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

FORM 10-Q

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

For the quarterly period ended March 26, 2017

Commission File Number: 1-11437

LOCKHEED MARTIN CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1893632

(I.R.S. Employer Identification Number)

6801 Rockledge Drive, Bethesda, Maryland

(Address of principal executive offices)

20817

(Zip Code)

(301) 897-6000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 289,443,053 shares of our common stock, \$1 par value per share, outstanding as of March 26, 2017.

Lockheed Martin Corporation
Form 10-Q
For the Quarterly Period Ended March 26, 2017
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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	
	March 26, 2017	March 27, 2016
Net sales		
Products	\$ 9,513	\$ 8,752
Services	1,544	1,616
Total net sales	11,057	10,368
Cost of sales		
Products	(8,687)	(7,887)
Services	(1,376)	(1,437)
Severance charges	—	(80)
Other unallocated, net	159	131
Total cost of sales	(9,904)	(9,273)
Gross profit	1,153	1,095
Other (expense) income, net	(4)	63
Operating profit	1,149	1,158
Interest expense	(155)	(165)
Other non-operating income, net	1	1
Earnings from continuing operations before income taxes	995	994
Income tax expense	(232)	(188)
Net earnings from continuing operations	763	806
Net earnings from discontinued operations	—	92
Net earnings	\$ 763	\$ 898
Earnings per common share		
Basic		
Continuing operations	\$ 2.63	\$ 2.65
Discontinued operations	—	0.30
Basic earnings per common share	\$ 2.63	\$ 2.95
Diluted		
Continuing operations	\$ 2.61	\$ 2.61
Discontinued operations	—	0.30
Diluted earnings per common share	\$ 2.61	\$ 2.91
Cash dividends paid per common share	\$ 1.82	\$ 1.65

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	
	March 26, 2017	March 27, 2016
Net earnings	\$ 763	\$ 898
Other comprehensive income, net of tax		
Postretirement benefit plans		
Amounts reclassified from other comprehensive loss	202	173
Other comprehensive gain recognized during the period	3	—
Other, net	5	17
Other comprehensive income, net of tax	210	190
Comprehensive income	\$ 973	\$ 1,088

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

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

	March 26, 2017	December 31, 2016
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 2,216	\$ 1,837
Receivables, net	8,869	8,202
Inventories, net	5,074	4,670
Other current assets	427	399
Total current assets	16,586	15,108
Property, plant and equipment, net	5,481	5,549
Goodwill	10,773	10,764
Intangible assets, net	4,019	4,093
Deferred income taxes	6,489	6,625
Other noncurrent assets	5,488	5,667
Total assets	\$ 48,836	\$ 47,806
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 2,718	\$ 1,653
Customer advances and amounts in excess of costs incurred	6,572	6,776
Salaries, benefits and payroll taxes	1,647	1,764
Other current liabilities	2,660	2,349
Total current liabilities	13,597	12,542
Long-term debt, net	14,276	14,282
Accrued pension liabilities	13,908	13,855
Other postretirement benefit liabilities	861	862
Other noncurrent liabilities	4,609	4,659
Total liabilities	47,251	46,200
Stockholders' equity		
Common stock, \$1 par value per share	288	289
Additional paid-in capital	—	—
Retained earnings	13,087	13,324
Accumulated other comprehensive loss	(11,892)	(12,102)
Total stockholders' equity	1,483	1,511
Noncontrolling interests in subsidiary	102	95
Total equity	1,585	1,606
Total liabilities and equity	\$ 48,836	\$ 47,806

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

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Operating activities		
Net earnings	\$ 763	\$ 898
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	285	296
Stock-based compensation	44	44
Severance charges	—	99
Changes in assets and liabilities		
Receivables, net	(667)	(558)
Inventories, net	(404)	(310)
Accounts payable	1,111	751
Customer advances and amounts in excess of costs incurred	(204)	(146)
Postretirement benefit plans	345	246
Income taxes	175	225
Other, net	218	122
Net cash provided by operating activities	1,666	1,667
Investing activities		
Capital expenditures	(170)	(151)
Other, net	4	4
Net cash used for investing activities	(166)	(147)
Financing activities		
Repurchases of common stock	(500)	(501)
Dividends paid	(544)	(533)
Proceeds from stock option exercises	31	28
Other, net	(108)	(152)
Net cash used for financing activities	(1,121)	(1,158)
Net change in cash and cash equivalents	379	362
Cash and cash equivalents at beginning of period	1,837	1,090
Cash and cash equivalents at end of period	\$ 2,216	\$ 1,452

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

Lockheed Martin Corporation
Consolidated Statements of Equity
(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, 2016	\$ 289	\$ —	\$ 13,324	\$ (12,102)	\$ 1,511	\$ 95	\$ 1,606
Net earnings	—	—	763	—	763	—	763
Other comprehensive income, net of tax	—	—	—	210	210	—	210
Repurchases of common stock	(2)	(29)	(469)	—	(500)	—	(500)
Dividends declared	—	—	(531)	—	(531)	—	(531)
Stock-based awards and ESOP activity	1	29	—	—	30	—	30
Increase in noncontrolling interests in subsidiary	—	—	—	—	—	7	7
Balance at March 26, 2017	\$ 288	\$ —	\$ 13,087	\$ (11,892)	\$ 1,483	\$ 102	\$ 1,585
Balance at December 31, 2015	\$ 303	\$ —	\$ 14,238	\$ (11,444)	\$ 3,097	\$ —	\$ 3,097
Net earnings	—	—	898	—	898	—	898
Other comprehensive income, net of tax	—	—	—	190	190	—	190
Repurchases of common stock	(2)	(3)	(496)	—	(501)	—	(501)
Dividends declared	—	—	(512)	—	(512)	—	(512)
Stock-based awards and ESOP activity	2	3	—	—	5	—	5
Balance at March 27, 2016	\$ 303	\$ —	\$ 14,128	\$ (11,254)	\$ 3,177	\$ —	\$ 3,177

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

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited)

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. We followed the accounting policies disclosed in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K) filed with the SEC.

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, environmental receivables and liabilities, evaluation of goodwill 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 March 26 for the first quarter of 2017 and March 27 for the first quarter of 2016, 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.

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 2016 Form 10-K.

In the second quarter of 2016, we adopted a new accounting standard that changed the accounting for certain aspects of employee equity awards, including the classification of tax benefits or expenses upon vesting. As a result, we adjusted our results for the first quarter of 2016 to recognize additional income tax benefits of \$104 million (\$0.34 per share) as an increase to net earnings from continuing operations and cash from operating activities.

On August 16, 2016, we completed the divestiture of our Information Systems & Global Solutions (IS&GS) business, which merged with a subsidiary of Leidos Holdings, Inc. (Leidos) in a Reverse Morris Trust transaction. Accordingly, the operating results of the IS&GS business for the quarter ended March 27, 2016 have been classified as discontinued operations in the consolidated statements of earnings. However, the cash flows of the IS&GS business for the quarter ended March 27, 2016 have not been reclassified in our consolidated statements of cash flows as we retained the cash as part of the transaction. See "Note 3 – Divestitures" for additional information about the divestiture of the IS&GS business.

On August 24, 2016, we increased our ownership interest in the AWE Management Limited (AWE) venture, which operates the United Kingdom's nuclear deterrent program, by 18% to 51%. Consequently, our operating results for the first quarter of 2017 include 100% of AWE's sales and 51% of their operating profit. Prior to increasing our ownership interest, we accounted for our investment in AWE using the equity method of accounting. Under the equity method, we only recognized our share, or 33% of AWE's earnings or losses. Accordingly, our operating results for the first quarter of 2016 do not include any sales generated by AWE and only 33% of AWE's net earnings.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

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	
	March 26, 2017	March 27, 2016
Weighted average common shares outstanding for basic computations	290.0	304.5
Weighted average dilutive effect of equity awards	2.8	4.2
Weighted average common shares outstanding for diluted computations	292.8	308.7

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 and exercise of outstanding stock options based on the treasury stock method. There were no significant anti-dilutive equity awards during the quarters ended March 26, 2017 or March 27, 2016.

NOTE 3 – DIVESTITURES**Divestiture of the Information Systems & Global Solutions Business**

On August 16, 2016, we completed the divestiture of our IS&GS business, which merged with a subsidiary of Leidos in a Reverse Morris Trust transaction (the "Transaction"). The Transaction was completed in a multi-step process pursuant to which we initially contributed the IS&GS business to Abacus Innovations Corporation (Abacus), a wholly-owned subsidiary of Lockheed Martin created to facilitate the Transaction, and the common stock of Abacus was distributed to participating Lockheed Martin stockholders through an exchange offer. Under the terms of the exchange offer, Lockheed Martin stockholders had the option to exchange shares of Lockheed Martin common stock for shares of Abacus common stock. At the conclusion of the exchange offer, all shares of Abacus common stock were exchanged for 9,369,694 shares of Lockheed Martin common stock held by Lockheed Martin stockholders that elected to participate in the exchange. The shares of Lockheed Martin common stock that were exchanged and accepted were retired, reducing the number of shares of our common stock outstanding by approximately 3%. Following the exchange offer, Abacus merged with a subsidiary of Leidos, with Abacus continuing as the surviving corporation and a wholly-owned subsidiary of Leidos.

As a result of the Transaction, we recognized a net gain of approximately \$1.2 billion in the third quarter of 2016. The net gain represents the \$2.5 billion fair value of the shares of Lockheed Martin common stock exchanged and retired as part of the exchange offer, plus a \$1.8 billion one-time special cash payment received from Abacus, less the net book value of the IS&GS business of about \$3.0 billion at August 16, 2016 and other adjustments of about \$100 million. The final gain is subject to certain post-closing adjustments, including final working capital, indemnification, and tax adjustments, which we expect to complete in 2017.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

The operating results of the IS&GS business for the quarter ended March 27, 2016 that have been reflected within net earnings from discontinued operations are as follows (in millions):

Net sales	\$ 1,334
Cost of sales	(1,175)
Severance charges	(19)
Gross profit	140
Other expense, net	(1)
Operating profit	139
Interest income	1
Earnings from discontinued operations before income taxes	140
Income tax expense	(48)
Net earnings from discontinued operations	\$ 92

The operating results of the IS&GS business reported as discontinued operations for the quarter ended March 27, 2016 are different than results previously reported for the IS&GS business segment. Results reported within net earnings from discontinued operations only include costs that were directly attributable to the IS&GS business and exclude general corporate overhead costs that were previously allocated to the IS&GS business. Certain general corporate overhead costs incurred by us and historically allocated to the IS&GS business in the first quarter of 2016 were not directly attributable to the IS&GS business. As a result, we reclassified these costs from the IS&GS business to other unallocated, net in our consolidated statement of earnings. During the quarter ended March 27, 2016, we reclassified \$35 million of general corporate overhead costs to other unallocated, net.

Additionally, we retained all assets and obligations related to the pension benefits earned by former IS&GS business salaried employees through the date of divestiture of the IS&GS business. As a result, the non-service portion of net pension costs (interest cost, actuarial gains and losses and expected return on plan assets) for these plans was reclassified from the operating results of the IS&GS business segment and reported as a reduction to the FAS/CAS pension adjustment. These net costs were \$22 million in the first quarter of 2016. The service portion of pension costs related to the IS&GS business's salaried employees that transferred to Leidos continue to be included in the operating results of the IS&GS business classified as discontinued operations because such costs will no longer be incurred by us.

Financial information related to the IS&GS business's cash flows, such as depreciation and amortization, capital expenditures, and other non-cash items included in our consolidated statements of cash flows for the quarter ended March 27, 2016 were not significant.

NOTE 4 – INFORMATION ON BUSINESS SEGMENTS

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

The financial information in the following tables excludes businesses included in discontinued operations for all periods presented and includes the results of businesses we have acquired from their respective acquisition dates (see "Note 3 – Divestitures"). Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation.

Operating profit of our business segments 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. United Launch Alliance (ULA), which is part of our Space Systems business segment, is our primary equity method investee. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to goodwill impairments

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

and significant severance actions; gains or losses from divestitures; the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item “unallocated items” between operating profit from our business segments and our consolidated operating profit. See “Note 9 – Other” (under the caption “Changes in Estimates”) for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

Our business segments’ results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension cost through the pricing of our products and services on U.S. Government contracts and, therefore, the CAS pension cost is recognized in each of our business segments’ net sales and cost of sales. Since our consolidated financial statements must present pension expense calculated in accordance with the financial accounting standards (FAS) requirements under GAAP, which we refer to as FAS pension expense, the FAS/CAS pension adjustment increases or decreases the CAS pension cost recorded in our business segments’ results of operations to equal the FAS pension expense.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales		
Aeronautics	\$ 4,106	\$ 3,799
Missiles and Fire Control	1,489	1,434
Rotary and Mission Systems	3,101	3,004
Space Systems	2,361	2,131
Total net sales	\$ 11,057	\$ 10,368
Operating profit		
Aeronautics	\$ 436	\$ 420
Missiles and Fire Control	219	221
Rotary and Mission Systems	108	229
Space Systems	288	244
Total business segment operating profit	1,051	1,114
Unallocated items		
FAS/CAS pension adjustment		
FAS pension expense	(345)	(251)
Less: CAS pension cost	562	475
FAS/CAS pension adjustment	217	224
Stock-based compensation	(44)	(44)
Severance charges	—	(80)
Other, net (a) (b)	(75)	(56)
Total unallocated items	98	44
Total consolidated operating profit	\$ 1,149	\$ 1,158
Intersegment sales		
Aeronautics	\$ 32	\$ 36
Missiles and Fire Control	64	75
Rotary and Mission Systems	439	447
Space Systems	26	33
Total intersegment sales	\$ 561	\$ 591

- (a) In the first quarter of 2017, we recognized a \$64 million charge, which represents our portion of a noncash asset impairment charge recorded by an international equity method investee. See "Note 9 – Other" (under the caption "Equity Method Investee Impairment") for more information.
- (b) As a result of the IS&GS divestiture in August 2016, we reclassified \$35 million of general corporate overhead costs incurred in the first quarter of 2016 and previously allocated to the IS&GS business segment. These costs were not reported as discontinued operations because they were not directly attributable to the IS&GS business and will continue to be incurred by us. See "Note 3 – Divestitures" for more information.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

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

	March 26, 2017	December 31, 2016
Assets		
Aeronautics	\$ 7,900	\$ 7,896
Missiles and Fire Control	4,322	4,000
Rotary and Mission Systems	18,435	18,367
Space Systems	5,545	5,250
Total business segment assets	36,202	35,513
Corporate assets (a)	12,634	12,293
Total assets	\$ 48,836	\$ 47,806

(a) Corporate assets primarily include cash and cash equivalents, deferred income taxes, environmental receivables and investments held in a separate trust to fund certain of our non-qualified deferred compensation plans.

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 24% and 22% of our total consolidated net sales in the quarters ended March 26, 2017 and March 27, 2016, respectively.

NOTE 5 – INVENTORIES, NET

Inventories, net consisted of the following (in millions):

	March 26, 2017	December 31, 2016
Work-in-process, primarily related to long-term contracts and programs in progress	\$ 8,090	\$ 7,864
Spare parts, used aircraft and general stock materials	785	833
Other inventories	819	719
Total inventories	9,694	9,416
Less: customer advances and progress payments	(4,620)	(4,746)
Total inventories, net	\$ 5,074	\$ 4,670

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 6 – POSTRETIREMENT PLANS

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Qualified defined benefit pension plans		
Service cost	\$ 205	\$ 203
Interest cost	452	465
Expected return on plan assets	(602)	(667)
Recognized net actuarial losses	376	340
Amortization of net prior service credits	(86)	(90)
Total net periodic benefit cost	\$ 345	\$ 251
Retiree medical and life insurance plans		
Service cost	\$ 5	\$ 6
Interest cost	26	30
Expected return on plan assets	(32)	(34)
Recognized net actuarial losses	5	8
Amortization of net prior service costs	3	5
Total net periodic benefit cost	\$ 7	\$ 15

The recognized net actuarial losses and the amortization of net prior service (credits) costs in the table above, as well as similar amounts related to our other postretirement benefit plans (\$14 million during the quarter ended March 26, 2017 and \$11 million during the quarter ended March 27, 2016), include amounts that were reclassified from accumulated other comprehensive loss (AOCL) and recorded as a component of net periodic benefit cost for the periods presented. These costs totaled \$202 million (net of \$110 million of taxes) during the quarter ended March 26, 2017 and \$173 million (net of \$95 million of taxes) during the quarter ended March 27, 2016, which were recorded on our consolidated statements of comprehensive income as an increase to other comprehensive income.

The 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), and in a manner consistent with CAS and Internal Revenue Code rules. There were no material contributions to our qualified defined benefit pension plans during the quarters ended March 26, 2017 and March 27, 2016. We do not plan to make material contributions to our pension plans in 2017 because none are required using current assumptions, including anticipated investment returns on plan assets.

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 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, 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.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

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, we assumed the defense of and any potential liability for the following civil False Claims Act lawsuit. In October 2014, the U.S. Government filed a complaint in the U.S. District Court for the Eastern District of Wisconsin alleging that Sikorsky and two of its wholly-owned subsidiaries, Derco Aerospace (Derco) and Sikorsky Support Services, Inc. (SSSI), violated the civil False Claims Act in connection with a contract that 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 the spare parts for the training aircraft. The Government alleges that SSSI overbilled the Navy on the contract because Derco added profit and overhead costs to the price of the spare parts that Derco procured and then sold to SSSI. The Government also claims that SSSI submitted false Certificates of Final Indirect Costs in the years 2006 through 2012. The Government's complaint asserts numerous claims for violations of the False Claims Act, breach of contract and unjust enrichment.

On March 16, 2017, the Government filed a notice of partial intervention in a lawsuit also pending in the U.S. District Court for the Eastern District of Wisconsin brought by *qui tam* relator Peter Cimma, a former SSSI employee. The Government has requested additional time to file an amended complaint, which we expect during the second quarter of 2017. Like the Government's complaint in the above-referenced action, the Cimma complaint contains allegations relating to Derco's and SSSI's pricing on the Navy's T-34 and T-44 program. The Government declined to intervene in Cimma's allegations against Sikorsky.

The Government currently seeks damages in these lawsuits of approximately \$52 million, subject to trebling, plus statutory penalties. This number could change based on the allegations the Government advances in its amended complaint. We believe that we have legal and factual defenses to the Government's 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 Government prevails in this matter and proves damages at the high end of the range sought and is successful in having these 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 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 cost 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. At this time, we are awaiting a decision from the District Court. Although this matter relates to the IS&GS business, we retained it when IS&GS was divested.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Environmental Matters

We are involved in proceedings and potential proceedings relating to soil, sediment, surface water and groundwater contamination, disposal of hazardous waste and other environmental matters at several of our current or former facilities or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continually evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, our history of receiving reimbursement of such costs, and recent efforts by some U.S. Government representatives to limit such reimbursement. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to not be recoverable under U.S. Government contracts, in our cost of sales at the time the liability is established.

At March 26, 2017 and December 31, 2016, the aggregate amount of liabilities recorded relative to environmental matters was \$978 million and \$1.0 billion, most of which are recorded in other noncurrent liabilities on our consolidated balance sheets. We have recorded receivables totaling \$842 million and \$870 million at March 26, 2017 and December 31, 2016, 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. There are a number of former and present operating facilities that we are monitoring or investigating 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 record a liability when it is probable that a loss has occurred 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 reasonably cannot 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 loss or reasonably possible loss or range of loss.

We also pursue claims for recovery of costs incurred or contribution to site cleanup 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 our Burbank and Glendale, California, sites, our Redlands, Beaumont 1, and Beaumont 2, California, sites, and our Great Neck, New York, site, the U.S. Government reimburses us an amount equal to a percentage, specific to each site, of expenditures for certain remediation activities in the U.S. Government's capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

The current standard in California for the maximum level of the contaminant hexavalent chromium in drinking water is 10 parts per billion (ppb). This standard is being challenged by the California Manufacturers and Technology Association (CMTA) as being lower than is required to protect public health. If the standard remains at 10 ppb, it will not have a material impact on our existing remediation costs in California. The U.S. Environmental Protection Agency (U.S. EPA) is considering whether to regulate hexavalent chromium.

