations.

The U.S. Government has taken actions in response to COVID-19 to increase the progress payment rates in new and existing contracts and accelerate contract awards to provide cash flow and liquidity for companies in the Defense Industrial Base, including large prime contractors like Lockheed Martin and smaller suppliers. We continue to proactively monitor our supply chain and have implemented multiple actions to help mitigate the effects of COVID-19, including accelerating payments to suppliers within our global supply base as a result of the actions taken by the DoD in changing the progress payment policy. We plan to continue to accelerate payments to the supply chain for the remainder of the year in order to mitigate COVID-19 risks, prioritizing impacted suppliers and small businesses. As described in Item 1A, Risk Factors of our Annual Report on Form 10-K, we rely on other companies and the U.S. Government to provide materials, major components and products, and to perform a portion of the services that are provided to our customers under the terms of most of our contracts. Many of these suppliers also supply parts for commercial aviation businesses which have been more significantly impacted by the pandemic due to the impacts on these markets. Global supply chain disruption caused by the response to COVID-19 has impacted some of our programs and could impact our ability to perform on our contracts. We have identified a number of suppliers that have had potential delivery impacts due to COVID-19 and are working to manage those impacts. However, if we are not able to implement alternatives or other mitigations, deliveries and other milestones on affected programs could be adversely impacted.

Delays in inspection, acceptance and payment by our customers, many of whom are teleworking, could also affect our sales and cash flows. This is particularly an issue with respect to classified work that is unable to be done remotely. Limitations on government operations can also impact regulatory approvals such as export licenses that are needed for international sales and deliveries. In addition, we could experience delays in new program starts or awards of future work as well as the uncertain impact of contract modifications to respond to the national emergency. Current limitations on travel to customers could impact international orders. We have been granted some travel exemptions to allow us to continue certain activities but we have no assurance that they will continue or additional restrictions will not be imposed. If significant portions of our workforce are unable to work effectively, including because of illness, quarantines, absenteeism, government actions, facility closures, travel restrictions or other restrictions due to COVID-19, our operations will be impacted and this could create risks to the effectiveness of our internal controls. Additionally, we have not previously experienced such a significant portion of our workforce working remotely for a prolonged period, so its effects on our long-term operations are unknown. The impact of COVID-19 could worsen depending on the duration and spread of the COVID-19 outbreak or potential subsequent waves of COVID-19 infection in affected regions after they have begun to experience improvement.

Coronavirus-related costs for us and our suppliers are significant and we are seeking reimbursement of coronavirus-related costs under our U.S. Government contracts through a combination of equitable adjustments to the contract price and reimbursement of the costs under Section 3610 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which allows federal agencies to reimburse contractors at the minimum applicable contract billing rate for costs arising from certain paid leave, including sick leave, a contractor provides to keep its employees or subcontractors in a ready state, as well as to protect the life and safety of government and contractor personnel from March 27, 2020 through December 11, 2020. Reimbursement of any costs under Section 3610 of the CARES Act increases sales, but is not expected to be at a profit or fee and so would have the effect of reducing our margins in future periods. These cost increases, including costs for employees whose jobs cannot be performed remotely and for certain costs incurred prior to March 27, 2020, may not be fully recoverable under our contracts, particularly fixed-price contracts, or adequately covered by insurance. We also have no assurance that Congress will appropriate funds to cover the reimbursement of defense contractors authorized by the CARES Act, which could reduce funds available for other U.S. Government defense priorities.

The continued spread of COVID-19 has also led to disruption and volatility in the global capital markets, which depending on future developments could impact our capital resources and liquidity in the future. From time to time, we have used commercial paper backed by our revolving credit facility to manage the timing of cash flows. The commercial paper market was temporarily disrupted in March 2020 as a result of COVID-19, and while these markets are currently operating in a normal manner, depending on future market conditions and volatility, commercial paper may not be available on favorable terms or at all, or in the capacity desired. COVID-19 has also caused volatility in the equity capital markets and the investment returns on our pension assets. As described in Item 1A, Risk Factors of our Annual Report on Form 10-K, changes in returns on plan assets may affect our plan funding, cash flows and stockholders' equity. We are also monitoring the impacts of COVID-19 on the fair value of our assets. While we do not currently anticipate any material impairments on our assets as a result of COVID-19, future changes in expectations for sales, earnings and cash flows related to intangible assets and goodwill below our current projections could cause these assets to be impaired. As disclosed in Item 1A, Risk Factors of our Annual Report on Form 10-K, the carrying value and fair value of our Sikorsky reporting unit are closely aligned and any business deterioration, contract cancellations or terminations, or market pressures could cause our sales, earnings and cash flows to decline below our current projections and could cause goodwill and intangibles to be impaired.