In addition, California is reevaluating its existing drinking water standard of 6 ppb for perchlorate, and the U.S. EPA is taking steps to regulate perchlorate in drinking water. If substantially lower standards are adopted, in either California or at the federal level for perchlorate or for hexavalent chromium, we expect a material increase

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to not 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.

Letters of Credit, Surety Bonds and Third-Party Guarantees

We have entered into standby letters of credit, surety bonds and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as venture partners. We had total outstanding letters of credit, surety bonds and third-party guarantees aggregating \$3.7 billion at both March 26, 2017 and December 31, 2016. Third-party guarantees do not include guarantees of subsidiaries and other consolidated entities.

At March 26, 2017 and December 31, 2016, third-party guarantees totaled \$694 million and \$709 million, of which approximately 58% and 56% related to guarantees of contractual performance of ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a venture partner. We believe our current and former venture partners will be able to perform their obligations, as they have done through March 26, 2017, and that it will not be necessary to make payments under the third-party guarantees. In determining our exposures, we evaluate the reputation, technical capabilities and credit quality of our current and former venture partners. There were no material amounts recorded in our consolidated financial statements related to third-party guarantees.

United Launch Alliance

In connection with our 50% ownership interest of ULA, we and The Boeing Company (Boeing) are required to provide ULA an additional capital contribution if ULA is unable to make required payments under its inventory supply agreement with Boeing. As of March 26, 2017, ULA's total remaining obligation to Boeing under the inventory supply agreement was \$120 million. The parties have agreed to defer the remaining payment obligation, as it is more than offset by other commitments to ULA. Accordingly, we do not expect to be required to make a capital contribution to ULA under this agreement.

In addition, both we and Boeing have cross-indemnified each other for guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through March 26, 2017, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

NOTE 8 – FAIR VALUE MEASUREMENTS

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

	March 26, 2017			December 31, 2016		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Equity securities	\$ 68	\$ 68	\$ —	\$ 79	\$ 79	\$ —
Mutual funds	845	845	—	856	856	—
U.S. Government securities	104	—	104	113	—	113
Other securities	166	—	166	151	—	151
Derivatives	23	—	23	27	—	27
Liabilities						
Derivatives	106	—	106	85	—	85
Assets measured at NAV						
Other commingled funds	18			—		

Substantially all assets measured at fair value, other than derivatives, represent investments classified as trading securities held in a separate trust to fund certain of our non-qualified deferred compensation plans and are recorded in other noncurrent assets on our consolidated balance sheets. The fair values of equity securities and mutual funds are determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair values of U.S. Government and other securities are determined using 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 exchange forward and interest rate swap contracts, primarily are determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates, credit spreads and foreign currency exchange rates. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the quarter ended March 26, 2017.

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. 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 at both March 26, 2017 and December 31, 2016 was \$1.2 billion and the fair value was a net liability of approximately \$5 million and \$1 million at March 26, 2017 and December 31, 2016. The aggregate notional amount of our outstanding foreign currency hedges at March 26, 2017 and December 31, 2016 was \$4.2 billion and \$4.0 billion and the fair value was a net liability of approximately \$78 million and \$57 million at March 26, 2017 and December 31, 2016. Derivative instruments did not have a material impact on net earnings and comprehensive income during the quarters ended March 26, 2017 and March 27, 2016, respectively. Substantially all of our derivatives are designated for hedge accounting.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

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 \$16.1 billion and \$16.2 billion at March 26, 2017 and December 31, 2016. The outstanding principal amount was \$15.3 billion, excluding unamortized discounts and issuance costs of \$1.0 billion at both March 26, 2017 and December 31, 2016. The estimated fair values of our outstanding debt were determined based on quoted prices for similar instruments in active markets (Level 2).

NOTE 9 – OTHER

Changes in Estimates

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

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and 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.

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 accounted for using the percentage-of-completion method of accounting. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs 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 complete 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 margins may also be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters, cost recoveries on 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; asset impairments; and losses on sales of assets.

As previously disclosed, we have a program to design, integrate, and install an air missile defense command, control, communications, computers – intelligence (C4I) systems for an international customer that has experienced performance matters and for which we have periodically accrued reserves. During the quarter ended March 26, 2017, we revised our estimated costs to complete the program, EADGE-T, as a consequence of ongoing performance matters and recorded an additional charge of \$120 million (\$74 million or \$0.25 per share, after tax) at the RMS business segment. As of March 26, 2017, we have recorded cumulative losses, including reserves, of approximately \$260 million on this program. We are continuing to monitor the viability of the program

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

and the available options and could record additional charges in future periods. However, based on the reserves already accrued and our current estimate of the costs to complete the program, at this time we do not anticipate that additional charges, if any, would be material.

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters, net of state income taxes, increased segment operating profit by approximately \$290 million and \$360 million in the quarters ended March 26, 2017 and March 27, 2016, respectively. These adjustments increased net earnings by approximately \$189 million (\$0.65 per share) and \$234 million (\$0.76 per share) in the quarters ended March 26, 2017 and March 27, 2016, respectively.

Restructuring Charges

During the quarter ended March 27, 2016, we recorded severance charges totaling approximately \$80 million related to our Aeronautics business segment. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees received lump-sum severance payments primarily based on years of service. As of March 26, 2017, we have substantially fulfilled our severance obligation associated with these actions.

Equity Method Investee Impairment

During the quarter ended March 26, 2017, equity earnings included our portion of a noncash asset impairment charge related to certain long-lived assets held by an international equity method investee of approximately \$64 million (\$40 million or \$0.14 per share, after tax), which was recorded at our corporate office. We are continuing to monitor our investment in this equity method investee. It is possible that we may have to record our portion of additional charges should their business continue to experience performance issues, which could adversely affect our business, financial condition and results of operations.

Income Taxes

Our effective income tax rates were 23.3% and 18.9% during the quarters ended March 26, 2017 and March 27, 2016, respectively. The rates for both periods benefited from tax deductions for U.S. manufacturing activities, dividends paid to our defined contribution plans with an employee stock ownership plan feature, tax benefits of employee equity awards, and the research and development tax credit. The tax benefits of employee equity awards reduced our effective tax rate for the quarters ended March 26, 2017 and March 27, 2016 by 6.2 and 10.4 percentage points, respectively.

Stockholders' Equity

Repurchases of Common Stock

During the quarter ended March 26, 2017, we repurchased 1.9 million shares of our common stock for \$500 million. The total remaining authorization for future common share repurchases under our share repurchase program was \$3.0 billion as of March 26, 2017. 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. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess purchase price over par value of \$469 million and \$496 million recorded as a reduction of retained earnings during the quarters ended March 26, 2017 and March 27, 2016, respectively.

Dividends

We declared cash dividends totaling \$531 million (\$1.82 per share) and \$512 million (\$1.65 per share) during the quarters ended March 26, 2017 and March 27, 2016, respectively. Dividends paid during the quarters ended March 26, 2017 and March 27, 2016 are higher than dividends declared due to dividends paid to holders of restricted stock units (RSUs) upon vesting of the RSU. These dividends are accrued through the RSU vesting period and are paid upon the vesting of the RSU.

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

Restricted Stock Unit Grants

During the quarter ended March 26, 2017, we granted certain employees approximately 0.5 million RSUs with a grant-date fair value of \$254.53 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, 2016	\$ (11,981)	\$ (121)	\$ (12,102)
Other comprehensive income before reclassifications	3	4	7
Amounts reclassified from AOCL			
Recognition of net actuarial losses (a)	258	—	258
Amortization of net prior service credits (a)	(56)	—	(56)
Other	—	1	1
Total reclassified from AOCL	202	1	203
Total other comprehensive income	205	5	210
Balance at March 26, 2017	\$ (11,776)	\$ (116)	\$ (11,892)
Balance at December 31, 2015	\$ (11,314)	\$ (130)	\$ (11,444)
Other comprehensive income before reclassifications	—	15	15
Amounts reclassified from AOCL			
Recognition of net actuarial losses (a)	234	—	234
Amortization of net prior service credits (a)	(61)	—	(61)
Other	—	2	2
Total reclassified from AOCL	173	2	175
Total other comprehensive income	173	17	190
Balance at March 27, 2016	\$ (11,141)	\$ (113)	\$ (11,254)

(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 Plans").

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended (*Topic 606*) (the ASU), which will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of the ASU to 2018 for public companies, with an option that would permit companies to adopt the ASU in 2017. Further amendments and technical corrections were made to the ASU during 2016. This ASU may be adopted using the full retrospective method, whereby the ASU would be applied to each prior year presented and the cumulative effect of applying the ASU would be recognized at the beginning of the earliest year presented or the modified retrospective method, whereby the cumulative effect of applying the ASU would be recognized at the beginning of the year of adoption. We will adopt the requirements of the new standard effective January 1, 2018 using the full retrospective transition method.

As the ASU will supersede substantially all existing revenue guidance affecting us under GAAP, it could impact revenue and cost recognition on thousands of contracts across all of our business segments, as well as

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

our business processes and our information technology systems. As a result, our evaluation of the effect of the ASU will extend through 2017. We have closely monitored the standard setting process, including amendments and technical corrections to the ASU following its issuance in May 2014 and participated in aerospace and defense forums to understand the impact of the ASU on our industry.

We commenced our evaluation of the impact of the ASU in late 2014, by evaluating its impact on selected contracts at each of our business segments. With this baseline understanding, we developed a project plan to evaluate thousands of contracts across our business segments, develop processes and tools to dual report financial results under both GAAP and the ASU and assess the internal control structure in order to adopt the ASU on January 1, 2018. We have periodically briefed our Audit Committee on our progress made towards adoption. Based on our evaluation to date, we anticipate being able to estimate the impacts of adopting the ASU in the second half of 2017.

We recognize the majority of our revenue using the percentage-of-completion method of accounting, whereby revenue is recognized as we progress on the contract. For contracts with a significant amount of development and/or requiring the delivery of a minimal number of units, revenue and profit is recognized using the percentage-of-completion cost-to-cost method to measure progress. For example, we use this method in Aeronautics for the F-35 program; in MFC for the THAAD program; in RMS for the Littoral Combat Ship and Aegis Combat System programs; and in Space Systems for government satellite programs. For contracts that require us to produce a substantial number of similar items without a significant level of development, we record revenue and profit using the percentage-of-completion units-of-delivery method as the basis for measuring progress on the contract. For example, we use this method in Aeronautics for the C-130J and C-5 programs; in MFC for tactical missile programs (e.g., Hellfire, JASSM), PAC-3 programs and fire control programs (e.g., LANTIRN®, Sniper®); in RMS for Black Hawk and Seahawk helicopter programs; and in Space Systems for commercial satellite programs. For contracts to provide services to the U.S. Government, revenue is generally recorded using the percentage-of-completion cost-to-cost method.

Under the ASU, revenue will be recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). Given the nature of our products and terms and conditions in our contracts, in particular those with the U. S. Government (including foreign military sales (FMS) contracts), the customer obtains control as we perform work under the contract. Therefore, we expect to recognize revenue over time for almost all of our contracts using a method similar to our current percentage-of-completion cost-to-cost method. Accordingly, adoption of the ASU will primarily impact our contracts where revenue is currently recognized using the percentage-of-completion units-of-delivery method, with the resulting impact being revenue will be recognized earlier in the performance period as we incur costs, as opposed to when units are delivered. This change will also impact our backlog and balance sheet presentation with an expected decrease in inventories, an increase in contract assets (i.e., unbilled receivables) and a net increase to retained earnings to primarily reflect the impact of converting contracts currently applying the units-of-delivery method to the cost-to-cost method for recognizing revenue and profits.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715)*, which amends the requirements in Accounting Standards Codification (ASC) 715 related to the income statement presentation of the components of net periodic benefit cost for our defined benefit pension and other postretirement plans. The new standard requires that we disaggregate the current service cost component from the other components of net periodic benefit cost and present it with other compensation costs (currently included within cost of sales) within operating profit. All other components of net periodic benefit cost are to be presented outside of operating profit. In addition, only the service cost component of net periodic benefit cost is eligible for capitalization in assets. The new standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the expected impact to related disclosures, including the FAS/CAS adjustment. We plan to adopt the requirements of the new standard January 1, 2018 using a retrospective transition method to adopt the requirement for separate presentation in the income statement of service cost and other components, and a prospective transition method to adopt the requirement to limit capitalization to the service cost component.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350)*, which eliminates Step 2 from the current goodwill impairment test. The new standard does not change how a goodwill

Lockheed Martin Corporation
Notes to Consolidated Financial Statements (unaudited) (continued)

impairment is identified. We will continue to perform our quantitative goodwill impairment test by comparing the fair value of each reporting unit to its carrying amount, but if we are required to recognize a goodwill impairment charge, under the new standard the amount of the charge will be calculated by subtracting the reporting unit's fair value from its carrying amount. Under the current standard, if we are required to recognize a goodwill impairment charge, Step 2 requires us to calculate the implied value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination and the amount of the charge is calculated by subtracting the reporting unit's implied fair value of goodwill from its actual goodwill balance. The standard should be applied prospectively from the date of adoption. We are currently evaluating when we will adopt the ASU and the expected impact to related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements for both lessees and lessors. The ASU is effective January 1, 2019 for public companies, with early adoption permitted. The ASU will be applied using a modified retrospective approach to the beginning of the earliest period presented in the financial statements. We are currently evaluating the expected impact to our consolidated financial statements and related disclosures. We plan to adopt the ASU effective January 1, 2019.

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

Board of Directors
Lockheed Martin Corporation

We have reviewed the consolidated balance sheet of Lockheed Martin Corporation as of March 26, 2017, and the related consolidated statements of earnings, comprehensive income, cash flows, and equity for the quarters ended March 26, 2017 and March 27, 2016. These financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2016, and the related consolidated statements of earnings, comprehensive income, cash flows, and equity for the year then ended (not presented herein), and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 9, 2017. In our opinion, the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

McLean, Virginia
April 26, 2017

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. In 2016, 71% of our \$47.2 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 59% from the Department of Defense (DoD)), 27% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 2% 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.

On August 16, 2016, we completed the divestiture of the Information Systems & Global Solutions (IS&GS) business, which merged with a subsidiary of Leidos Holdings, Inc. (Leidos) in a Reverse Morris Trust transaction. Accordingly, the operating results of the IS&GS business have been classified as discontinued operations in the consolidated statements of earnings. However, the cash flows of the IS&GS business for the quarter ended March 27, 2016 have not been reclassified in our consolidated statements of cash flows as we retained the cash as part of the transaction. See "Note 3 – Divestitures" included in our Notes to Consolidated Financial Statements for additional information about the divestiture of the IS&GS business.

On August 24, 2016, we increased our ownership interest in the AWE Management Limited (AWE) venture, which operates the United Kingdom's nuclear deterrent program and is aligned under our Space Systems business segment, by 18% to 51%. Consequently, our operating results for the first quarter of 2017 include 100% of AWE's sales and 51% of their operating profit. Prior to increasing our ownership interest, we accounted for our investment in AWE using the equity method of accounting. Under the equity method, we only recognized our share, or 33% of AWE's earnings or losses. Accordingly, our operating results for the first quarter of 2016 do not include any sales generated by AWE and only 33% of AWE's net earnings.

We expect 2017 net sales will increase in the mid-single digit percentage range from 2016 levels. The projected growth is driven by increased production and sustainment volume on the F-35 program at Aeronautics as well as increased volume at MFC and RMS, partially offset by decreased volume at Space Systems. Operating profit margin is expected to decline from 2016 levels primarily driven by a charge recorded in the first quarter of 2017 related to a program to design, integrate, and install an air missile defense command, control, communications, computers – intelligence (C4I) systems, for an international customer, higher volume on the F-35 program, which is dilutive to our overall profit margin, contract mix at MFC, lower AWE earnings as a result of the non-cash gain recognized in 2016 related the consolidation of AWE, amortization of AWE intangible assets in 2017 and lower equity earnings at Space Systems. Accordingly, we expect 2017 segment operating profit margin will decline from our 2016 margin to just above 10%. Our outlook for 2017 assumes the U.S. Government continues to support and fund our key programs, consistent with the government fiscal year (GFY) 2017 budget, and does not shutdown. Changes in circumstances may require us to revise our assumptions, which could materially change our current estimate of 2017 net sales and operating profit margin. For additional information related to trends in net sales and operating profit at our business segments, see the "Business Segment Results of Operations" discussion below.

We expect the 2017 FAS/CAS pension adjustment to be approximately \$880 million, which incorporates a year end 2016 discount rate of 4.125%, a 25 basis point decrease from the end of 2015; an actual investment return during 2016 of approximately 5.0%; a 50 basis point reduction at the end of 2016 in our long-term rate of return assumption from 8.00% to 7.50%; and the revised longevity assumptions released on October 20, 2016 by the Society of Actuaries. We do not expect to make contributions to our legacy qualified defined benefit pension plans in 2017.

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, 2016 (2016 Form 10-K).

INDUSTRY CONSIDERATIONS

U.S. Government Funding Constraints

The U.S. Government is currently operating under a continuing resolution funding measure through April 28, 2017. Discussions are underway to extend this continuing resolution; however, there is no guarantee an agreement will be reached prior to midnight on April 28, 2017 when the current continuing resolution expires. If an agreement is not reached, the Federal Government will shut down until additional funding is approved. If the Government shuts down, we may experience delays in procurement of our products and services due to lack of funding and those delays may affect our results of operations, financial position and cash flows.

U.S. defense spending has largely been impacted by the Budget Control Act of 2011 (the Budget Control Act), which established limits on discretionary spending and provided for reductions to planned defense spending of \$487 billion over a 10-year period beginning with GFY 2012. The Budget Control Act also provided for automatic spending reductions, known as sequestration, beginning in GFY 2013. The Bipartisan Budget Acts (BBAs) of 2013 and 2015 increased discretionary spending limits through GFY 2017, but retained sequestration cuts for GFYs 2018 through 2021. As a result, there remains uncertainty regarding how, or if, sequestration cuts will be applied in GFY 2018 and beyond. If there is no further relief from the Budget Control Act and sequestration spending cuts are reinstated in GFY 2018, DoD would absorb about \$800 billion in spending cuts over 10 years.

On March 16, 2017, the outstanding debt of the U.S. reached the debt ceiling. To avoid exceeding the debt ceiling, the U.S. Department of Treasury began employing measures to finance the U.S. Government. It is expected that in mid-to-late 2017 the U.S. Government will exhaust these available measures and Congress will need to raise the debt limit in order for the U.S. Government to continue borrowing money. If the debt ceiling is not raised, the U.S. Government may not be able to pay for expenditures or fulfill its funding obligations. There could be significant disruption to all discretionary programs. Although we believe that key defense, intelligence and homeland security programs would receive priority, the effect on individual programs or Lockheed Martin cannot be predicted at this time.

On March 16, 2017, the President released a budget framework for GFY 2018, which includes \$574 billion in base discretionary funding for the DoD. The proposed funding level for the DoD is about \$52 billion above the spending limits established under the Budget Control Act.

We anticipate there will continue to be a significant amount of debate and negotiations within the U.S. Government over defense spending for GFY 2018 and beyond. In the context of these negotiations, it is possible that existing cuts to government programs could be kept in place, replaced with different spending cuts, and/or replaced with a package of broader reforms to reduce the federal deficit. However, we continue to believe that our portfolio of products and services will continue to be well supported in a strategically focused allocation of budget resources.

CONSOLIDATED RESULTS OF OPERATIONS

Since 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, 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.

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Our consolidated results of operations were as follows (in millions, except per share data):

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 11,057	\$ 10,368
Cost of sales	(9,904)	(9,273)
Gross profit	1,153	1,095
Other (expense) income, net	(4)	63
Operating profit	1,149	1,158
Interest expense	(155)	(165)
Other non-operating income, net	1	1
Earnings from continuing operations before income taxes	995	994
Income tax expense	(232)	(188)
Net earnings from continuing operations	763	806
Net earnings from discontinued operations	—	92
Net earnings	763	898
Diluted earnings per common share		
Continuing operations	2.61	2.61
Discontinued operations	—	0.30
Total Diluted earnings per common share	\$ 2.61	\$ 2.91

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. Product and service sales are generated in each of our business segments. Our consolidated net sales were as follows (in millions):

	Quarters Ended	
	March 26, 2017	March 27, 2016
Products	\$ 9,513	\$ 8,752
% of total net sales	86.0%	84.4%
Services	1,544	1,616
% of total net sales	14.0%	15.6%
Total net sales	\$ 11,057	\$ 10,368

Substantially all of our contracts are accounted for using the percentage-of-completion method. Under the percentage-of-completion method, we record net sales on contracts based upon our progress towards completion on a particular contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our consolidated net sales should be read in tandem with the 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 method.

Product Sales

Product sales increased \$761 million, or 9%, in the quarter ended March 26, 2017 compared to the same period in 2016. The increase was primarily due to higher product sales of approximately \$320 million at Aeronautics, approximately \$230 million at Space Systems, and approximately \$170 million at RMS. The increase at Aeronautics was primarily attributable to higher sales for the F-35 program due to increased production volume. Higher product sales at Space Systems were primarily attributable to sales from AWE, which we began consolidating in the third quarter of 2016. The increase at RMS was primarily attributable to certain adjustments recorded in 2016 required to account for the November 6, 2015 acquisition of Sikorsky, partially offset by fewer helicopter deliveries.

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Service Sales

Service sales decreased \$72 million, or 4%, in the quarter ended March 26, 2017 compared to the same period in 2016. The decrease in service sales is primarily due to lower sales of approximately \$75 million at RMS, primarily due to contract timing of services revenue (primarily Cyber, Ship & Advanced Technologies and C4ISR & Undersea Systems & Sensors (C4USS)) and lower sustainment activities at Sikorsky.

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	
	March 26, 2017	March 27, 2016
Cost of sales - products	\$ (8,687)	\$ (7,887)
% of product sales	91.3%	90.1%
Cost of sales - services	(1,376)	(1,437)
% of service sales	89.1%	88.9%
Severance charges	—	(80)
Other unallocated, net	159	131
Total cost of sales	\$ (9,904)	\$ (9,273)

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. We have not identified any developing trends in cost of sales for products and services that would have a material impact on our future operations.

Product Costs

Product costs increased \$800 million, or 10%, during the quarter ended March 26, 2017 compared to the same period in 2016. The increase is primarily due to higher product costs of approximately \$300 million at RMS, approximately \$245 million at Aeronautics, and approximately \$205 million at Space Systems. The increase at RMS was primarily attributable to certain adjustments recorded in 2016 required to account for the November 6, 2015 acquisition of Sikorsky, and recording a \$120 million charge for a loss contract related to performance matters on the international contract, EADGE-T, partially offset by fewer helicopter deliveries. Higher product costs at Aeronautics was primarily due to increased volume on aircraft production for the F-35 program. The increase at Space Systems was primarily attributable to product costs generated by AWE, which we began consolidating in the third quarter of 2016.

Service Costs

Service costs decreased \$61 million, or 4%, during the quarter ended March 26, 2017 compared to the same period in 2016, primarily due to lower service costs of approximately \$90 million at RMS, partially offset by an increase in service costs of approximately \$20 million at Aeronautics. The decrease at RMS is primarily due to contract timing of services costs (primarily Cyber, Ship & Advanced Technologies and C4USS) and lower sustainment activities at Sikorsky. Higher service costs at Aeronautics were primarily due to increased sustainment activities (primarily the F-35 program).

Restructuring Charges

During the quarter ended March 27, 2016, we recorded severance charges totaling approximately \$80 million related to our Aeronautics business segment. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees received lump-sum severance payments primarily based on years of service. As of March 26, 2017, we have substantially fulfilled our severance obligation associated with these actions.

Other Unallocated, Net

Other unallocated, net primarily includes the FAS/CAS pension adjustment as described in the “Business Segment Results of Operations” section below, stock-based compensation and other corporate costs. These items are not allocated to the business segments and, therefore, are excluded from the cost of sales for products and services. Other unallocated, net was \$159 million and \$131 million of income during the quarters ended March 26, 2017 and March 27, 2016. The increase was primarily attributable to general corporate overhead costs reclassified during the quarter ended March 27, 2016 from the former IS&GS business to other unallocated, net, partially offset by fluctuations in other costs associated with various corporate items, none of which were individually significant.

Other (Expense) Income, Net

Other (expense) income, net primarily includes our share of earnings or losses from equity method investees. During the quarter ended March 26, 2017, we recorded \$4 million of other expense, net, compared to \$63 million of other income, net in the same period in 2016. The decrease was primarily due to our portion of a noncash asset impairment charge related to certain long-lived assets held by an international equity method investee of approximately \$64 million, which was recorded at our corporate office, as discussed in the “Business Segment Results of Operations” section below.

Interest Expense

Interest expense was \$155 million during the quarter ended March 26, 2017, compared to \$165 million in the same period in 2016. Lower interest expense resulted primarily from our scheduled repayment of \$952 million of debt during 2016.

Income Tax Expense

Our effective income tax rates were 23.3% and 18.9% during the quarters ended March 26, 2017 and March 27, 2016, respectively. The rates for both periods benefited from tax deductions for U.S. manufacturing activities, dividends paid to our defined contribution plans with an employee stock ownership plan feature, tax benefits of employee equity awards, and the research and development tax credit. The tax benefits of employee equity awards reduced our effective tax rate for the quarters ended March 26, 2017 and March 27, 2016 by 6.2 and 10.4 percentage points, respectively.

Future changes in tax law could significantly impact our provision for income taxes, the amount of taxes payable, and our deferred tax asset and liability balances. Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of new tax legislation, with a corresponding material, one-time, non-cash increase in income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Our net deferred tax assets were \$6.5 billion and \$6.6 billion at March 26, 2017 and December 31, 2016, based on a 35% Federal statutory income tax rate, and primarily relate to our postretirement benefit plans. If legislation reducing the Federal statutory income tax rate to 15% had been enacted at March 26, 2017, our net deferred tax assets would have been reduced by \$3.7 billion and we would have recorded a corresponding one-time, non-cash increase in income tax expense of \$3.7 billion. This additional expense would be less if the legislation phased in the tax rate reduction or if the final rate was higher than 15%. The amount of net deferred tax assets will change periodically based on several factors, including the measurement of our postretirement benefit plan obligations and actual cash contributions to our postretirement benefit plans.

Net Earnings from Continuing Operations

We reported net earnings from continuing operations of \$763 million (\$2.61 per share) during the quarter ended March 26, 2017, compared to \$806 million (\$2.61 per share) during the quarter ended March 27, 2016. Both net earnings and earnings per share from continuing operations were affected by the factors mentioned above.

Net Earnings from Discontinued Operations

We reported net earnings from discontinued operations of \$92 million (\$0.30 per share) during the quarter ended March 27, 2016 related to our IS&GS business, which was divested on August 16, 2016.

Net Earnings

We reported net earnings of \$763 million (\$2.61 per share) during the quarter ended March 26, 2017, compared to \$898 million (\$2.91 per share) during the quarter ended March 27, 2016.

BUSINESS SEGMENT RESULTS OF OPERATIONS

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space Systems. We organize our business segments based on the nature of the products and services offered. Our historical operating results reflect the reclassification of our former IS&GS business to discontinued operations.

Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation. Under the equity method of accounting for nonconsolidated ventures and investments, we include our share of the operating profit related to these ventures in operating profit of our business segments as the operating activities of equity method investees are closely aligned with the operations of our business segments. United Launch Alliance (ULA), which is part of our Space Systems business segment, is our primary equity method investee. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to goodwill impairments and significant severance actions; gains or losses from divestitures; the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See "Note 9 – Other" included in our Notes to Consolidated Financial Statements (under the caption "Changes in Estimates") for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

Our business segments' results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension cost through the pricing of our products and services on U.S. Government contracts and, therefore, the CAS pension cost is recognized in each of our business segments' net sales and cost of sales. Since our consolidated financial statements must present pension expense calculated in accordance with the financial accounting standards (FAS) requirements under U.S. generally accepted accounting principles (GAAP), which we refer to as FAS pension expense, the FAS/CAS pension adjustment increases or decreases the CAS pension cost recorded in our business segments' results of operations to equal the FAS pension expense.

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales		
Aeronautics	\$ 4,106	\$ 3,799
Missiles and Fire Control	1,489	1,434
Rotary and Mission Systems	3,101	3,004
Space Systems	2,361	2,131
Total net sales	\$ 11,057	\$ 10,368
Operating profit		
Aeronautics	\$ 436	\$ 420
Missiles and Fire Control	219	221
Rotary and Mission Systems	108	229
Space Systems	288	244
Total business segment operating profit	1,051	1,114
Unallocated items		
FAS/CAS pension adjustment		
FAS pension expense	(345)	(251)
Less: CAS pension cost	562	475
FAS/CAS pension adjustment	217	224
Stock-based compensation	(44)	(44)
Severance charges	—	(80)
Other, net (a) (b)	(75)	(56)
Total unallocated items	98	44
Total consolidated operating profit	\$ 1,149	\$ 1,158

- (a) In the first quarter of 2017, we recognized a \$64 million charge, which represents our portion of a noncash asset impairment charge recorded by an international equity method investee. See "Note 9 – Other" (under the caption "Equity Method Investee Impairment") included in our Notes to Consolidated Financial Statements for more information.
- (b) As a result of the IS&GS divestiture in August 2016, we reclassified \$35 million of general corporate overhead costs incurred in the first quarter of 2016 and previously allocated to the IS&GS business segment. These costs were not reported as discontinued operations because they were not directly attributable to the IS&GS business and will continue to be incurred by us. See "Note 3 – Divestitures" for more information.

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

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and 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

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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.

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.

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 accounted for using the percentage-of-completion method of accounting. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs 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 complete 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 margins may also be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters, cost recoveries on 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; asset impairments; and losses on sales of assets. Segment operating profit and items such as risk retirements, reductions of profit booking rates or other matters are presented net of state income taxes.

As previously disclosed, we have a program to design, integrate, and install an air missile defense C4I systems for an international customer that has experienced performance matters and for which we have periodically accrued reserves. During the quarter ended March 26, 2017, we revised our estimated costs to complete the program, EADGE-T, as a consequence of ongoing performance matters and recorded an additional charge of \$120 million (\$74 million or \$0.25 per share, after tax) at the RMS business segment. As of March 26, 2017, we have recorded cumulative losses, including reserves, of approximately \$260 million on this program. We are continuing to monitor the viability of the program and the available options and could record additional charges in future periods. However, based on the reserves already accrued and our current estimate of the costs to complete the program, at this time we do not anticipate that additional charges, if any, would be material.

Our consolidated net adjustments not related to volume, including net profit booking rate adjustments and other matters, net of state income taxes, increased segment operating profit by approximately \$290 million and \$360 million during the quarters ended March 26, 2017 and March 27, 2016, respectively.

Aeronautics

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 4,106	\$ 3,799
Operating profit	436	420
Operating margin	10.6%	11.1%

Aeronautics' net sales in the first quarter of 2017 increased \$307 million, or 8%, compared to the same period in 2016. The increase was primarily attributable to higher net sales of approximately \$355 million for the F-35 program due to increased volume on aircraft production and sustainment activities; and about \$60 million for the F-16 program due to higher volume on aircraft modernization programs. These increases were partially offset by a decrease of approximately \$100 million for the C-5 program due to one less aircraft delivery and lower sustainment activities.

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Aeronautics' operating profit in the first quarter of 2017 increased \$16 million, or 4%, compared to the same period in 2016. Operating profit increased approximately \$60 million for the F-35 program due to increased volume on aircraft production and sustainment activities and higher risk retirements. This increase was partially offset by a decrease of about \$25 million for various programs due to lower profit booking rate adjustments and establishment of a reserve; and approximately \$10 million due to lower equity earnings from investees.

Adjustments not related to volume, including net profit booking rate adjustments, were about \$15 million higher in the first quarter of 2017 compared to the same period in 2016.

Trends

We expect Aeronautics' 2017 net sales to increase in the low-double digit percentage range as compared to 2016 due to increased volume on the F-35 program. Operating profit is expected to increase at a slightly lower percentage range, driven by the increased volume on the F-35 program, partially offset by contract mix that results in a slight decrease in operating margins between years.

Missiles and Fire Control

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 1,489	\$ 1,434
Operating profit	219	221
Operating margin	14.7%	15.4%

MFC's net sales in the first quarter of 2017 increased \$55 million, or 4%, compared to the same period in 2016. The increase was attributable to higher net sales of approximately \$60 million for air and missile defense programs due to increased deliveries on certain programs (primarily Patriot Advanced Capability (PAC-3)); and about \$60 million for fire control programs (primarily LANTIRN® and SNIPER®) due to increased deliveries. These increases were partially offset by a decrease of \$50 million for tactical missiles programs (primarily Precision Fires) due to fewer deliveries.

MFC's operating profit in the first quarter of 2017 was comparable to profit in the same period of 2016. Operating profit decreased approximately \$25 million for tactical missiles programs due to lower risk retirements and fewer deliveries (primarily Precision Fires). This decrease was partially offset by an increase of about \$25 million for higher risk retirements and increased deliveries on fire control programs (LANTIRN® and SNIPER®) and air and missile defense programs (PAC-3).

Adjustments not related to volume, including net profit booking rate adjustments, in the first quarter of 2017 were comparable to the same period in 2016.

Trends

We expect MFC's net sales to increase in the mid-single digit percentage range in 2017 as compared to 2016 driven primarily by our air and missile defense programs. Operating profit is expected to be flat or increase slightly. Accordingly, operating profit margin is expected to decline from 2016 levels as a result of contract mix and fewer risk retirements in 2017 compared to 2016.

Rotary and Mission Systems

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 3,101	\$ 3,004
Operating profit	108	229
Operating margin	3.5%	7.6%

RMS' net sales in the first quarter of 2017 increased \$97 million, or 3%, compared to the same period in 2016. The increase was primarily attributable to higher net sales of about \$280 million due to certain adjustments recorded in 2016 required to account for the November 6, 2015 acquisition of Sikorsky. This increase was partially offset by a net decrease of approximately \$100 million primarily driven by fewer deliveries of helicopters, and a decrease of about \$65 million at C4USS programs and training and logistics services programs due to volume.

RMS' operating profit in the first quarter of 2017 decreased \$121 million, or 53%, compared to the same period in 2016. Operating profit decreased about \$110 million for C4USS programs due to a \$120 million charge for performance matters on the international contract, EADGE-T and about \$25 million for training and logistics services programs due to lower risk retirements. These decreases were partially offset by an increase of about \$35 million for Sikorsky due to certain adjustments recorded in the first quarter of 2017 and 2016 required to account for the November 6, 2015 acquisition of Sikorsky and amortization of intangible assets, partially offset by a decrease of about \$20 million primarily driven by fewer deliveries of helicopters and lower equity earnings from investees.

Adjustments not related to volume, including net profit booking rate adjustments, were about \$115 million lower in the first quarter of 2017 compared to the same period in 2016.

Trends

We expect RMS' 2017 net sales to increase in the low-single digit percentage range compared to 2016. Operating profit is also expected to increase in the low-single-digit percentage range due to a reduction in certain purchase accounting adjustments that were attributable to the Sikorsky acquisition, offset by a charge recorded in the first quarter of 2017 for performance matters on the international contract EADGE-T, resulting in comparable operating profit margins between years.

Space Systems

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 2,361	\$ 2,131
Operating profit	288	244
Operating margin	12.2%	11.5%

Space Systems' net sales in the first quarter of 2017 increased \$230 million, or 11%, compared to the same period in 2016. The increase was attributable to approximately \$325 million due to net sales from AWE, which we began consolidating in the third quarter of 2016. This increase was partially offset by a decrease of \$35 million for the Orion program due to lower volume; and a decrease of \$25 million for government satellite programs (primarily Advanced Extremely High Frequency (AEHF) and Mobile User Objective System (MUOS)) due to decreased volume.

Space Systems' operating profit in the first quarter of 2017 increased \$44 million, or 18%, compared to the same period in 2016. Operating profit increased about \$40 million due to increased equity earnings from an investee (ULA).

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Adjustments not related to volume, including net profit booking rate adjustments, were about \$25 million higher in the first quarter of 2017 compared to the same period in 2016.

Total equity earnings recognized by Space Systems (primarily ULA) represented approximately \$80 million, or 28%, of this business segment's operating profit during the quarter ended March 26, 2017, compared to approximately \$50 million, or 20%, during the quarter ended March 27, 2016.

Trends

We expect Space Systems' 2017 net sales to decrease in the mid-single digit percentage range as compared to 2016, driven by program lifecycles on government satellite programs, partially offset by the recognition of AWE net sales for a full year in 2017 versus a partial year in 2016 following the consolidation of AWE in the third quarter of 2016. Operating profit is expected to decline in the low- to mid-double digit percentage range, primarily driven by sales volume, the one-time AWE non-cash gain in 2016, amortization of the AWE intangible assets in 2017, and lower equity earnings in 2017 compared to 2016. As a result operating profit margin is expected to decline from 2016 levels.

FINANCIAL CONDITION

Liquidity and Cash Flows

We have a balanced cash deployment strategy to enhance stockholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have continued to invest in our business, including capital expenditures, independent research and development and have made selective business acquisitions, while returning cash to stockholders through dividends and share repurchases, and managing our debt levels, maturities and interest rates.

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 March 26, 2017.

We expect our cash from operations will continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. However, we expect to continue to issue commercial paper backed by our revolving credit facility to manage the timing of our cash flows. As described in the "Capital Resources" section below, we have financing resources available to fund potential cash outflows that are less predictable or more discretionary, should they occur. We also have access to credit markets, if needed, for liquidity or general corporate purposes, including our revolving credit facility or the ability to issue commercial paper, and letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

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

	Quarters Ended	
	March 26, 2017	March 27, 2016
Cash and cash equivalents at beginning of year	\$ 1,837	\$ 1,090
Operating activities		
Net earnings	763	898
Non-cash adjustments	329	439
Changes in working capital	(164)	(263)
Other, net	738	593
Net cash provided by operating activities	1,666	1,667
Net cash used for investing activities	(166)	(147)
Net cash used for financing activities	(1,121)	(1,158)
Net change in cash and cash equivalents	379	362
Cash and cash equivalents at end of period	\$ 2,216	\$ 1,452

Operating Activities

Net cash provided by operating activities during the quarter ended March 26, 2017 was comparable to the same period in 2016. Net cash provided by operating activities during the quarter ended March 26, 2017 included lower net earnings, partially offset by a decrease of \$99 million in cash used for changes in working capital. The change in working capital is defined as receivables and inventories less accounts payable and customer advances and amounts in excess of costs incurred. The change in working capital was largely driven by timing of payments for accounts payable; partially offset by timing of cash receipts for receivables and higher inventory.

Investing Activities

Net cash used for investing activities increased \$19 million during the quarter ended March 26, 2017, compared to the same period in 2016 due to an increase in capital expenditures. Capital expenditures amounted to \$170 million and \$151 million during the quarters ended March 26, 2017 and March 27, 2016, respectively. 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 in financing activities was \$1.1 billion during the quarter ended March 26, 2017, as compared to \$1.2 billion in the same period in 2016. Net cash used in financing activities during the quarters ended March 26, 2017 and March 27, 2016 were driven by share repurchases and dividend payments. We paid \$500 million and \$501 million to repurchase 1.9 million and 2.4 million shares of our common stock during the quarters ended March 26, 2017 and March 27, 2016, respectively. During the quarter ended March 26, 2017, we paid dividends totaling \$544 million (\$1.82 per share), as compared to \$533 million (\$1.65 per share) in the same period in 2016.

Cash received from the issuance of our common stock in connection with employee stock option exercises during the quarters ended March 26, 2017 and March 27, 2016 totaled \$31 million and \$28 million, respectively. Those exercises resulted in the issuance of 0.3 million shares of our common stock during each quarter.

Capital Resources

At March 26, 2017, we held cash and cash equivalents of \$2.2 billion, of which approximately \$390 million was held outside of the U.S. by our foreign subsidiaries. Although those balances are generally available to fund ordinary business operations without legal or other restrictions, a significant portion is not immediately available to fund U.S. operations unless repatriated. Our intention is to permanently reinvest earnings from our foreign subsidiaries. While we do not intend to do so, if this cash had been repatriated at March 26, 2017, the amount of additional U.S. federal income tax that would be due after considering foreign tax credits would not be significant.