Political issues and considerations, both in the U.S. and internationally, could have a significant effect on our business.

Our international business is highly sensitive to changes in regulations (including tariffs, sanctions, embargoes, export and import controls and other trade restrictions), political environments or security risks that may affect our ability to conduct business outside of the U.S., including those regarding investment, procurement, taxation and repatriation of earnings.

On July 14, 2020, the People's Republic of China (China) announced it may impose sanctions against Lockheed Martin in response to a recent Congressional Notification of the potential Foreign Military Sale of Repair and Recertification Patriot Advanced Capability-3 (PAC-3) Missiles to Taiwan. Foreign Military Sales are government-to-government transactions, and we work closely with the U.S. Government on any military sales to international customers. We will continue to follow official U.S. Government guidance as it relates to sales to Taiwan and do not see a material impact on Lockheed Martin sales at this time. China has not specified the nature of any such sanctions, but could seek to restrict our commercial sales or supply chain, including our supply of rare earth or other raw materials, and could also impose sanctions on our suppliers, teammates or partners. As further described in Item 1A, Risk Factors of our Annual Report on Form 10-K, we rely on other companies to provide materials, major components and products, and to perform a portion of the services that are provided to our customers, which involve risks, and some raw materials required for our products are largely controlled by a single country and, therefore, can be adversely affected by potential trade actions involving that country. The nature, timing and potential impact of any sanctions that may be imposed by China or any other related actions that may be taken cannot be determined at this time.

We continue to evaluate the potential effect of the United Kingdom's (UK) departure from the European Union (EU) (commonly referred to as Brexit) on our business operations and financial results. We anticipate that the most probable near-term effects are likely to reflect the pressure Brexit is placing on the UK government, which may influence the government's ability to make decisions on large complex programs of the type we perform. Brexit also may have adverse implications on the movement of products or sustainment activities between the UK and EU or may increase costs. Additionally, Brexit may impact the value of the pound sterling. If the pound sterling were to remain depressed against the U.S. dollar, this could negatively impact the ability of the UK government to afford our products and services. While we have operations in the UK and these operations have activity between the UK and the EU (e.g., sales, supply chain, or reliance on personnel), we currently do not anticipate that Brexit will have a material impact on our operations or our financial results. Additionally, our practice is to substantially hedge our transactional currency exposure and, therefore, we do not have material currency transaction exposure to the pound sterling or the euro.

International sales also may be affected by actions taken by the U.S. Government in the exercise of foreign policy, Congressional oversight or the financing of particular programs. For example, Congress may act to prevent or impose conditions upon the sale or delivery of our products, such as delays in obtaining Congressional approvals for exports requiring Congressional notification to the Kingdom of Saudi Arabia and Turkey and potential sanctions on those or other countries. Our international business also may be impacted by changes in foreign national priorities, foreign government budgets, global economic conditions, and fluctuations in foreign currency exchange rates. Sales of military products are also affected by defense budgets and U.S. foreign policy, including trade restrictions and disputes, and there could be significant delays or other issues in reaching definitive agreements for announced programs and international customer priorities could change. Additionally, the timing of orders from our international customers can be less predictable than for our U.S. customers and may lead to fluctuations in the amount reported each year for our international sales.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the quarter ended September 27, 2020.

The following table provides information about our repurchases of our common stock that is registered pursuant to Section 12 of the Securities Exchange Act of 1934 during the quarter ended September 27, 2020.

Period [a]	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [b]	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs [b]
				(in millions)
July 1, 2020 – July 26, 2020	163,514	$ 363.74	163,220	$ 1,711
July 27, 2020 – August 30, 2020	1,262	$ 386.62	—	$ 1,711
August 31, 2020 – September 27, 2020	161	$ 390.26	—	$ 3,011
Total[c]	164,937	$ 363.94	163,220	

(a) We close our books and records on the last Sunday of each month to align our financial closing with our business processes, except for the month of December, as our fiscal year ends on December 31. As a result, our fiscal months often differ from the calendar months. For example, July 26, 2020 was the last day of our July 2020 fiscal month.

(b) In October 2010, our Board of Directors approved a share repurchase program pursuant to which we are authorized to repurchase our common stock in privately negotiated transactions or in the open market at prices per share not exceeding the then-current market prices. From time to time, our Board of Directors authorizes increases to our share repurchase program. The total remaining authorization for future common share repurchases under our share repurchase program was $3.0 billion as of September 27, 2020, including a $1.3 billion increase to the program authorized by our Board of Directors on September 25, 2020. 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. This includes purchases pursuant to Rule 10b5-1 plans, including accelerated share repurchases. The program does not have an expiration date.