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Our outstanding debt, net of unamortized discounts and issuance costs, was \$14.3 billion as of March 26, 2017 and mainly is in the form of publicly-issued notes that bear interest at fixed rates. As of March 26, 2017, we were in compliance with all covenants contained in our debt and credit agreements. There were no material changes during the quarter ended March 26, 2017 to our contractual commitments as presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2016 Form 10-K that were outside the ordinary course of our business.

At March 26, 2017, we had a \$2.5 billion revolving credit facility (the 5-year Facility) with various banks which expires on October 9, 2021 and is available for general corporate purposes. The undrawn portion of the 5-year Facility is also available to serve as a backup facility for the issuance of commercial paper. We may request and the banks may grant, at their discretion, an increase in the borrowing capacity under the 5-year Facility of up to an additional \$500 million. There were no borrowings outstanding under the 5-year Facility as of March 26, 2017.

We have agreements in place with financial institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding as of March 26, 2017. However, we expect to continue to issue commercial paper backed by our credit facility to manage the timing of our cash flows.

Our total equity was \$1.6 billion at March 26, 2017, a decrease of \$21 million from December 31, 2016. The decrease was primarily attributable to dividends declared of \$531 million and the repurchase of 1.9 million shares for \$500 million, partially offset by net earnings of \$763 million, \$205 million in postretirement benefit plan amortization expense and gains, and \$30 million in stock-based awards and employee stock ownership plan (ESOP) activity. 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. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess purchase price over par value of \$469 million recorded as a reduction of retained earnings during the quarter ended March 26, 2017.

OTHER MATTERS

Status of the F-35 Program

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

On November 2, 2016, the U.S. Government unilaterally issued a contract (referred to as LRIP 9) to purchase 57 F-35 aircraft. We have reached an agreement in principle and continue to execute on the LRIP 9 contract and the F-35 program.

In January 2017, Defense Secretary Mattis ordered a review of the F-35 program, including a comparison review of the F-35C carrier variant with a fourth generation alternative. Our Chairman, President and Chief Executive Officer continues to have discussions with the new Presidential Administration on the importance of the F-35 program and our commitment to cut costs. However, we may continue to face pressure to reduce costs from the new Presidential Administration relating to the F-35 program and ongoing contract negotiations.

Operationally, the U.S. Government continues to complete various tests, including ship trials, mission system evaluations and weapons testing, and the F-35 aircraft fleet recently surpassed 85,000 flight hours. Progress also continues on the production of aircraft. In 2017, the program achieved a major milestone when the U.S. Navy received its first F-35C carrier variant at NAS Lemoore, California, as we continue to advance towards the U.S. Navy

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declaring the F-35C carrier variant ready for combat. The U.S. Marine Corps completed the deployment of 10 F-35B variants now permanently assigned to Marine Corps Air Station Iwakuni, Japan. As of March 26, 2017, we have delivered 215 production aircraft to our U.S. and international partners, including delivery of the first F-35 aircraft completed at the Italian Final Assembly and Check-Out Facility, and we have 158 production aircraft in backlog, including orders from our international partners.

Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to aircraft performance, program schedule, cost, and requirements as part of the DoD, Congressional, and international partners' oversight and budgeting processes. Current program challenges include, but are not limited to, supplier and partner performance, software development, 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, 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 we disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2016 Form 10-K.

Goodwill

The carrying value of our Sikorsky reporting unit included goodwill of \$2.7 billion as of March 26, 2017. In our most recent annual goodwill impairment analysis, which was performed in the fourth quarter of 2016, we estimated that the fair value of our Sikorsky reporting unit exceeded its carrying value by a margin of approximately 10%. We acquired Sikorsky in November 2015 and recorded the assets acquired and liabilities assumed at fair value. Due to the acquisition and valuation, the carrying value and fair value of our Sikorsky reporting unit are currently closely aligned. Therefore, any business deterioration, contract cancellations or terminations, or negative changes in market factors could cause our sales, earnings and cash flows to decline below current projections. Similarly, market factors utilized in the impairment analysis, including long-term growth rates, discount rates and relevant comparable public company earnings multiples and transaction multiples, could negatively impact the fair value of our reporting units. Based on our assessment of these circumstances, we have determined that our Sikorsky reporting unit is at risk of a future goodwill impairment should there be deterioration of projected cash flows, negative changes in market factors or a significant increase in the carrying value of the reporting unit.

Intangible assets

The carrying value of our Sikorsky indefinite-lived trademark intangible asset was \$887 million as of March 26, 2017. We performed our most recent annual impairment analysis in the fourth quarter of 2016 using the relief from royalty method. The results indicated that the fair value of this intangible asset approximated its carrying value and no impairment existed. As discussed above in the Goodwill section, the carrying value and fair value of our Sikorsky reporting unit are currently closely aligned due to the recent acquisition of Sikorsky. Therefore, any business deterioration, contract cancellations or terminations, or negative changes in market factors could cause our sales to decline below current projections. Based on our assessment of these circumstances, we have determined that our Sikorsky trademark intangible asset is at risk of a future impairment.

Recent Accounting Pronouncements

See "Note 9 – Other" included in our Notes to Consolidated Financial Statements (under the caption "Recent Accounting Pronouncements") 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, 2016, we transact business globally and are subject to risks

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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, 2016. See “Note 8 – Fair Value Measurements” included in our Notes to Consolidated Financial Statements for additional discussion.

ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of March 26, 2017. 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 not effective due to the existence of a previously reported material weakness in internal control over financial reporting at Sikorsky Aircraft Corporation which we acquired on November 6, 2015 and which operates as a business unit of our Rotary and Mission Systems business segment. The material weakness was identified and discussed in “Part II – Item 9A – Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2016.

Notwithstanding the identified material weakness, management, including our CEO (principal executive officer) and CFO (principal financial officer), believes the consolidated financial statements included in this Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Description of Material Weakness

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

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013 framework). Based on this assessment, because of the effect of the material weakness at Sikorsky Aircraft Corporation, as described in the following paragraph, management concluded that a material weakness existed in Lockheed Martin’s internal control over financial reporting and as a result, management determined that Lockheed Martin’s internal control over financial reporting was not effective as of December 31, 2016. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements could occur but will not be prevented or detected on a timely basis.

Sikorsky was acquired on November 6, 2015 and generated about 10% of our total net sales for the year ended December 31, 2016. Prior to 2016, Sikorsky was not included in assessments of the effectiveness of our internal control over financial reporting as the Securities and Exchange Commission (SEC) rules provide companies one year to assess controls at an acquired entity. Accordingly, during fiscal 2016, we performed our first comprehensive assessment of the design and effectiveness of internal controls at Sikorsky and determined that Sikorsky’s internal control over financial reporting was ineffective as of December 31, 2016. Specifically, Sikorsky did not adequately identify, design and implement appropriate process-level controls for its processes, including Sikorsky’s contract accounting / sales recognition processes, inventory accounting process and payroll process and appropriate information technology controls for its information technology systems. There were no material errors in the financial results or balances identified as a result of the control deficiencies, and there was no restatement of prior period financial statements and no change in previously released financial results were required as the result of these control deficiencies.

Remediation Efforts to Address Material Weakness

Management has and will continue to enhance the risk assessment process and design of internal control over financial reporting at Sikorsky. This includes initiation of compensating controls and enhanced and revised design of existing financial reporting controls, information technology applications and procedures at Sikorsky. We have developed our remediation plan and started implementing these changes. We expect to begin testing those enhanced controls and procedures already implemented in the second quarter of 2017, and anticipate that the entire remediation plan will be implemented by the third quarter of 2017. The material weakness will not be considered remediated until the process-level controls and information technology controls effectively operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal year 2017.

Changes in Internal Control Over Financial Reporting

Other than the steps taken to work towards the remediation of the material weakness identified above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a - 15(d) and 15d - 15(d) of the Exchange Act that occurred during the quarter ended March 26, 2017 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:

- our reliance on contracts with the U.S. Government, all of 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 and the potential for a government shutdown; affordability initiatives; the implementation of automatic sequestration under the Budget Control Act of 2011 or Congressional actions intended to replace sequestration;
- risks related to the development, production, performance, schedule, cost and requirements of complex and technologically advanced programs including our largest, the F-35 program;
- economic, industry, business and political conditions (domestic and international) including their effects on governmental policy;
- our success expanding into and doing business in adjacent markets and internationally; the differing risks posed by international sales, including those involving commercial relationships with unfamiliar customers and different cultures; that in some instances our ability to recover investments is dependent upon the successful operation of ventures that we do not control; and changes in foreign national priorities, and foreign government budgets;
- the competitive environment for our products and services, including increased pricing pressures in our remaining services businesses, competition from outside the aerospace and defense industry, and increased bid protests;
- planned production rates for significant programs; compliance with stringent performance and reliability standards; materials availability;
- the performance and financial viability of key suppliers, teammates, ventures, venture partners, subcontractors and customers;
- 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 capitalization changes such as share repurchase activity and payment of dividends, pension funding as well as the pace and effect of any such capitalization changes;
- our ability to recover certain 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;
- movements in interest rates and other changes that may affect pension plan assumptions, equity, the level of the FAS/CAS adjustment and actual returns on pension plan assets;
- realizing the anticipated benefits of acquisitions or divestitures, ventures, teaming arrangements or internal reorganizations, and our efforts to increase the efficiency of our operations and improve the affordability of our products and services;
- the ability to realize synergies and other expected benefits of the Sikorsky acquisition; remediation of the material weakness in internal control over financial reporting related to Sikorsky;
- risk of a future impairment of goodwill, investments or other long-term assets, including the potential impairment of goodwill, intangible assets and inventory, recorded as a result of the Sikorsky acquisition, if Sikorsky does not perform as expected, or if demand for Sikorsky's products is adversely impacted by global economic conditions including oil and gas trends;

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- risks related to the achievement of the intended benefits and tax treatment of the divestiture of our former IS&GS business;
- the adequacy of our insurance and indemnities;
- the effect of changes in (or the interpretation of): legislation, regulation or policy, including those applicable to procurement (including competition from fewer and larger prime contractors), cost allowability or recovery, accounting, taxation, or export; and
- the outcome of legal proceedings, bid protests, environmental remediation efforts, 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 forward-looking statements contained in this Form 10-Q. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see our filings with the 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, 2016 and this 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, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular 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, 2016 (2016 Form 10-K) filed with the U.S. Securities and Exchange Commission.

We are subject to federal, state, local and foreign requirements for protection of the environment, including those for discharge of hazardous substances and remediation of contaminated sites. As a result, we are a party to or have our property subject to various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see “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 2016 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

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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 2016 Form 10-K describes some of the risks and uncertainties associated with our business, including U.S. Government funding constraints, 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. We do not believe that there have been any material changes to the risk factors disclosed in our 2016 Form 10-K.

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

There were no sales of unregistered equity securities in the first quarter of 2017.

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 in the first quarter of 2017.

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)	Amount Available for Future Share Repurchases Under the Plans or Programs (b) (in millions)
January 1, 2017 – January 29, 2017	1,205,900	\$ 254.10	798,239	\$ 3,301
January 30, 2017 – February 26, 2017	629,915	\$ 258.21	616,684	\$ 3,142
February 27, 2017 – March 26, 2017	<u>513,073</u>	\$ 268.53	<u>513,073</u>	\$ 3,004
Total	2,348,888(c)	\$ 258.36	1,927,996	

- (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, February 26, 2017 was the last day of our February 2017 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. On September 22, 2016, our Board of Directors authorized a \$2.0 billion increase to the program. 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. The program does not have an expiration date.
- (c) In the first quarter of 2017, the total number of shares purchased included 420,892 shares that were transferred to us by employees in satisfaction of tax withholding obligations associated with the vesting of restricted stock units and performance stock units. These purchases were made pursuant to a separate authorization by our Board of Directors and are not included within the program.

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ITEM 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Lockheed Martin Corporation Amended and Restated 2006 Management Incentive Compensation Plan (Performance-Based), amended and restated effective January 1, 2017
10.2	Form of Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan
10.3	Form of Performance Stock Unit Award Agreement (2017 to 2019 Performance Period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan
10.4	Form of Long-Term Incentive Performance Award Agreement (2017 to 2019 Performance Period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan
12	Computation of Ratio of Earnings to Fixed Charges
15	Acknowledgment of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certification of Marilyn A. Hewson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Bruce L. Tanner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Marilyn A. Hewson and Bruce L. Tanner 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
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: April 26, 2017

By: /s/ Brian P. Colan
Brian P. Colan
Vice President and Controller
(Duly Authorized Officer and Chief Accounting Officer)

LOCKHEED MARTIN CORPORATION
AMENDED AND RESTATED
2006 MANAGEMENT INCENTIVE COMPENSATION PLAN
(Performance-Based)
Amended and Restated Effective January 1, 2017

Article I. PURPOSE OF THE PLAN

This Plan is established to provide a further incentive to selected Employees to promote the success of Lockheed Martin Corporation by providing an opportunity to receive additional compensation for performance measured against established goals. The Plan is intended to achieve the following:

- 1) Link pay of executive Employees to business performance.
- 2) Incentivize Employees to work individually and as teams to meet objectives and goals consistent with enhancing shareholder value.
- 3) Facilitate the Company's ability to retain qualified Employees and to attract top executive talent.
- 4) Establish performance goals within the meaning of Section 162(m) of the Internal Revenue Code.

Article II. DEFINITIONS

Section 2.01 BOARD OF DIRECTORS – The Board of Directors of Lockheed Martin Corporation.

Section 2.02 CASH FLOW – For purposes of Article IV, net cash flow from operations as determined by the Subcommittee at the end of the Plan Year in accordance with generally accepted accounting principles in the United States. Cash Flow shall be determined by the Subcommittee based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the period for which Cash Flow is being determined, the Subcommittee shall determine Cash Flow in a manner consistent with the historical practices used by the Corporation in determining net cash provided by operating activities as reported in its audited consolidated statement of cash flows. The Subcommittee shall have the right to specify any other adjustment that should be applied in determining Cash Flow that it deems necessary or appropriate to take into account any event recognized under any accounting policy or practice affecting the Corporation, provided the Subcommittee specifies the adjustment at or prior to the time the organizational performance goals for the Corporation are reviewed with the Subcommittee, but in no event later than March 30 of the Plan Year.

Section 2.03 CODE – The Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated thereunder.

Section 2.04 COMMITTEE – The Management Development & Compensation Committee of the Board of Directors as from time to time appointed or constituted by the Board of Directors.

Section 2.05 COMPANY – Lockheed Martin Corporation and those subsidiaries of which it owns directly or indirectly 50% or more of the voting stock or other equity.

Section 2.06 ELECTED OFFICER – An Employee who has been elected as an officer by the Board of Directors.

Section 2.07 EMPLOYEE – Any person who is employed by the Company and who is paid a salary as distinguished from an hourly wage. The term “Employee” includes only those individuals that the Company classifies on its payroll records as Employees and does not include consultants, independent contractors, leased employees, co-op students, interns, temporary or casual employees, individuals paid by a third party or other individuals not classified as an Employee by the Company. Notwithstanding the foregoing, the term “Employee” shall not include any employee who, during any part of such year, was represented by a collective bargaining agent.

Section 2.08 INCENTIVE COMPENSATION – An amount of compensation paid pursuant to this Plan.

Section 2.09 PARTICIPANT – Any Employee selected to participate in the Plan in accordance with Article III.

Section 2.10 PLAN – This Lockheed Martin Corporation Amended and Restated 2006 Management Incentive Compensation Plan (Performance-Based), as amended from time to time.

Section 2.11 PLAN YEAR – A calendar year.

Section 2.12 SUBCOMMITTEE – A subcommittee of the Committee, composed solely of two or more outside directors of the Company (within the meaning of Code Section 162(m) (4) (C)) or the entire Committee if all members of the Committee are outside directors.

Article III. ELIGIBILITY AND PARTICIPATION

The Elected Officers of the Company are eligible to participate in the Plan. An Elected Officer’s participation in the Plan for a Plan Year is subject to the approval of the Committee. Employees who are considered by the Chief Executive Officer to be key Employees of the Company also are eligible to participate in the Plan, subject to the Employee’s selection of and approval by the Chief Executive Officer for participation in a Plan Year. No member of the Committee shall be eligible for participation in the Plan.

Article IV. LIMITATIONS ON INCENTIVE COMPENSATION

Section 4.01 Notwithstanding any other provisions of the Plan that may be to the contrary, Incentive Compensation awards made to Participants who are Elected Officers on the last day of the Plan Year are subject to this Article IV. The limitations on Incentive Compensation set forth in Section 2.02 and this Article IV were approved by the stockholders of Lockheed Martin Corporation at its 2006 Annual Meeting.

Section 4.02 Incentive Compensation payable under the Plan to (i) the Elected Officer who is the Chief Executive Officer shall not exceed 0.3% of Cash Flow for the Plan Year; and (ii) each of the Participants who are Elected Officers on the last day of the Plan Year, other than the Chief Executive Officer, shall not exceed 0.2% of Cash Flow for the Plan Year. The Subcommittee shall have discretion to determine the conditions, restrictions, or other limitations, in accordance with and subject to the terms of this Plan and Code Section 162(m), on the payment of Incentive Compensation to the Elected Officers. The Subcommittee may reserve the right to reduce the amount payable under this Section 4.02 in accordance with any standards contained in the Plan or on any other basis (including the Subcommittee’s discretion). Neither the Subcommittee or the Committee, nor the Board of Directors shall have the authority under this Plan to increase the amount payable under this Section 4.02.

Section 4.03 Before authorizing any Incentive Compensation payment under this Plan to a Participant who is an Elected Officer, the Subcommittee must certify in writing (by resolution or otherwise) that the payments are consistent with Section 4.02 of the Plan and that any other material terms under this Plan for payment of Incentive Compensation were satisfied.

Section 4.04 The provisions of Section 2.02 and Article IV shall be interpreted and administered by the Subcommittee in a manner consistent with the requirements for “performance-based compensation” under Code Section 162(m).

Article V. INCENTIVE COMPENSATION PAYMENTS

Section 5.01 Subject to Section 2.02, Article IV and any performance goals (including organizational or enterprise performance goals) established by the Committee or its delegate for the Plan Year (such goals to be established on or before March 30 of the Plan Year), the Committee (or the Committee’s delegate in the case of Participants who are not Elected Officers) shall determine the proposed amount of Incentive Compensation to be paid to each Participant with respect to a Plan Year. Notwithstanding the preceding sentence, in determining the proposed amount of each Participant’s Incentive Compensation award for a Plan Year, the Committee (or the Board of Directors in the case of Participants who are Elected Officers or the Committee’s delegate in the case of Participants who are not Elected Officers) may make an upward (subject to Section 2.02 and Article IV) or downward (including to zero) adjustment of the proposed amount of Incentive Compensation award otherwise payable to the Participant for the Plan Year on the basis of such factors as it deems relevant.

Section 5.02 With respect to a Plan Year, the Committee shall recommend to the Board of Directors the proposed aggregate amount of Incentive Compensation payments to be distributed by the Company to Participants and the proposed amount of Incentive Compensation award to each Participant who is an Elected Officer. The Board of Directors shall review and approve the recommendations of the Committee, or make adjustments to the proposed amounts of Incentive Compensation payable for a Plan Year (on an aggregate level or with respect to a Participant who is an Elected Officer, or both), on the basis of such factors as it deems relevant.

Section 5.03 The Incentive Compensation amount determined for each Participant with respect to each Plan Year shall be paid to such Participant in cash not later than March 15 following the Plan Year or deferred at the direction of the Committee, but only to the extent permitted under Code Section 409A, until the Participant’s termination of employment. Notwithstanding the foregoing, Participants may also elect to defer payments in accordance with the terms of the Lockheed Martin Corporation Deferred Management Incentive Compensation Plan.

Section 5.04 Before the end of each Plan Year, the Board of Directors may set a minimum aggregate bonus amount that must be used to pay Incentive Compensation awards under this Plan attributable to service during the Plan Year to any combination of Participants who are not Elected Officers of the Company.