(c) During the quarter ended September 27, 2020, the total number of shares purchased included 1,717 shares that were transferred to us by employees in satisfaction of tax withholding obligations associated with the vesting of restricted stock units. These purchases were made pursuant to a separate authorization by our Board of Directors and are not included within the program.

ITEM 6. Exhibits

Exhibit No.	Description
10.1	Amendment No. 3 to Lockheed Martin Corporation Executive Severance Plan, as amended and restated effective December 1, 2016
10.2	Amendment to Outstanding Long-Term Incentive Performance and Performance Stock Unit Award Agreements
15	Acknowledgment of Independent Registered Public Accounting Firm
31.1	Certification of James D. Taiclet pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Kenneth R. Possenriede pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of James D. Taiclet and Kenneth R. Possenriede pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document contained in Exhibit 101

SIGNATURE

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

	Lockheed Martin Corporation (Registrant)
Date: October 22, 2020	By: /s/ Brian P. Colan Brian P. Colan Vice President and Controller (Duly Authorized Officer and Chief Accounting Officer)

Exhibit 10.1

LOCKHEED MARTIN CORPORATION
EXECUTIVE SEVERANCE PLAN
(As Amended and Restated Effective December 1, 2016)

Amendment No. 3

Lockheed Martin Corporation wishes to revise the Lockheed Martin Corporation Executive Severance Plan (the "Plan") to clarify the time by which an executed Release and PECA must be received by the Company with respect to Supplement Severance Benefits, effective as of the date this amendment is executed.

1. The first sentence of Section 5(b) of the Plan is amended and restated in its entirety to read as follows:

   The following Supplemental Severance Benefits are in addition to the Basic Severance Benefit and are available only to Eligible Employees who 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 ("Release"); and do not revoke any such Release within any revocation period provided for in the Release, and, (ii) except where prohibited under applicable law, a Post-Employment Conduct Agreement substantially in the form attached to the Plan as Exhibit A.1 (for Officers) or A.2 (for Eligible Employees who are not Officers) and as amended to reflect specific jurisdictional or other requirements ("PECA"); provided such Release and PECA are executed no earlier than the date of the Eligible Employee's Termination of Employment; and provided further that such executed Release and PECA are received by the Company by the later of (i) 45 days after they are provided to the Eligible Employee and (ii) the date of the Eligible Employee's Termination of Employment.

LOCKHEED MARTIN CORPORATION

By: /s/ Greg Karol
Greg Karol
Senior Vice President of Human Resources

Date: July 1, 2020

Exhibit 10.2

AMENDMENT TO OUTSTANDING LONG-TERM INCENTIVE PERFORMANCE AND PERFORMANCE STOCK UNIT AWARD AGREEMENTS UNDER THE LOCKHEED MARTIN CORPORATION 2011 INCENTIVE PERFORMANCE AWARD PLAN AND LOCKHEED MARTIN CORPORATION 2020 INCENTIVE PERFORMANCE AWARD PLAN

The Management Development and Compensation Committee (the “Committee”) of the Board of Directors of Lockheed Martin Corporation (the “Corporation”), as administrator of the Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (“2011 Plan”), and the Lockheed Martin Corporation 2020 Incentive Performance Award Plan (“2020 Plan” and, together with the 2011 Plan, the “Plans”), approved clarifying amendments to the terms of the outstanding, unvested long-term incentive performance awards and performance stock unit awards granted to employees under the Plans as set forth in the table below (each, an “Affected Agreement”). Effective as of September 14, 2020, each of the Affected Agreements shall be amended as provided for herein (this Amendment, the “Amendment”).

Affected Agreement	**Applicable Plan**
Long-Term Incentive Performance Award Agreement for the 2018 – 2020 Performance Period	2011 Plan
Performance Stock Unit Award Agreement for the 2018 – 2020 Performance Period	2011 Plan
Long-Term Incentive Performance Award Agreement for the 2019 – 2021 Performance Period	2011 Plan
Performance Stock Unit Award Agreement for the 2019 – 2021 Performance Period	2011 Plan
Long-Term Incentive Performance Award Agreement for the 2020 – 2022 Performance Period	2011 Plan
Performance Stock Unit Award Agreement for the 2020 – 2022 Performance Period	2011 Plan
Long-Term Incentive Performance Award Agreement for the 2020 – 2022 Performance Period	2020 Plan
Performance Stock Unit Award Agreement for the 2020 – 2022 Performance Period	2020 Plan

Capitalized terms used in this Amendment are defined in the 2011 Plan or 2020 Plan, as applicable, or the Affected Agreements.

1. ROIC Definition. The following is added to the end of Section 4.1(a) of each of the Affected Agreements:

Notwithstanding the foregoing, for purposes of defining ROIC herein, net income will be adjusted to exclude any non-cash settlement charge to earnings resulting solely from one or more risk transfer transactions to manage the Corporation’s pension liabilities that were not included in the applicable Long Range Plan, including any transactions involving the purchase of a group annuity contract for a portion of the Corporation’s outstanding defined benefit pension obligations that are treated as a settlement for accounting purposes.

2. Cash Flow Definition. The following is added to the end of Section 4.2(a) of each of the Affected Agreements:

Notwithstanding the foregoing, for purposes of defining Cash Flow herein, cash flow from operations will be adjusted to exclude the impact of any net increase or decrease to cash flow from operations during the Performance Period resulting from (i) the deferral of payroll taxes per Section 2302 of the Coronavirus Aid, Relief, and Economic Security Act of 2020, (ii) impacts to net progress invoice receipts per changes to Defense Federal Acquisition Regulation Supplement 232.501-1, as described in the Class Deviation issued by the U.S. Department of Defense in March 2020 (or any subsequent revisions), (iii) cash flow impacts due to accelerated payments to suppliers directly related to neutralizing (i) and (ii) above during any Performance Period, and (iv) any other relief, support, stimulus, assistance or other program provided by any U.S. governmental authority solely and directly in response to the COVID-19 pandemic (and any evolutions thereof) on or after the date hereof that creates a material cash flow impact on the business similar in nature to the items described in (i) and (ii) above.

3. In all other respects, the Affected Agreements will remain unchanged.

4. This Amendment is subject to the terms of the applicable Plan, and the applicable Plan is hereby incorporated by reference.

5. Please acknowledge receipt and consent to this Amendment by completing the electronic receipt on the Stock Plan System at http://www.stockplanconnect.com. Regardless of whether the Participant provides consent, this Amendment will be deemed automatically effective except in circumstances where the Amendment is determined to require the consent of any Participant under Section 9 of the Affected Agreements, in which case this Amendment shall only apply to an Affected Agreement with a Participant if consented to using the Stock Plan System.

Exhibit 15

Acknowledgment of
Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Lockheed Martin Corporation

We are aware of the incorporation by reference of our report dated October 22, 2020, relating to the unaudited consolidated interim financial statements of Lockheed Martin Corporation that is included in its Form 10-Q for the quarter ended September 27, 2020, in the following Registration Statements of Lockheed Martin Corporation:

- 333-92363 on Form S-8, dated December 8, 1999;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-155684 on Form S-8, dated November 25, 2008 and August 23, 2011 (Post-Effective Amendment No. 1);
- 333-155687 on Form S-8, dated November 25, 2008;
- 333-176440 on Form S-8, dated August 23, 2011 and April 24, 2020 (Post-Effective Amendment No. 1);
- 333-188118 on Form S-8, dated April 25, 2013;
- 333-195466 on Form S-8, dated April 24, 2014, July 23, 2014 (Post-Effective Amendment No.1) and April 24, 2020 (Post-Effective Amendment No. 2);
- 333-237829, 333-237831, and 333-237832 on Form S-8, each dated April 24, 2020;
- 333-237834 on Form S-3, dated April 24, 2020; and
- 333-237836 on Form S-3, dated April 24, 2020.

/s/ Ernst & Young LLP

Tysons, Virginia
October 22, 2020

Exhibit 31.1

CERTIFICATION OF JAMES D. TAICLET PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James D. Taiclet, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lockheed Martin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying 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 have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying 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/ James D. Taiclet
James D. Taiclet
Chief Executive Officer

Date: October 22, 2020

Exhibit 31.2

CERTIFICATION OF KENNETH R. POSSENRIEDE PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth R. Possenriede, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lockheed Martin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying 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 have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying 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/ Kenneth R. Possenriede
Kenneth R. Possenriede
Chief Financial Officer

Date: October 22, 2020

Exhibit 32

CERTIFICATION OF JAMES D. TAICLET AND KENNETH R. POSSENRIEDE PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lockheed Martin Corporation (the “Corporation”) on Form 10-Q for the quarter ended September 27, 2020, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, James D. Taiclet, Chief Executive Officer of the Corporation, and I, Kenneth R. Possenriede, 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/ James D. Taiclet
James D. Taiclet
Chief Executive Officer

/s/ Kenneth R. Possenriede
Kenneth R. Possenriede
Chief Financial Officer

Date: October 22, 2020