Section 5.05 All applicable U.S. Federal, state and local taxes will be withheld from all Incentive Compensation payments made under this Plan.

Article VI. COST OF PLAN

The cost for this Plan is intended to be an allowable expense.

Article VII. RIGHTS OF PARTICIPANTS

Section 7.01 All payments are subject to the discretion of the Board of Directors. No Participant shall have any right to require the Board of Directors to make any appropriation to the Plan for any Plan Year, nor shall any Participant have any vested interest or property right in any share in any amounts which may be appropriated to the Plan.

Section 7.02 This Plan does not constitute an employment agreement of any kind, or a promise of employment for a specific term (including the Plan Year) and does not alter the at will nature of a Participant's employment with the Company, which may be terminated by the Company or a Participant for any or no reason and without advance notice.

Article VIII. AUTHORITY TO RECOVER PAYMENTS

The Board of Directors retains the authority to make retroactive adjustments to an Incentive Compensation payment made under the Plan on or after January 1, 2008 in accordance with the provisions regarding Recovery of Payments (Claw Back) in Exhibit A.

Article IX. PLAN ADMINISTRATION

The Plan shall be administered under the direction of the Committee. The Committee shall have the right to construe the Plan, to interpret any provision thereof, to make rules and regulations relating to the Plan, and to determine any factual question arising in connection with the Plan's operation after such investigation or hearing as the Committee may deem appropriate. Any decision made by the Committee under the provisions of this Article shall be conclusive and binding on all parties concerned. The Committee may delegate to the officers or Employees of the Company the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this Plan in accordance with its terms and purpose. The rights and obligations of the Committee under this Article IX shall be assumed by the Subcommittee in the case of Participants subject to Article IV.

Article X. AMENDMENT OR TERMINATION OF PLAN

The Board of Directors or its delegate shall have the right to terminate or amend this Plan at any time and to discontinue further payments hereunder.

Article XI. EFFECTIVE DATE

The Plan was first effective with respect to the operations of the Company for the Plan Year beginning January 1, 2006. The Company has further amended and restated the Plan as of the date indicated below, effective January 1, 2017.

LOCKHEED MARTIN CORPORATION:

/s/ Patricia L. Lewis

By: Patricia L. Lewis
Senior Vice President, Human Resources

Date: February 27, 2017

Exhibit A**Administrative Provisions****Article I. STANDARD OF CONDUCT AND PERFORMANCE EXPECTATION**

It is a prerequisite that before any payment under the Plan can be considered that a Participant will have acted in accordance with the Lockheed Martin Corporation Code of Ethics and Business Conduct and fostered an atmosphere to encourage all employees acting under the Participant's supervision to perform their duties in accordance with the highest ethical standards. Ethical behavior is imperative. It is also a prerequisite before a payment under a Plan can be considered that a Participant be in good standing with the Company. Thus, in evaluating performance against commitments, a Participant's adherence to the Company's ethical standards will be considered paramount in determining awards under the Plan.

Participants whose individual performance is determined to be unacceptable are not eligible to receive Incentive Compensation awards.

Article II. DEFINITIONS

With respect to a Participant, unless otherwise defined in this Article II of Exhibit A, capitalized terms used in this Document have the meanings set forth in the Plan.

Section 2.01 **DISABILITY** – Termination of employment as a result of becoming totally disabled as evidenced by commencement of benefits under the Company's long-term disability plan in which the Participant is enrolled (or, if not a Participant in a Company-sponsored long-term disability plan, under circumstances which would result in the Participant becoming eligible for benefits using the standards set forth in the Company's long-term disability plan).

Section 2.02 **ESP** – The Lockheed Martin Corporation Executive Severance Plan, as amended from time to time.

Section 2.03 **RETIREMENT** – Retirement under the terms of a Company-sponsored pension plan or for Employees who do not participate in a pension plan, termination from employment with the Company following the attainment of age 55 and five years of service or attainment of age 65.

Article III. ELIGIBILITY FOR INCENTIVE COMPENSATION AWARDS

Section 3.01 In general, a Participant must be an Employee on active status or on paid leave of absence on January 1 through December 31 of the Plan Year to be eligible for a full Incentive Compensation award for that Plan Year.

Section 3.02 Partial, pro-rated Incentive Compensation awards for Participants may be made as provided in this Section 3.02. All pro-rated awards will be calculated to the day, i.e., the number of days an Employee is a Participant in the Plan divided by 365.

(a) Hire during a Plan Year:

(i) Participant hired before October 1: Participant is eligible for a pro-rated payment if on active status on December 31 of the Plan Year.

- (ii) Employee hired on or after October 1: Employee is not eligible for an award under the Plan for the Plan Year.
- (b) Promotion during a Plan Year:
 - (i) Employee promoted before October 1: Employee is eligible for a pro-rated payment if selected to be a Participant and on active status on December 31 of the Plan Year.
 - (ii) Employee promoted on or after October 1: Employee is not eligible for an award under the Plan for the Plan Year.
- (c) Downlevel during a Plan Year:
 - (i) Participant downleveled before October 1: Participant is eligible for a pro-rated award if on active status on December 31 of the Plan Year.
 - (ii) Participant downleveled on or after October 1: Participant is eligible for a full award if he or she was a Participant on January 1 of the Plan Year and continues to be an Employee on active status on December 31 of the Plan Year.
- (d) Voluntary termination during the Plan Year: A Participant is not eligible for an award if he or she voluntarily terminates employment, other than on account of Retirement, during the Plan Year.
- (e) Lay Off during a Plan Year:
 - (i) Non-ESP-Eligible Participants: A Participant who does not receive a payment under the ESP may be considered for a pro-rated award in the Company's discretion if the Participant has a minimum of six (6) months as an active Employee during the Plan Year. The pro-rated award will be based on a payment made "At Target."
 - (ii) ESP-Eligible Participants: A Participant who receives any payment under the ESP, regardless of whether the Participant receives a supplemental payment under the ESP, is not eligible to receive an award under the Plan with respect to the Plan Year in which the layoff occurs (even if the layoff occurs on the last day of the Plan Year).
- (f) Retirement during a Plan Year: A Participant who terminates employment with the Company on account of Retirement during a Plan Year may be considered for a pro-rated award in the Company's discretion if the Participant has a minimum of six (6) full months as an active Employee during the Plan Year. The pro-rated award will be based on year-end performance results.
- (g) Disability or death during a Plan Year: A Participant who terminates employment with the Company on account of Disability or death during a Plan Year may be considered for a pro-rated award in the Company's discretion if the Participant has a minimum of three (3) full months as an active Employee during the Plan Year. The pro-rated award will be based on a payment made "At Target."

- (h) Unpaid leave of absence during a Plan Year: A Participant who is on unpaid leave of absence for more than three (3) months during a Plan Year may be considered for a pro-rated award in the Company's discretion if the Participant has a minimum of three (3) full months as an active Employee during the Plan Year.
- (i) Termination for cause during a Plan Year: A Participant who is terminated for cause during the Plan Year is not eligible for an award under the Plan.

Section 3.03 An Incentive Compensation award for a Participant whose target level and/or award formula changes during the Plan Year will be pro-rated to the day, i.e., the number of days during which the original level and/or formula applied to the Participant divided by the number of days in the plan year, and the number of days during which the new level and/or formula applied to the Participant divided by the number of days in the plan year.

Article IV. RECOVERY OF PAYMENTS (CLAW BACK)

Section 4.01 The Board of Directors retains the authority to make retroactive adjustments to a payment made under the Plan on or after January 1, 2008 under the following circumstances and such other circumstances as may be specified by final regulation issued by the Securities and Exchange Commission entitling the Company to recapture or claw back amounts paid pursuant to the Plan:

- (a) If the Board of Directors determines, after consideration of all the facts and circumstances that the Board of Directors in its sole discretion considers relevant, that either (i) the intentional misconduct or gross negligence of an Elected Officer, or (ii) the failure of an Elected Officer to report another person's intentional misconduct or gross negligence of which the Elected Officer had knowledge, contributed to the Company having to restate all or a portion of its financial statements filed with the Securities and Exchange Commission, then the Board of Directors may require the Elected Officer to repay to the Company the value of any payment under the Plan as determined by the Board of Directors.
- (b) If the Board of Directors determines, after consideration of all the facts and circumstances that the Board of Directors in its sole discretion considers relevant, that an Elected Officer either (i) engaged in fraud, bribery or other illegal act, or (ii) the Elected Officer's intentional misconduct or gross negligence (including the failure by the Elected Officer to report the acts of another person of which the Elected Officer had knowledge) contributed to another person's fraud, bribery or other illegal act, which in either case adversely impacted the Company's financial position or reputation, the Board of Directors may require the Elected Officer to repay to the Company the value of any payment under the Plan as determined by the Board of Directors.

To the extent permissible under applicable law, the Board of Directors may delegate its authority to make determinations under this Article IV to the Committee.

ADDENDUM I**PROVISIONS APPLICABLE TO EMPLOYEES OF LM AUSTRALIA**MODIFICATIONS TO THE PLAN AND EXHIBIT A MODIFICATIONS TO THE PLAN

All references to Code section 409A are inapplicable to Employees who are employed by LM Australia. Payments under the Plan will be taxed as income under local rules and subject to superannuation and any other applicable deductions required by law or regulation.

With respect to Employees employed by LM Australia, Section 2.07 is revised in its entirety as follows:

EMPLOYEE –The term “Employee” includes only those individuals that the Company classifies on its payroll records as Employees and does not include consultants, independent contractors, interns, volunteers, temporary or casual employees, individuals paid by a third party or other individuals not classified as an Employee by the Company.

MODIFICATIONS TO EXHIBIT A

In Section 3.02(e), the references to “layoff” or to being “laid off” mean “redundancy” or being “made redundant”.

ACKNOWLEDGEMENT AND DISCRETION

This Plan does not form part of any contract between a Participant and the Company. Any reference to obligations or requirements of the Company in this Plan is not intended to give rise to contractual obligations binding on the Company.

Any payment made to a Participant under this Plan does not form part of a Participant’s Annual Salary for any purpose, including leave entitlements, notice and severance payments, unless otherwise provided by legislation.

REVIEW

This Plan, as it applies to Employees who are employed by LM Australia, shall be reviewed on an annual basis.

ADDENDUM II**PROVISIONS APPLICABLE TO EMPLOYEES OF LM UK****MODIFICATIONS TO THE PLAN**

All references to the Internal Revenue Code are inapplicable to Employees who are employed by LM UK.

With respect to Employees employed by LM UK, Section 2.07 is revised in its entirety as follows:

EMPLOYEE – Any person who is employed by the Company or who would otherwise be entitled to the same basic working and employment conditions as an employee in terms of pay. Except where entitled by law to the same basic working and employment conditions as an employee in terms of pay this does not include consultants, independent contractors, students, interns, temporary or casual employees, zero hours workers or other individuals not classified by the Company as its employees.

With respect to Employees employed by LM UK, Section 5.03 is revised in its entirety as follows:

Incentive Compensation payments under the Plan will be paid to each Participant through payroll not later than March 30 following the Plan Year.

With respect to Employees employed by LM UK, Section 5.05 is revised in its entirety as follows:

All Incentive Compensation payments made under the Plan shall be non-pensionable and shall be subject to PAYE and National Insurance and any other applicable deductions through the payroll. This does not affect the Employee's ability to make additional voluntary pension contributions.

With respect to Employees employed by LM UK, Section 7.02 is revised in its entirety as follows:

This Plan does not form a part of the Participant's contract of employment, or constitute an employment agreement or benefit of any kind, or a promise of employment for a specific term (including the Plan Year) and does not alter the nature of a Participant's employment with the Company, which may be terminated by the Company or a Participant in accordance with its terms.

MODIFICATIONS TO EXHIBIT A

The following is added to the end of the second paragraph of Article I:

In addition to any other requirements set forth in the Plan with respect to receipt of payments under the Plan, Participants who are employed by LM UK may not be eligible to receive payment if, on the date of payment, they are subject to the Company's disciplinary procedure or a performance improvement plan or are under notice of termination of employment.

With respect to Employees employed by LM UK, Section 2.01 is revised in its entirety as follows:

LTD BENEFITS – The payments that are made under the Company's long-term disability plan.

With respect to Employees employed by LM UK, Section 2.03 is revised in its entirety as follows:

RETIREMENT – Retirement under the terms of a Company-sponsored pension plan or, for Employees who do not participate in a pension plan, termination from employment with the Company following the attainment of age 55.

With respect to Employees employed by LM UK, Section 3.01 is revised in its entirety as follows:

In general, a Participant must be an Employee on active status or on paid leave of absence on January 1 through December 31 of the Plan Year to be eligible for a full Incentive Compensation award for that Plan Year. For purposes of the foregoing: (a) an Employee will not be eligible for an Incentive Compensation award with respect to any period of paid leave of absence in excess of 26 weeks; and (b) Employees in receipt of LTD Payments will not be considered on active status or on paid leave of absence.

With respect to Employees employed by LM UK, Section 3.02(e) is revised in its entirety as follows:

Termination due to Redundancy during a Plan Year: A Participant who terminates employment with the Company on account of redundancy during a Plan Year may be considered for a pro-rated award in the Company's discretion if the Participant has a minimum of six (6) months as an active Employee during the Plan Year. The pro-rated award will be based on a payment made "At Target."

With respect to Employees employed by LM UK, Section 3.02(g) is revised in its entirety as follows:

Death during a Plan Year: A Participant who either terminates employment with the Company or has his or her employment terminated on account of death during a Plan Year may be considered for a pro-rated award at the Company's discretion if the Participant has a minimum of three (3) full months as an active Employee during the Plan Year. The pro-rated award will be based on a payment made "At Target."

With respect to Employees employed by LM UK, new Section 3.02(j) is added as follows:

LTD Payments during a Plan Year: A Participant is not eligible for an Incentive Compensation award with respect to any part of a Plan Year for which he or she is receiving LTD Payments but will receive a pro-rated award for the remainder of the year that they are on active service. Where no performance rating has been recorded, the individual component of the pro-rated award will be based on a payment made "At Target".

With respect to Employees employed by LM UK, new Section 4.02 is added as follows:

Any Participant receiving a payment does so on the understanding that it is made on the understanding that the Participant has not acted in the manner referred to in Section 4.01 and that the Participant received the payment subject to the provisions of Section 4.01. Where the provision of Section 4.01 apply the payment shall be recoverable as a debt due from the Participant to the Company.

Award Date: January 26, 2017



**THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING
SECURITIES THAT HAVE BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933**

Dear Awardee:

On behalf of the Management Development and Compensation Committee ("Committee") of the Board of Directors, I am pleased to tell you that the Committee has awarded you Restricted Stock Units ("RSUs"). Each RSU entitles you, upon satisfaction of the continuous employment and other requirements set forth in this letter and the Plan, to receive from Lockheed Martin Corporation ("Corporation"): (i) one (1) share of the Corporation's common stock, par value \$1.00 per share ("Stock"); and (ii) a cash payment equal to the sum of any cash dividends paid to stockholders of the Corporation during the Restricted Period (as defined below), each in accordance with the terms of this letter, the Lockheed Martin Corporation 2011 Incentive Performance Award Plan ("Plan"), as amended, and any rules and procedures adopted by the Committee.

This letter constitutes the Award Agreement for your RSUs and sets forth some of the terms and conditions of your Award under the Plan, as determined by the Committee. Additional terms and conditions, including tax information, are contained in the Plan and in the Prospectus relating to the Plan of which the Plan and this Award Agreement are a part. In the event of a conflict between this letter and the Plan, the Plan document will control. The number of RSUs awarded to you and the Prospectus are available at <http://www.stockplanconnect.com>.

The term Restricted Stock Unit or RSU as used in this Award Agreement refers only to the Restricted Stock Units awarded to you under this Award Agreement. References to the "Corporation" include Lockheed Martin Corporation and its Subsidiaries.

Except as described in Section 9, your Award is not effective or enforceable until you properly acknowledge your acceptance of the Award by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as instructed below as soon as possible but in no event later than May 31, 2017. **Except as described in Section 9, if you do not properly acknowledge your acceptance of this Award Agreement on or before May 31, 2017, this Award will be forfeited.**

Assuming prompt and proper acknowledgement of your acceptance of this Award Agreement as described above and in Section 9, this Award will be effective as of the Award Date. Acceptance of this Award Agreement constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award and your agreement to be bound by the restrictions contained in Section 15 and Exhibit A ("Post-Employment Conduct Agreement") and Exhibit B ("Stock Ownership Requirements"), as amended from time to time.

1. CONSIDERATION FOR AWARD

The consideration for the RSUs is your continued service to the Corporation as an Employee during the Restricted Period set forth below. If you do not continue to perform services for the Corporation as an Employee during the entire Restricted Period as set forth below under "RESTRICTED PERIOD, FORFEITURE," your Award will be forfeited in whole or in part.

2. RIGHTS OF OWNERSHIP, RESTRICTIONS ON TRANSFER

During the Restricted Period, your RSUs will be subject to forfeiture. Until the Restricted Period ends with respect to a particular RSU and a share of Stock is delivered to you, you generally will not have the rights and privileges of a stockholder. In particular, you will not have the right to vote your RSUs on any matter put to the stockholders of the Corporation; you may not sell, transfer, assign, pledge, use as collateral or otherwise dispose of or encumber RSUs; and you will not have the right to receive any dividends paid to stockholders or dividend equivalents on the RSUs.

Upon expiration or termination of the Restricted Period with respect to your RSUs, and subject to the forfeiture provisions set forth below, each RSU for which the restrictions have lapsed will be exchanged for a certificate (either in paper or book entry form) evidencing one (1) share of Stock issued in your name and an amount equal to the cash dividends that would have been paid to you had you owned such share from the Award Date until the expiration or termination of the Restricted Period ("Deferred Dividend Equivalents" or "DDEs"). Your shares and the cash payment for the DDEs will be delivered to you as soon as practicable, but not later than sixty (60) days after the expiration or termination of the Restricted Period.

The certificates delivered to you may contain any legend the Corporation determines is appropriate under the securities laws.

You are responsible for payment of all Taxes imposed on you as a result of the Award. The Corporation will comply with all applicable U.S. Tax withholding requirements applicable to the RSUs, the DDEs, and associated Stock. Please see the prospectus for the Plan for a discussion of certain material U.S. Tax consequences of the Award. Any withholding Tax on shares of Stock (and associated DDEs) deliverable to you may be satisfied by means of the Corporation's reducing the number of shares of Stock (and associated DDEs) deliverable to you in respect of a vested Award. If you are an Insider at the time of income tax withholding, the Corporation will base withholding on the highest individual tax rate. If you are not an Insider at the time of income tax withholding, the Corporation will base withholding on the highest individual tax rate, unless you elect otherwise in accordance with procedures established by the Corporation during an election window offered by the Corporation. If you elect a lower tax rate for withholding, then you may owe additional taxes as a result of the payment of the Award.

If any Tax withholding is required with respect to any Award (including with respect to associated DDEs) during the Restricted Period, the Corporation generally shall accelerate vesting on a number of shares of Stock and/or DDEs with a value equal to the Tax withholding obligation and the vested shares of Stock and/or vested DDEs will be used to satisfy the Tax withholding obligation. Your Award will be reduced by the number of shares of Stock and/or DDEs that are accelerated pursuant to the prior sentence.

The Corporation shall also have the right to (i) offset any other obligation of the Corporation to you (including, but not limited to withholding from your salary) by an amount sufficient to satisfy the Tax withholding obligation, or (ii) require you (or your estate) to pay the Corporation an amount equal to the Tax withholding obligation.

If you are a taxpayer in a country other than the U.S., you agree to make appropriate arrangements with the Corporation or its subsidiaries for the satisfaction of all income and employment tax withholding requirements, as well as social insurance contributions applicable to the RSUs, the DDEs, and associated Stock. Please see the tax summary for your country at <http://www.stockplanconnect.com>. If you are a taxpayer in a country other than the U.S., you represent that you will consult with your own tax advisors in connection with this Award and that you are not relying on the Corporation for any tax advice.

If a payment under this Award constitutes nonqualified deferred compensation under Section 409A of the Code, no payment due upon termination of employment shall be made unless the termination of employment is a "separation from service" as defined in Section 409A of the Code and accompanying regulations. In the event Code section 409A(a)(2)(B)(i) applies because you are a specified employee receiving a distribution on account of a termination of employment, delivery of Stock and the DDEs may be delayed for six months from such date. Similarly, if you are an Insider subject to the reporting provisions of Section 16(a) of the Securities Exchange Act of 1934 ("Exchange Act"), delivery of Stock following the expiration of the Restricted Period for any reason may be delayed for six months. For example, if the delivery of the Stock would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, delivery will be delayed until the earliest date upon which the delivery either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

After the Stock is delivered to you, you will enjoy all of the rights and privileges associated with ownership of the shares, including the right to vote on any matter put to stockholder vote, to receive dividends, and to encumber, sell or otherwise transfer the shares. You should note, however, that, while the shares would thus be free of the restrictions imposed during the Restricted Period, your ability to sell or pledge the shares may be limited under the federal securities laws or corporate policy.

In the event of your death, the Stock and cash payment for the DDEs in respect of your RSUs will be transferred to your estate.

3. RESTRICTED PERIOD, FORFEITURE

Except as otherwise provided in Section 4 below or as required to satisfy a Tax withholding obligation as provided in Section 2 above, the vesting of the RSUs awarded under this Award Agreement along with the DDEs is subject to the following:

(a) Restricted Period. All of your RSUs will be forfeited and all of your rights to the RSUs and to receive Stock for your RSUs and to receive cash payment for the DDEs will cease without further obligation on the part of the Corporation unless (i) except as described in Section 9, you personally accept this Award Agreement as provided in Section 9 by May 31, 2017, and (ii) you provide services to the Corporation as an Employee of the Corporation throughout the entire Restricted Period. The Restricted Period begins on the Award Date and terminates on January 26, 2020, subject only to the specific exceptions provided below.

(b) RSU Performance Goal. If you are an Elected Officer of the Corporation as of the Award Date, you will forfeit a number of whole RSUs to the extent that your "RSU Award Value" exceeds your "RSU Performance Goal" as follows:

- (i) At its first meeting after the Corporation finalizes the financial results for the year ending December 31, 2017, the Committee will multiply the number of RSUs awarded to an Elected Officer under this Award Agreement by the Fair Market Value of Stock on the Award Date (\$) ("RSU Award Value"). The Committee will then compare the RSU Award Value to the product of the Designated Percentage (as defined herein) and the Corporation's Cash Flow for the year ending December 31, 2017 (with the product being referred to as the "RSU Performance Goal"). If your RSU Award Value exceeds your RSU Performance Goal (with the amount of that excess referred to as the "Performance Shortfall") then you will forfeit the number of whole RSUs that are equal to the Performance Shortfall divided by the Fair Market Value of Stock on the Award Date (\$). For the Chief Executive Officer and President, the Designated Percentage shall be 0.20%. For all other Elected Officers, the Designated Percentage shall be 0.10%.
- (ii) For purposes of this Award Agreement, Cash Flow means net cash flow from operations, adjusted to exclude the impact of: (i) the aggregate after tax difference between the amount forecasted in the Corporation's 2017 Long Range Plan to be contributed by the Corporation to the Corporation's defined benefit pension plans during the period and the actual amounts contributed by the Corporation during the period; (ii) any tax payments or tax benefits during the period associated with the divestiture of business units, other than tax payments or tax benefits that were included in the Corporation's 2017 Long Range Plan; and (iii) for any year in which Cash Flow would otherwise be affected by the enactment of corporate tax reform and related legislation and regulations that change the top United States federal or other national corporate income tax rate, the aggregate difference between the tax payments forecasted in the 2017 Long Range Plan and the actual tax payments (and adjusting the amount under clause (i) above, if any, to the extent necessary to avoid double counting of tax impacts). Cash Flow shall be determined by the Committee based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the period for which Cash Flow is being determined, the Committee shall determine Cash Flow in a manner consistent with the historical practices used by the Corporation in determining net cash provided by operating activities as reported in its audited consolidated statement of cash flows, in either case as modified by this paragraph. Notwithstanding the foregoing, Cash Flow will be adjusted to exclude the impact of any change in accounting standards or adoption of any new accounting standards that is required under generally accepted accounting principles in the United States after January 26, 2017 and that is reported in the Corporation's filings with the Securities and Exchange Commission as having a material effect on the Corporation's consolidated financial statements.

If any applicable requirement is not satisfied, you may forfeit all or part of your RSUs. Upon forfeiture, you will no longer have the right to receive Stock for forfeited RSUs or to receive cash payments for the DDEs associated with the forfeited RSUs. If you are awarded more than one RSU Award within the same calendar year, such Awards will be aggregated for the purpose of applying your RSU Performance Goal, and your Performance Shortfall will be applied pro rata to each of your Awards.

4. DEATH, DISABILITY, LAYOFF, RETIREMENT

(a) Death and Disability

Your RSUs and the DDEs will immediately vest and no longer be subject to the continuing employment requirement or the potential forfeiture to the extent of a Performance Shortfall if:

- (i) you die while still employed by the Corporation; or
- (ii) you terminate employment as a result of your total disability. Your employment will be treated as terminating because of a total disability on the date you commence receiving a benefit under the Corporation's long-term disability plan in which you participate (or, if you are not enrolled in the Corporation's long-term disability plan, on the date on which long-term disability benefits would have commenced under the plan under which you would have been covered, had you enrolled, using the standards set forth in that plan).

The vested RSUs will be exchanged for shares of Stock, and the DDEs will be paid in cash as soon as practicable, but no later than sixty (60) days after the date of your termination of employment on account of death or total disability, and in no event later than the March 15 next following the year in which such termination occurs.

(b) Retirement or Layoff

If you retire or are laid off by the Corporation (including through a voluntary separation program that constitutes a window program under Code section 409A) and the effective date of your retirement or layoff is after July 26, 2017, but before January 26, 2020, you will continue to vest in your RSUs and the DDEs as if you had remained employed by the Corporation until January 26, 2020. The effective date of your retirement is the first day of the month following the date you terminate services with the Corporation. Notwithstanding the foregoing, (i) if you are an Elected Officer, your RSUs will not be considered vested until such time as the Committee makes its certification with respect to the RSU Performance Goal, if any, and the amount vested will be reduced by the Performance Shortfall, if any; or (ii) if you are an employee who has been identified by the Corporation as subject to Divestiture (as defined in Section 6 below), and the effective date of your layoff is after the Award Date but before July 26, 2017, you will continue to vest in your RSUs and the DDEs as if you remained employed by the Corporation until January 26, 2020.

The vested RSUs will be exchanged for shares of Stock, and the related DDEs associated with the vested portion of your RSUs will be paid in cash as soon as practicable, but no later than the earlier of sixty (60) days after the later of (i) January 26, 2020, or (ii) the date the

Committee makes its certification with respect to the RSU Performance Goal (for taxpayers in Canada or as otherwise required by local country law, no later than December 31st of the year in which the award is certified).

For purposes of this provision, the term “retirement” means retirement from service following attainment of (i) age 55 and ten years of service (at the time of termination), or (ii) age 65.

If you are employed in Canada, for purposes of the Award Agreement, the date of termination of employment will be the last day of actual and active employment. For the avoidance of doubt, except as may be required by applicable minimum standards legislation, no period of notice or payment in lieu of notice that is given or that ought to have been given under any applicable law or contract in respect of such termination of employment that follows or is in respect of a period after your last day of actual and active employment, if any, will be considered as extending your period of employment for purposes of determining your entitlement under this Award Agreement.

5. RESIGNATION OR TERMINATION BEFORE JANUARY 26, 2020

Except where prohibited by law, if you resign or your employment otherwise terminates before January 26, 2020, other than on account of death, disability, layoff, or retirement (as described above), or Divestiture or Change in Control (as described below), you will forfeit your RSUs and the related DDEs on the date of your termination.

Except where prohibited by law, if your employment terminates before January 26, 2020 by action of the Corporation due to your misconduct, then you will forfeit your RSUs and the associated DDEs on the date of your termination. If your employment terminates due to your misconduct after July 26, 2017, but before January 26, 2020, then you will not be eligible for continued vesting under Section 4(b) of the Award Agreement, even if at the time of your termination due to misconduct you have attained (i) age 55 and ten years of service, or (ii) age 65. The business area or Enterprise Operations review committee responsible for determinations of misconduct, or the Committee if you are an Elected Officer, will determine if your employment terminates due to misconduct.

6. DIVESTITURE

In the event of a Divestiture (as defined below) of all or substantially all of a business operation of the Corporation and such Divestiture results in the termination of your employment with the Corporation or its subsidiaries and the transfer of such employment to the other party to the Divestiture or the entity resulting from the Divestiture (or its affiliate), then the Committee may arrange for such other party or entity to assume or continue your RSUs or substitute equivalent restricted securities for your RSUs, with the same terms and conditions that apply to your RSUs pursuant to this Award Agreement, and the remainder of this Section 6 shall not apply.

If (i) such assumption, continuance or substitution of your RSUs does not occur, (ii) the Divestiture results in the termination of your employment with the Corporation or its subsidiaries, and (iii) your employment transfers to the other party to the Divestiture or the entity resulting from the Divestiture (or its affiliate), then the following rules will apply:

(a) Prorata Vesting. Subject to any Performance Shortfall and corresponding reduction to your RSUs, you shall be eligible to receive a fraction of your RSUs and the

associated DDEs with respect to such fraction. The numerator of such fraction shall equal the number of days in the Restricted Period before your employment as an Employee terminated due to the Divestiture, and the denominator shall equal the total number of days in the Restricted Period. Fractional shares shall be rounded up to the next whole share.

(b) Special Rule if Retirement Eligible. Notwithstanding Section 6(a) immediately above, if at the time your employment with the Corporation or its subsidiaries terminates due to Divestiture and transfers to the other party to the Divestiture or the resulting entity to the Divestiture (or its affiliate), you are eligible for retirement treatment under Section 4(b) above (without regard to whether your termination occurs after July 26, 2017), then the Corporation will treat you as having retired and apply the vesting provision in Section 4(b) above to your RSUs.

(c) No Further Rights. The Committee shall have complete and absolute discretion to make the determinations called for under this Section 6, and all such determinations shall be binding on you and on any person who claims all or any part of your RSUs and associated DDEs on your behalf as well as on the Corporation. If you terminate employment during the Restricted Period due to Divestiture but are eligible to receive a portion of your RSUs and associated DDEs as a result of this Section 6, payment of such portion of your RSUs and associated DDEs shall be in full satisfaction of all rights you have under this Award Agreement and you will receive shares of Stock in exchange for RSUs and the cash payment for the DDEs as soon as practicable, but no later than the later of sixty (60) days after your termination of employment with the Corporation or the determination by the Committee of any Performance Shortfall.

For the purposes of this Section 6, the term "Divestiture" shall mean a transaction that results in the transfer of control of the business operation divested to any person, corporation, association, partnership, joint venture, limited liability company or other business entity of which less than 50% of the voting stock or other equity interests (in the case of entities other than corporations), is owned or controlled directly or indirectly by the Corporation, by one or more of the Corporation's subsidiaries or by a combination thereof.

7. CHANGE IN CONTROL DURING THE RESTRICTED PERIOD

In the event of a consummation of a Change in Control during the Restricted Period, the number of RSUs subject to this Award (without regard to any Performance Shortfall) and associated DDEs will become vested (i) on the effective date of the Change in Control if the RSUs are not assumed, continued, or equivalent restricted securities are not substituted for the RSUs by the Corporation or its successor, or (ii) if the RSUs are assumed, continued or substituted by the Corporation or its successor, on the effective date of your involuntary termination by the Corporation or its successor other than for Cause (as defined herein, not including death or Total Disability) or your voluntary termination with Good Reason (as defined herein), in either case, within the 24-month period following the consummation of the Change in Control.

In the event the RSUs and associated DDEs vest in accordance with this Section 7 (whether immediately following the Change in Control or following your termination), the shares of Stock or equivalent substituted securities in which you have become vested and the associated DDEs (less any Tax withholding) shall be delivered to you within 14 days of the date on which you become vested.

- (a) "Cause" shall mean either of the following:
- (i) Conviction for an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic-related offenses or as a result of vicarious liability); or
 - (ii) Willful misconduct that is materially injurious to the Corporation's financial position, operating results or reputation; provided, however that no act or failure to act shall be considered "willful" unless done, or omitted to be done, by you (a) in bad faith; (b) for the purpose of receiving an actual improper personal benefit in the form of money, property or services; or (c) in circumstances where you had reasonable cause to believe that the act, omission, or failure to act was unlawful.
- (b) "Good Reason" shall mean, without your express written consent, the occurrence of any one or more of the following after the Change in Control:
- (i) A material and substantial reduction in the nature or status of your authority or responsibilities;
 - (ii) A material reduction in your annualized rate of base salary;
 - (iii) A material reduction in the aggregate value of your level of participation in any short or long term incentive cash compensation plan, employee benefit or retirement plan or compensation practices, arrangements, or policies;
 - (iv) A material reduction in the aggregate level of participation in equity-based incentive compensation plans; or
 - (v) Your principal place of employment is relocated to a location that is greater than 50 miles from your principal place of employment on the date the Change in Control is consummated.

Your continued employment following an event that would constitute a basis for voluntary termination with Good Reason shall not constitute Good Reason if you consent to, or waive your rights with respect to any circumstances constituting Good Reason. In addition, the occurrence of an event described in (i) through (v) shall constitute the basis for voluntary termination for Good Reason only if you provide written notice of your intent to terminate employment within 90 days of the first occurrence of such event and the Corporation has had at least 30 days from the date on which such notice is provided to cure such occurrence. If you do not terminate employment for Good Reason within 180 days after the first occurrence of the applicable grounds, then you will be deemed to have waived your right to terminate for Good Reason with respect to such grounds.

8. AMENDMENT AND TERMINATION OF PLAN OR AWARDS

As provided in Section 9 of the Plan, subject to certain limitations contained within Section 9, the Board of Directors may at any time amend, suspend or discontinue the Plan and the Committee may at any time alter or amend this Award Agreement. Notwithstanding Section 9 of the Plan, no such amendment, suspension or discontinuance of the Plan or alteration or amendment of Award Agreements will, except with your express written consent, adversely affect your rights under this Award Agreement. This Award Agreement shall not be amended or interpreted in a manner that is reasonably believed to result in the imposition of Tax under Code section 409A.

9. ACCEPTANCE OF AWARD

No Award is enforceable until you properly acknowledge your acceptance by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as soon as possible but in no event later than May 31, 2017. Acceptance of this Award Agreement must be made only by you personally or by a person acting pursuant to a power of attorney in the event of your inability to acknowledge your acceptance (and not by your estate, your spouse or any other person) and constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award. Notwithstanding the foregoing, this Award will be enforceable and deemed accepted, and will not be forfeited, if you are unable to accept this Award Agreement personally by May 31, 2017 due to your death, disability, incapacity, deployment in the Armed Forces, or similar unforeseen circumstance as determined by the Corporation in its discretion. The Committee has authorized electronic means for the delivery and acceptance of this Award Agreement. If you desire to accept this Award, you must acknowledge your acceptance and receipt of this Award Agreement, either electronically or by signing and returning a copy of this letter on or before May 31, 2017, as follows:

(a) Electronic Acceptance: Go to <http://www.stockplanconnect.com>; or

(b) By Mail: Nick Lossia, Vice President of Compensation and Performance Management, Lockheed Martin Corporation, Mail Point 126, 6801 Rockledge Drive, Bethesda, MD 20817.

Assuming prompt and proper acknowledgment of this Award Agreement as described above, this Award will be effective as of the Award Date.

Except as described above, if you do not personally acknowledge your acceptance of this Award Agreement on or before May 31, 2017, this Award will be forfeited as noted above.

10. POST-EMPLOYMENT COVENANTS

Except where prohibited by law, by accepting this Award Agreement as described in Section 9, you agree to the terms of the Post-Employment Conduct Agreement contained in Exhibit A to this Award Agreement.

11. STOCK OWNERSHIP REQUIREMENTS

Except where prohibited by law, by accepting this Award Agreement through the procedure described in Section 9, you acknowledge receipt of the Stock Ownership Requirements ("Ownership Requirements") attached as Exhibit B and agree to comply with such Ownership Requirements as amended from time to time. If you are not a Vice President (or above) on January 26, 2017, but you are promoted to Vice President (or above) prior to January 26, 2020, the Ownership Requirements as in effect at that time shall become applicable to you on the date of your promotion to Vice President (or above).

12. DATA PRIVACY CONSENT FOR EMPLOYEES LOCATED OUTSIDE OF THE UNITED STATES

To the extent recognized under applicable law, you hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Award Agreement by and among the Corporation for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You understand that the Corporation holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares or directorships held in the Corporation, details of all awards or any other entitlement to shares awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Corporation may elect to administer the settlement of any award. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. You understand, however, that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

13. EMPLOYEE ACKNOWLEDGEMENT

You acknowledge and agree as follows:

- (a) the Plan is discretionary in nature and that the Committee may amend, suspend, or terminate it at any time;
- (b) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of any RSUs, or benefits in lieu of any RSUs even if RSUs have been granted repeatedly in the past;
- (c) all determinations with respect to such future RSUs, if any, including but not limited to the times when RSUs shall be granted or when RSUs shall vest, will be at the sole discretion of the Committee;
- (d) your participation in the Plan is voluntary;
- (e) the value of the RSUs is an extraordinary item of compensation, which is outside the scope of your employment contract (if any), except as may otherwise be explicitly provided in your employment contract;

(f) the RSUs are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating termination, severance, resignation, redundancy, end of service, or similar payments, or bonuses, long-service awards, pension or retirement benefits;

(g) the RSUs shall expire upon termination of your employment for any reason except as may otherwise be explicitly provided in the Plan and this Award Agreement;

(h) the future value of the shares is unknown and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages arises from the termination of the RSUs or diminution in value of the RSUs or Stock and you irrevocably release the Corporation and your employer from any such claim that may arise; and

(j) if I am a resident of Turkey, that the offer of this Award has been made by the Corporation to you personally in connection with your existing relationship with the Corporation or one or more of its affiliates, subsidiaries and/or related companies, and further, that the Award, the related shares of the Stock and the related offer thereof are not subject to regulation by any securities regulator in Turkey, or otherwise outside of the U.S.

14. ENGLISH LANGUAGE

You have received the terms and conditions of this Award Agreement and any other related communications, and you consent to having received these documents in English. If you have received this Award Agreement or any other documents related to the Plan translated into a language other than English, and if the translated version is different from the English version, the English version will control.

Quebec Residents Only: The Parties have agreed that this Award Agreement, the Plan as well as any notice, document or instrument relating to them be drawn up in English only. You acknowledge that, upon your reasonable request, the Corporation will provide a French translation of such documents to you. Les parties aux présentes ont convenu que la présente accord, le "Plan," ainsi que tous autres avis, actes ou documents s'y rattachant soient rédigés en anglais seulement. Vous reconnaissez que, à votre demande raisonnable, "the Corporation" fournit une traduction française de ces documents à vous.

15. ELECTRONIC DELIVERY

By executing this Award Agreement, you consent to receive copies of the Prospectus applicable to this Award from this internet site (<http://www.stockplanconnect.com>) as well as to electronic delivery of the Corporation's annual report on Form 10-K, annual proxy statement and quarterly reports on Form 10-Q. This consent can only be withdrawn by written notice to the Vice President of Compensation and Performance Management at the address noted above. The Corporation may, in its sole discretion, decide to deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation.

16. CURRENCY EXCHANGE RISK

If your functional currency is not the U.S. dollar, you agree and acknowledge that you will bear any and all risk associated with the exchange or fluctuation of currency associated with the RSUs, including without limitation sale of the Shares and payment of DDEs (the "Currency Exchange Risk"). Any cash payments due to you under this Award Agreement will be converted to your functional currency at the rate determined by the Corporation, in its discretion, on the last day of the Restricted Period. You waive and release the Corporation and its subsidiaries from any potential claims arising out of the Currency Exchange Risk.

17. EXCHANGE CONTROL REQUIREMENTS

You agree and acknowledge that you will comply with any and all exchange control requirements applicable to the RSUs and the sale of Shares and any resulting funds including, without limitation, reporting or repatriation requirements.

18. MISCELLANEOUS

If you are on leave of absence, for the purposes of the Plan, you will be considered to still be in the employ of the Corporation unless otherwise provided in an agreement between you and the Corporation.

Nothing contained in this Award Agreement shall confer upon you any right of continued employment by the Corporation or guarantee that any future awards will be made to you under the Plan. In addition, nothing in this Award Agreement limits in any way the right of the Corporation to terminate your employment at any time. Neither the value of the RSUs awarded to you nor the DDEs will be taken into account for other benefits offered by the Corporation, including but not limited to pension benefits. Notwithstanding any other provision of this Award Agreement to the contrary, no Stock will be issued to you pursuant to this Award Agreement within six months from the Award Date.

Transactions involving Stock delivered under this Award Agreement are subject to the securities laws and CPS 722 (a copy of which has been made available to you). Among other things, CPS 722 prohibits employees of the Corporation from engaging in transactions that violate securities laws or involve hedging or pledging stock. Insiders are subject to additional restrictions. **The Corporation recommends that Insiders consult with the Senior Vice President, General Counsel and Corporate Secretary or her staff before entering into any transactions involving Stock or RSUs.**

You have no rights as a stockholder to any securities covered by this Award Agreement until the date on which you become the holder of record of such securities. Capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Plan.

Sincerely,

Patricia L. Lewis
Senior Vice President,
Human Resources

(For written acceptance, please complete, sign, and return by mail.)

Acknowledged by:

Signature

Date

Print Name

Employee ID

Exhibit A

Post-Employment Conduct Agreement
(RSU Grant)

This Post-Employment Conduct Agreement (this "PECA") attached as Exhibit A to the Award Agreement with an Award Date of January 26, 2017, (the "Award Agreement") is entered into in consideration of, among other things, the grant of restricted stock units to me under the Award Agreement (the "RSUs") pursuant to the Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (the "Plan"). References to the "Corporation" shall include Lockheed Martin Corporation and its Subsidiaries. By accepting the RSUs, I agree as follows:

1. Restrictions Following Termination of Employment.

(a) Covenant Not To Compete – Without the express written consent of the "Required Approver" (as defined in Section 6), during the one-year period (or two-year period for Elected Officers) following the date of my termination of employment (the "Termination Date") with the Corporation, I will not, directly or indirectly, be employed by, provide services to, or advise a "Restricted Company" (as defined in Section 6), whether as an employee, advisor, director, officer, partner or consultant, or in any other position, function or role that, in any such case,

- (i) oversees, controls or affects the design, operation, research, manufacture, marketing, sale or distribution of "Competitive Products or Services" (as defined in Section 6) of or by the Restricted Company, or
- (ii) would involve a substantial risk that the "Confidential or Proprietary Information" (as defined in Section 1(c) below) of the Corporation (including but not limited to technical information or intellectual property, strategic plans, information relating to pricing offered to the Corporation by vendors or suppliers or to prices charged or pricing contemplated to be charged by the Corporation, information relating to employee performance, promotions or identification for promotion, or information relating to the Corporation's cost base) could be used to the disadvantage of the Corporation.

Section 1(a)(i) and (ii) shall not apply to residents of California.

To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct (such as the ABA Model Rules of Professional Conduct and state versions thereof), Sections 1(a)(i) and (ii) and Section 1(b) relating to non-solicitation, shall apply to individuals who are employed by the Corporation in an attorney position and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation does not include practicing law.

In lieu of Section 1(a)(i) and (ii), as well as Section 1(b) relating to non-solicitation, the following Section 1(a)(iii) shall apply to individuals who are employed by the Corporation in an attorney position, and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation includes practicing law.

- (iii) Post-Employment Activity As a Lawyer – I acknowledge that as counsel to the Corporation, I owe ethical and fiduciary obligations to the Corporation and that at least some of these obligations will continue even after my Termination Date with the Corporation. I agree that after my Termination Date I will comply fully with all applicable ethical and fiduciary obligations that I owe to the Corporation. To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct, I agree that I will not:
- a. Represent any client in the same or a substantially related matter in which I represented the Corporation where the client's interests are materially adverse to the Corporation; or
 - b. Disclose confidential information relating to my representation of the Corporation, including the disclosure of information that is to the disadvantage of the Corporation, except for information that is or becomes generally known.

The Corporation's Senior Vice President, General Counsel, and Corporate Secretary or the General Tax Counsel, as applicable, will determine in his or her discretion whether an individual is employed by the Corporation in an attorney position.

(b) Non-Solicit – Without the express written consent of the Required Approver, during the one-year period (two-year period for Elected Officers) following the Termination Date, I will not (i) interfere with any contractual relationship between the Corporation and any customer, supplier, distributor or manufacturer of or to the Corporation to the detriment of the Corporation or (ii) induce or attempt to induce any person who is an employee of the Corporation to perform work or services for any entity other than the Corporation.

(c) Protection of Proprietary Information – Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar agreements that I signed while employed by the Corporation committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Corporation or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such agreements. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Corporation or others to which I had access or that I was responsible for creating or overseeing during my employment with the Corporation. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Corporation's Senior Vice President, General Counsel and Corporate Secretary as to the existence of the obligation and will cooperate with any reasonable request by the Corporation for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Corporation shall be and remain the property of the Corporation. For purposes of this PECA, "Confidential or Proprietary Information" means Proprietary Information within the meaning of CRX-015C (a copy of which has been made available to me), including but not limited to information that a person or entity desires to protect from unauthorized disclosure to third parties that can provide the person or entity with a business, technological, or economic advantage over its competitors, or which, if known or used by third parties or if used by the

person's or entity's employees or agents in an unauthorized manner, might be detrimental to the person's or entity's interests. Confidential or Proprietary Information may include, but is not limited to:

- (i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or
- (ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

(d) No Disparagement – Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Corporation or its directors, officers, employees, technology, products or services with respect to any matter whatsoever.

(e) Cooperation in Litigation and Investigations – Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Corporation in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Corporation or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Corporation, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

2. Consideration and Acknowledgement. I acknowledge and agree that the benefits and compensation opportunities being made available to me under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to me in connection with my employment by the Corporation and that the grant of the RSUs is expressly made contingent upon my agreements with the Corporation set forth in this PECA. I acknowledge that the scope and duration of the restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to me under the Award Agreement. I further acknowledge and agree that as a result of the high level executive and management positions I hold with the Corporation and the access to and extensive knowledge of the Corporation's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Corporation's legitimate business interests.

3. Remedies For Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) If I become (or currently am) an Insider (as defined in the Plan) or receive a Long-Term Incentive Performance Award, I agree, upon demand by the Corporation, to forfeit,

return or repay to the Corporation the “Benefits and Proceeds” (as defined below) in the event any of the following occur:

- (i) I breach any of the covenants or agreements in Section 1;
- (ii) The Corporation determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person’s intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Corporation, contributed to the Corporation having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission;
- (iii) The Corporation determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report another person’s intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Corporation) contributed to another person’s fraud, bribery or other illegal act, which in any such case adversely affected the Corporation’s financial position or reputation; or
- (iv) Under such other circumstances specified by final regulation issued by the Securities and Exchange Commission entitling the Corporation to recapture or clawback “Benefits and Proceeds” (as defined below).

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Corporation for any of the conduct described in Section 3(a) and shall not limit the Corporation from seeking damages or injunctive relief.

(c) For purposes of this Section 3, “Benefits and Proceeds” means (i) to the extent I own Stock issued in respect of vested RSUs, such Stock; (ii) to the extent I no longer own the shares of Stock of the Corporation issued in respect of the RSUs, cash in an amount equal to the greater of (x) the value of such Stock on the date the associated RSUs vested (which, unless otherwise determined by the Management Development and Compensation Committee of the Board of Directors of the Corporation, shall be equal to the closing price of the shares of Stock as finally reported by the New York Stock Exchange on such date), and (y) the proceeds received in connection with the disposition of such Stock; and (iii) to the extent I have not earned the RSUs fully, all of my remaining rights, title or interest in my Award and any accrued dividend equivalents with respect thereto.

4. Injunctive Relief. I acknowledge that the Corporation’s remedies at law may be inadequate to protect the Corporation against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to the Corporation at law or in equity (including but not limited to, an action under Section 3(a), the Corporation shall be entitled to the granting of injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

6. Definitions. Capitalized terms not defined in this PECA have the meaning given to them in the Plan, as applicable. For purposes of this PECA, the following terms have the meanings given below:

(a) "Restricted Company" means The Boeing Company, General Dynamics Corporation, Northrop Grumman Corporation, the Raytheon Company, United Technologies Corporation, Honeywell International Inc., BAE Systems Inc., L-3 Communications Corporation, the Harris Corporation, Thales, Airbus Group, Inc., Textron Inc., Finmeccanica SpA, Leidos Holdings, Inc. and (i) any entity directly or indirectly controlling, controlled by, or under common control with any of the foregoing, and (ii) any successor to all or part of the business of any of the foregoing as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) "Competitive Products or Services" means products or services that compete with, or are an alternative or potential alternative to, products sold or services provided by a subsidiary, business area, division or operating unit or business of the Corporation as of the Termination Date and at any time within the two-year period ending on the Termination Date; provided, that, (i) if I had direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided during that two-year period by the subsidiary, business area, division or operating unit of the Corporation for which I had responsibility, and (ii) if I did not have direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided by a subsidiary, business area, division or operating unit of the Corporation for which I had access (or was required or permitted such access in the performance of my duties or responsibilities with the Corporation) to Confidential or Proprietary Information of the Corporation at any time during the two-year period ending on the Termination Date.

(c) "Required Approver" means:

- (i) with respect to the Chief Executive Officer and President, the Management Development and Compensation Committee of the Corporation's Board of Directors;
- (ii) with respect to any Elected Officer (other than the Chief Executive Officer and President), the Corporation's Chief Executive Officer; or
- (iii) with respect to all other employees, the Senior Vice President, Human Resources of the Corporation.

(d) "Elected Officer" means an officer of the Corporation who was elected to his or her position by the Corporation's Board of Directors.

7. Miscellaneous.

(a) The Plan, the Award Agreement (with Exhibit B) and this PECA constitute the entire agreement governing the terms of the award of the RSUs to me.

(b) This PECA shall be governed by Maryland law, without regard to its provisions governing conflicts of law. Any enforcement of, or challenge to, this PECA may only be brought in the Circuit Court of Maryland or the United States District Court for the District of Maryland. Both parties consent to the proper jurisdiction and venue of the Circuit Court of Maryland and the United States District Court for the District of Maryland for the purpose of enforcing or challenging this PECA.

(c) This PECA shall inure to the benefit of the Corporation's successors and assigns and may be assigned by the Corporation without my consent.

(d) This PECA provides for certain obligations on my part following the Termination Date and shall not, by implication or otherwise, affect in any way my obligations to the Corporation during the term of my employment by the Corporation, whether pursuant to written agreements between the Corporation and me, the provisions of applicable Corporate policies that may be adopted from time to time or applicable law or regulation.

This PECA is effective as of the acceptance by me of the award of RSUs under the Award Agreement and is not contingent on the vesting of my RSUs.

Exhibit B

Stock Ownership Requirements

Lockheed Martin's Stock Ownership Requirements for Key Employees apply to all senior level positions of Vice President and above. This reflects the expectations of our major shareholders that management demonstrate its confidence in Lockheed Martin through a reasonable level of personal share ownership. This practice is consistent with other major U.S. corporations which link some portion of personal financial interests of key employees with those of shareholders.

Stock Ownership Requirements

<u>Title</u>	<u>Annual Base Pay Multiple</u>
Chairman, President, and Chief Executive Officer	6 times
Chief Operating Officer	5 times
Chief Financial Officer	4 times
Executive Vice Presidents	3 times
Senior Vice Presidents	2 times
Other Elected Officers	2 times
Other Vice Presidents	1 times

Satisfaction of Requirements

Covered employees may satisfy their ownership requirements with common stock in these categories:

- Shares owned directly.
- Shares owned by a spouse or a trust.
- Shares represented by monies invested in 401(k) Company Common Stock Funds or comparable plans.
- Share equivalents as represented by income deferred to the Company Stock Investment Option of the Deferred Management Incentive Compensation Plan (DMICP).
- Unvested Restricted Stock Units.

Key employees will be required to achieve the appropriate ownership level within five years and are expected to make continuous progress toward their target. Appointment to a new level will reset the five year requirement. Unexercised options prior to vesting are not counted toward meeting the guidelines.

Holding Period

Covered employees must retain net vested Restricted Stock Units and Performance Stock Units and the net shares resulting from any exercise of stock options if the ownership requirements are not yet satisfied.

Covered employees are asked to report annually on their progress toward attainment of their share ownership goals.

Performance Stock Units (Annual)

Award Date: January 26, 2017



**THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING
SECURITIES THAT HAVE BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933**

Re: Lockheed Martin Corporation 2011 Incentive Performance Award Plan:
Performance Stock Unit Award (2017-2019 Performance Period)

Dear Awardee:

On behalf of the Management Development and Compensation Committee (the "Committee") of the Board of Directors of Lockheed Martin Corporation, I am pleased to tell you that you have been granted a Performance Stock Unit Award ("PSUs") under the Corporation's 2011 Incentive Performance Award Plan, as amended (the "Plan"). The purpose of this letter is to serve as the PSU Award Agreement and to set forth your Target Award as well as the terms and conditions to the payment of your Award. Additional terms and conditions are set forth in the Plan and in the Prospectus relating to the Plan of which the Plan document and this Award Agreement are a part. Your Target Award and the Prospectus are available at <http://www.stockplanconnect.com>. You should retain the Prospectus and the attached copy of the Plan in your records.

Except as described in Section 18, your Award is not effective or enforceable until you properly acknowledge your acceptance of the Award by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as instructed below as soon as possible but in no event later than May 31, 2017. **Except as described in Section 18, if you do not properly acknowledge your acceptance of this Award Agreement on or before May 31, 2017, this Award will be forfeited.**

Assuming prompt and proper acknowledgement of your acceptance of this Award Agreement as described above and in Section 18, this Award will be effective as of the Award Date. Acceptance of this Award Agreement constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award and your agreement to be bound by the restrictions contained in Section 18 and in Exhibit A ("Post-Employment Conduct Agreement") and Exhibit B ("Stock Ownership Requirements"), as amended from time to time, except where prohibited by law.

The Corporation will comply with all applicable U.S. Tax withholding requirements applicable to the PSUs, the DDEs, and associated Stock. **Please see the prospectus for the Plan for a discussion of certain material U.S. Tax consequences of the Award.** If you are a taxpayer in a country other than the U.S., you agree to make appropriate arrangements with the Corporation or its subsidiaries for the satisfaction of all income and employment tax withholding requirements, as well as

social insurance contributions applicable to the PSUs, the DDEs, and associated Stock. Please see the tax summary for your country at <http://www.stockplanconnect.com>. If you are a taxpayer in a country other than the U.S., you represent that you will consult with your own tax advisors in connection with this Award and that you are not relying on the Corporation for any tax advice.

Any withholding Tax on your Award will be satisfied by means of the Corporation reducing the number of shares of Stock (and associated DDEs) deliverable to you in respect of a vested Award. If you are an Insider at the time of income tax withholding, the Corporation will base withholding on the highest individual tax rate. If you are not an Insider at the time of income tax withholding, the Corporation will base withholding on the highest individual tax rate, unless you elect otherwise in accordance with procedures established by the Corporation during an election window offered by the Corporation. If you elect a lower tax rate for withholding, then you may owe additional taxes as a result of the payment of the Award. The Corporation shall also have the right to (i) offset any other obligation of the Corporation to you (including, but not limited to withholding from your salary) by an amount sufficient to satisfy the Tax withholding obligation, or (ii) require you (or your estate) to pay the Corporation an amount equal to the Tax withholding obligation.

Capitalized terms used in this Award Agreement either shall be defined in this Award Agreement or if not defined in this Award Agreement shall have the meaning given to the term in the Plan. The term "Target Award" as used in this Award Agreement refers only to the Target Award awarded to you under this Award Agreement and the term "Award" refers only to PSUs set forth in this Award Agreement. References to the "Corporation" include Lockheed Martin Corporation and its Subsidiaries. Appendix A contains an index of all capitalized terms used in this Award Agreement.

Section 1. Shares Awarded; Performance Period; Vesting Period; Payment of Award.

1.1 Shares Awarded.

(a) Target Award. Your Target Award for the Performance Period under this Award Agreement shall be the number of whole shares of Stock identified as your Performance Stock Unit ("PSU") Target Award in your account at <http://www.stockplanconnect.com>. Your Target Award shall be composed of three pieces:

- (i) Your Target Total Stockholder Return Performance Award (approximately 50% of the number of shares in your Target Award);
- (ii) Your Target ROIC Performance Award (approximately 25% of the number of shares in your Target Award);
- (iii) Your Target Cash Flow Performance Award (approximately 25% of the number of shares in your Target Award).

The Award paid to you shall be calculated in accordance with Section 2.1. The allocation of your Award among your Total Stockholder Return Performance Award, your ROIC Performance Award, and your Cash Flow Performance Award will be made by the Committee based on applicable accounting principles.

(b) Maximum Award. Your Maximum Award for the Performance Period under this Award Agreement shall be the number of shares of Stock equal to 200% of your Target Award, subject to the provisions of Section 2.1 and the caps contained therein.

(c) Deferred Dividend Equivalents (“DDEs”). Your Award shall include a payment equal to the cash dividends that would have been paid to you had you owned the numbers of whole shares of Stock equal to your final Award as determined under Section 2.1(d), from the Award Date until the end of the Performance Period.

1.2 Performance Period. The “Performance Period” under this Award Agreement is the three-year performance period that runs from January 1, 2017 until December 31, 2019.

1.3 Vesting Period. The “Vesting Period” under this Award Agreement is the three-year period that runs from January 26, 2017 until the later of (i) January 26, 2020, or (ii) the date on which the Committee certifies in writing (for purposes of Section 162(m) of the Code) that an amount up to your Maximum Award has become an Award for the Performance Period.

1.4 Payment of Award. Your Award will be paid to you in whole shares of Stock (either in book entry or paper form). The final number of whole shares, if any, payable to you under your Award is dependent upon the Corporation’s performance with respect to each of the metrics described in Section 3 and Section 4, the limits described in Section 2 and your continued employment with the Corporation in accordance with Section 5. As a result of these requirements, the number of whole shares of Stock you receive at the end of the Vesting Period will be between 0% and 200% of your Target Award (based on each factor described in Section 2.1 below) and may be smaller than your Maximum Award (or the performance factors could result in no payment in respect of your Award). Any certificates delivered to you may contain any legend the Corporation determines is appropriate under the securities laws. If you are an Insider subject to the reporting provisions of Section 16(a) of the Securities Exchange Act of 1934 (“Exchange Act”), delivery of Stock in payment of your Award for any reason may be delayed for six months. For example, if the delivery of the Stock would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, delivery will be delayed until the earliest date upon which the delivery either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

Section 2. Calculation of Award Payments.

2.1 End of Performance Period Calculation. Following the end of the Performance Period and prior to any shares of Stock being issued,

(a) The Committee will calculate the Total Stockholder Return Performance Factor (as described in Section 3.2) based on the Corporation’s performance during the Performance Period relative to the performance of other corporations

which compose the “Peer Performance Group” as defined in Section 3.1. Your Target Total Stockholder Return Performance Award (as defined in Section 1.1(a)(i)) shall be multiplied by the Total Stockholder Return Performance Factor with the resulting number of shares to be known as the Earned Total Stockholder Return Performance Award. Fractional shares shall be rounded up to the next whole share. If the Corporation’s Average TSR for the three-year Performance Period is negative, the maximum Earned Total Stockholder Return Performance Factor shall not exceed 100%. Notwithstanding the foregoing, the number of shares of Stock you receive as your Earned Total Stockholder Return Performance Award shall be reduced to the extent necessary so that the Fair Market Value of your Earned Total Stockholder Return Performance Award on the last day of the Vesting Period does not exceed the product of (a) the Fair Market Value of a share of Stock on the Award Date, multiplied by (b) 400%, multiplied by (c) the number of shares in your Earned Total Stockholder Return Performance Award.

(b) The Committee will calculate the ROIC Performance Factor (as described in Section 4.1) based on the Corporation’s ROIC during the Performance Period as compared to the projected ROIC for the Performance Period as set forth in the January 25, 2017 Committee resolution (“ROIC Target”). Your Target ROIC Performance Award (as described in Section 1.1(a)(ii)) will be multiplied by the ROIC Performance Factor with the resulting number of shares to be known as the Earned ROIC Performance Award. Fractional shares shall be rounded up to the next whole share. Notwithstanding the foregoing, the number of shares of Stock you receive as your Earned ROIC Performance Award shall be reduced to the extent necessary so that the Fair Market Value of your Earned ROIC Performance Award on the last day of the Vesting Period does not exceed the product of (a) the Fair Market Value of a share of Stock on the Award Date, multiplied by (b) 400%, multiplied by (c) the number of shares in your Earned ROIC Performance Award.

(c) The Committee will calculate the Cash Flow Performance Factor (as described in Section 4.2) based on the Corporation’s cumulative Cash Flow during the Performance Period as compared to the projected cumulative Cash Flow for the Performance Period as set forth the January 25, 2017 Committee resolution (“Cash Flow Target”). Your Target Cash Flow Performance Award (as described in Section 1.1(a)(iii)) will be multiplied by the Cash Flow Performance Factor with the resulting number of shares to be known as the Earned Cash Flow Performance Award. Fractional shares shall be rounded up to the next whole share. Notwithstanding the foregoing, the number of shares of Stock you receive as your Earned Cash Flow Performance Award shall be reduced to the extent necessary so that the Fair Market Value of your Earned Cash Flow Performance Award on the last day of the Vesting Period does not exceed the product of (a) the Fair Market Value of a share of Stock on the Award Date, multiplied by (b) 400%, multiplied by (c) the number of shares in your Earned Cash Flow Performance Award.

(d) Your Earned Total Stockholder Return Performance Award, your Earned ROIC Performance Award, and your Earned Cash Flow Performance Award shall be added together to determine the total number of shares to be paid to you as your final Award.

You must (except as specified in Section 5) remain employed by the Corporation through the last day of the Vesting Period to receive your Award. No portion of your Award will be payable until it is fully vested in accordance with Sections 5.1 and 5.2.

2.2 Adjustment of ROIC Target and Cash Flow Target. The Committee will adjust the ROIC Target and Cash Flow Target established as described in Section 2.1(b) and Section 2.1(c), respectively, to account for the impact of an acquisition or divestiture with a transaction value in excess of \$1 billion at the time the transaction takes effect.

Section 3. Total Stockholder Return Performance Factor.

3.1. Peer Performance Group. The Total Stockholder Return Performance Factor will be based upon the relative ranking of the Corporation's Average TSR (as defined in Section 3.2(a)) for the Performance Period to the Average TSR for such Period for each corporation in the "Peer Performance Group." The "Peer Performance Group" shall consist of the corporations which compose the Standard and Poor's Aerospace and Defense Index reported under symbol S5AERO by Bloomberg L.P. The Corporation's Total Stockholder Return will be based on the performance of the Stock. With respect to the corporations that make up the Standard and Poor's Aerospace and Defense Index, the Total Stockholder Return of each corporation that is taken into account in computing the Peer Performance Group Total Stockholder Return will be based on the equity security of the relevant corporation that is used in computing the Standard and Poor's Aerospace and Defense Index.

3.2. Calculation of Total Stockholder Return Performance Factor.

(a) Calculation of Average TSR. During the Performance Period, the Committee shall compute the Total Stockholder Return (as defined in the Plan and assuming the reinvestment of any cash dividends) for the Corporation and for each other corporation in the Peer Performance Group for 36 periods during the Performance Period where each period begins on January 1, 2017 (based on the closing price for the stock on December 31, 2016) and ends on the last day of each successive calendar month in the Performance Period on which the New York Stock Exchange is open for trading. Each such Total Stockholder Return shall be computed from data available to the public. At the end of the Performance Period, the 36 Total Stockholder Return figures for each corporation for the Performance Period will be averaged to determine each corporation's average Total Stockholder Return ("Average TSR") for the Performance Period. Each corporation's Average TSR shall be ranked among the Average TSR for each other corporation in the Peer Performance Group on a percentile basis (using the Excel PERCENTRANK function).

(b) Percentage Level of Target Award. Your Total Stockholder Return Performance Factor, expressed as a percentage, will be determined under this Section 3.2(b) (and Section 3.2(c) to the extent interpolation is necessary) based

on the Percentile Ranking (as determined under Section 3.2(a)) of the Corporation's Average TSR for the Performance Period under the following chart:

<u>Band</u>	<u>Percentile Ranking</u>	<u>Total Stockholder Return Performance Factor</u>
One	75th - 100th	200% (Maximum)
Two	60th	150%
Three	50th	100%
Four	40th	50%
Five	35th	25% (Threshold)

(c) Total Stockholder Return Performance Factor Interpolation. If the Percentile Ranking as determined under Section 3.2(a) puts the Corporation over the listed Percentile Ranking for the applicable Band (other than Band One) in Section 3.2(b), your Total Stockholder Return Performance Factor under Section 3.2(b) shall be interpolated on a linear basis.

If the Corporation's Average TSR for the three-year Performance Period is negative, the maximum Total Stockholder Return Performance Factor shall not exceed 100%.

Section 4. ROIC Performance Factor and Cash Flow Performance Factor.

4.1 ROIC Performance Factor. The ROIC Performance Factor will be determined by comparing the Corporation's ROIC for the Performance Period to the ROIC Target and then identifying the ROIC Performance Factor based upon the factor associated with the difference on the following table:

<u>ROIC Band</u>	<u>ROIC Performance Factor</u>
Target + ³ 160 basis points	200% (Maximum)
Target + 120 basis points	175%
Target + 80 basis points	150%
Target + 40 basis points	125%
Target	100%
Target – 10 basis points	75%
Target – 20 basis points	50%
Target – 30 basis points	25% (Threshold)

(a) ROIC Definition. For purposes of this Award Agreement, "ROIC" means return on invested capital for the Performance Period calculated as (A) average annual (i) net income (excluding any charge or addition to net income resulting solely from adjustment of deferred tax assets and liabilities for the effect of enactment of corporate tax reform and related legislation and regulations that change the top United States federal or other national corporate income tax rate ("Tax Reform")) plus (ii) interest expense times one minus the average of the highest marginal federal corporate income tax rates over the three-year Performance Period ("Return"), divided by (B) the average thirteen quarter-end investment balances (beginning with the quarter-end immediately preceding the beginning of the Performance Period) consisting of (i) debt (including current maturities of long-term debt) plus (ii) stockholders' equity plus the postretirement plans amounts determined quarterly as included in the Corporation's Statement of Stockholders' Equity. For any year in which net income would otherwise be

affected by Tax Reform, net income shall be adjusted by substituting the effective tax rate assumed in the 2017 Long Range Plan for the actual effective tax rate (and ignoring the adjustment under clause (i) above, if any, to the extent necessary to avoid double counting of tax impacts).

(b) ROIC Determination. Each component of ROIC and the calculation of any postretirement plans amounts recorded in the Corporation's Statement of Stockholders' Equity shall be determined by the Committee in accordance with generally accepted accounting principles in the United States and be based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the date or period on which ROIC is being determined, the Committee shall make its determination in a manner consistent with the historical practices used by the Corporation in determining the components of ROIC and postretirement plans amounts recorded in the Corporation's Statement of Stockholders' Equity for purposes of reporting those items on its audited financial statements, as modified by this paragraph. Notwithstanding the foregoing, ROIC will be adjusted to exclude the impact of any change in accounting standards or adoption of any new accounting standards that is required under generally accepted accounting principles in the United States after January 26, 2017 and that is reported in the Corporation's filings with the Securities and Exchange Commission as having a material effect on the Corporation's consolidated financial statements. ROIC, as included in the 2017 Long Range Plan, and the change in ROIC for purposes of the ROIC Performance Factor, will be determined in accordance with this Section 4.1(b).

4.2 Cash Flow Performance Factor. The Cash Flow Performance Factor will be determined by comparing the Corporation's cumulative Cash Flow during the Performance Period to the Cash Flow Target, and then identifying the Cash Flow Performance Factor based upon the factor associated with the change from the Cash Flow Target on the following table:

<u>Cash Flow Band</u>	<u>Cash Flow Performance Factor</u>
Target + ³ \$2.0B or more	200% (Maximum)
Target + \$1.5B	175%
Target + \$1.0B	150%
Target + \$0.5B	125%
Target	100%
Target - \$0.2B	75%
Target - \$0.5B	50%
Target - \$0.7B	25% (Threshold)

(a) Cash Flow Definition. For purposes of this Award Agreement, "Cash Flow" means net cash flow from operations, adjusted to exclude the impact of: (i) the aggregate after tax difference between the amount forecasted in the Corporation's 2017 Long Range Plan to be contributed by the Corporation to the Corporation's defined benefit pension plans during the Performance Period and the actual amounts contributed by the Corporation during the Performance Period; (ii) any tax payments or tax benefits during the Performance Period associated with the divestiture of business units, other than tax payments or tax benefits that were included in the Corporation's 2017 Long Range Plan; and (iii)

for any year in which Cash Flow would otherwise be affected by Tax Reform, the aggregate difference between the tax payments forecasted in the 2017 Long Range Plan and the actual tax payments (and adjusting the amount under clause (i) above, if any, to the extent necessary to avoid double counting of tax impacts).

(b) Cash Flow Determination. Cash Flow shall be determined by the Committee based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the period for which Cash Flow is being determined, the Committee shall determine Cash Flow in a manner consistent with the historical practices used by the Corporation in determining net cash provided by operating activities as reported in its audited consolidated statement of cash flows, in either case as modified by this paragraph. Notwithstanding the foregoing, Cash Flow will be adjusted to exclude the impact of any change in accounting standards or adoption of any new accounting standards that is required under generally accepted accounting principles in the United States after January 26, 2017 and that is reported in the Corporation's filings with the Securities and Exchange Commission as having a material effect on the Corporation's consolidated financial statements.

4.3 Interpolation of ROIC and Cash Flow Metrics. If the change in ROIC or Cash Flow falls between two numbers listed in the applicable table in Section 4.1 or 4.2, the appropriate factor will be interpolated on a linear basis. Notwithstanding the foregoing, the ROIC Performance Factor will always be zero if the ROIC for the Performance Period falls short of the ROIC Target by more than 30 basis points and the Cash Flow Performance Factor will always be zero if the aggregate Cash Flow for the Performance Period falls short of the Cash Flow Target by more than \$0.7 billion.

Section 5. Payment of Award.

5.1. Employment Requirement.

(a) General Rule. In order to be eligible to receive payment of your final Award as determined under Section 2.1(d), you must accept this Award Agreement as described in Section 18 and remain employed by the Corporation through the last day of the Vesting Period. Except as provided below or where prohibited by law, if your employment as an Employee terminates during the Vesting Period, you shall forfeit your right to receive all or any part of your Award. If you are on Corporation-approved leave of absence at any point during the Vesting Period, for purposes of this Award Agreement, you will be considered to still be in the employ of the Corporation, unless otherwise provided in an agreement between you and the Corporation.

(b) Exceptions. Notwithstanding Section 5.1(a), if the Committee determines

(i) that your employment as an Employee terminated, as a result of your death, Total Disability or Retirement, or a Divestiture (each as defined in Section 5.1(c)), or

(ii) that the Corporation terminated your employment involuntarily after July 26, 2017 (except that, if you are an employee who has been identified by the Corporation as subject to Divestiture, “after July 26, 2017” does not apply to you) as a result of a layoff, including through a voluntary layoff program that constitutes a window program under Section 409A of the Code,

you shall be eligible to receive a fraction of your Award and the DDEs with respect to such fraction. The numerator of such fraction shall equal the number of days in the Vesting Period before your employment as an Employee terminated, and the denominator shall equal the total number of days in the Vesting Period. The Committee shall have complete and absolute discretion to make the determinations called for under this Section 5.1(b), and all such determinations shall be binding on you and on any person who claims all or any part of your Award on your behalf as well as on the Corporation. If you terminate employment during the Vesting Period but are eligible to receive a portion of your Award as a result of an exception under this Section 5.1(b), payment of such portion of your Award and DDEs shall be in full satisfaction of all rights you have under this Award Agreement.

(c) Special Definitions. For purposes of this Award Agreement:

(i) Your employment as an Employee shall be treated as terminating because of a “Total Disability” on the date you commence receiving a benefit under the Corporation’s long-term disability plan in which you participate, or if you are not enrolled in the Corporation’s long-term disability plan, the date on which long-term disability benefits would commence under the plan under which you would have been covered, had you enrolled, using the standards set forth in that plan;

(ii) Your employment as an Employee shall be treated as terminating as a result of Divestiture if the Corporation divests all or substantially all of a business operation of the Corporation and such divestiture results in the termination of your employment with the Corporation and a transfer of such employment to the other party in the Divestiture. A “Divestiture” shall mean a transaction that results in the transfer of control of the business operation divested to any person, corporation, association, partnership, joint venture, limited liability company or other business entity of which less than 50% of the voting stock or other equity interests are owned or controlled directly or indirectly by the Corporation, by one or more of the Corporation’s Subsidiaries or by any combination thereof; and

(iii) Your employment as an Employee shall be treated as terminating because of “Retirement” if the effective date of your termination of employment is after July 26, 2017 and (1) after you reach age 65, or (2) after you reach age 55 and have (at the time of your termination) completed at least ten years of service with the Corporation. The effective date of your termination is the first of the month following the date you terminate services with the Corporation.

(d) Resignation or Termination before January 26, 2020.

(i) Except where prohibited by law, if you resign or your employment otherwise terminates before January 26, 2020, other than on account of death, Total Disability, layoff, Retirement or Divestiture (as described above) or Change in Control (as described below), you will forfeit your right to receive all or any part of your Award on the date of your termination.

(ii) Except where prohibited by law, if your employment terminates before January 26, 2020, by action of the Corporation due to your misconduct, then you will forfeit your right to receive all or any part of your Award on the date of your termination. If your employment terminates due to your misconduct after July 26, 2017, but before January 26, 2020, then you will not be eligible to receive a fraction of your Award pursuant to Section 5.1(b) of the Award Agreement, even if at the time of your termination due to misconduct you have attained (i) age 55 and ten years of service, or (ii) age 65. The business area or Enterprise Operations review committee responsible for determinations of misconduct, or the Committee if you are an Elected Officer, will determine if your employment terminates due to misconduct.

(e) Rules Applicable to Canadian Employees. If you are employed in Canada, for purposes of the Award Agreement, the date of termination of employment will be the last day of actual and active employment. For the avoidance of doubt, except as may be required by applicable minimum standards legislation, no period of notice or payment in lieu of notice that is given or that ought to have been given under any applicable law or contract in respect of such termination of employment that follows or is in respect of a period after your last day of actual and active employment, if any, will be considered as extending your period of employment for the purposes of determining your entitlement under this Agreement.

5.2. Payment Rules.

- (a) Vesting. If you are eligible to receive an Award under Section 5.1(a) or a fraction of an Award under Section 5.1(b), your Award shall vest on the last day of the Vesting Period.
- (b) Method of Payment. Your Award shall be paid in whole shares of Stock. DDEs on the shares underlying your Award, if any, shall be paid in cash. In the event of your death, your payment will be made to your estate.
- (c) Timing of Payment. You shall have the right to receive your Award plus DDEs as soon as administratively practicable following the Vesting Period, but no later than 60 days after the date on which the Committee certifies in writing (for purposes of Section 162(m) of the Code) that your Target Award has become an Award for the Performance Period (for taxpayers in Canada or as otherwise required by local country law, no later than December 31st of the year in which your Award is certified).

5.3. Cutback. Any payment called for under Section 5.2 will be reduced to the extent that such payment together with payments attributable to any other Share-Based Awards that are granted during 2017 as Performance-Based Awards exceeds 1,000,000 shares of Stock. Amounts in excess of 1,000,000 shares shall be forfeited. Any DDEs on forfeited shares shall also be forfeited.

Section 6. No Assignment – General Creditor Status.

You shall have no right to assign any interest you might have in all or any part of the Target Award or Award which has been granted to you under this Award Agreement and any attempt to do so shall be null and void and shall have no force or effect whatsoever. Furthermore, all payments called for under this Award Agreement shall be made from the Corporation's general assets, and your right to payment from the Corporation's general assets shall be the same as the right of a general and unsecured creditor of the Corporation. Until a share of Stock is delivered to you, you generally will not have the rights and privileges of a stockholder. In particular, you will not have the right to vote your PSUs on any matter put to the stockholders of the Corporation; you may not sell, transfer, assign, pledge, use as collateral or otherwise dispose of or encumber PSUs; and you will not have the right to receive any dividends paid to stockholders or dividend equivalents on the PSUs.

Section 7. Plan.

This Award Agreement shall be subject to all of the terms and conditions set forth in the Plan.

Section 8. Change in Control.

8.1. Change in Control during the Performance Period.

- (a) In the event of a consummation of a Change in Control during the Performance Period, your Target Award (and DDEs) will become vested (i) on

the effective date of the Change in Control if the PSUs are not assumed, continued, or equivalent restricted securities are not substituted for your PSUs by the Corporation or its successor, or (ii) if the PSUs are assumed, continued or substituted by the Corporation or its successor, on the effective date of your involuntary termination other than for Cause (not including death or Total Disability) or your voluntary termination with Good Reason, in either case, within the 24-month period following the consummation of the Change in Control; provided that any such termination is also a "separation from service" under Code section 409A.

(b) In the event the PSUs vest in accordance with this Section 8.1 (whether immediately following the Change in Control or following your termination), the shares of Stock or equivalent substituted securities in which you have become vested and DDEs shall be delivered to you within 14 days of the date on which you become vested.

8.2. Change in Control during the Vesting Period.

(a) In the event of a consummation of a Change in Control after the end of the Performance Period but during the Vesting Period, you will vest in your Target Award (and DDEs) (i) on the effective date of the Change in Control if the PSUs are not assumed or continued or equivalent restricted securities are not substituted for your PSUs by the Corporation or its successor, or (ii) on the earlier of the end of the Vesting Period or the effective date of your termination if the PSUs are assumed, continued or substituted for, upon your involuntary termination other than for Cause (not including death or Total Disability) or your voluntary termination with Good Reason, in either case, prior to the end of the Vesting Period.

(b) In the event the PSUs vest in accordance with this Section 8.2 (whether immediately following the Change in Control or following your termination), the shares of Stock or equivalent substituted securities in which you have become vested and DDEs shall be delivered to you within 14 days of the date on which you become vested.

8.3 Special Definitions. For purposes of this Award Agreement:

(a) "Cause" shall mean either of the following:

(i) Conviction for an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic-related offenses or as a result of vicarious liability); or

(ii) Willful misconduct that is materially injurious to the Corporation's financial position, operating results or reputation; provided, however that no act or failure to act shall be considered "willful" unless done, or omitted to be done, by you (a) in bad faith; (b) for the purpose of receiving an actual improper personal benefit in the form of money, property or services; or (c) in circumstances where you had reasonable cause to believe that the act or failure to act was unlawful.

(b) "Good Reason" shall mean, without your express written consent, the occurrence of any one or more of the following after the Change in Control:

- (i) A material and substantial reduction in the nature or status of your authority or responsibilities;
- (ii) A material reduction in your annualized rate of base salary;
- (iii) A material reduction in the aggregate value of your level of participation in any short or long term incentive cash compensation plan, employee benefit or retirement plan or compensation practices, arrangements, or policies;
- (iv) A material reduction in the aggregate level of participation in equity-based incentive compensation plans; or
- (v) Your principal place of employment is relocated to a location that is greater than 50 miles from your principal place of employment on the date the Change in Control is consummated.

Your continued employment following an event that would constitute a basis for voluntary termination with Good Reason shall not constitute Good Reason if you consent to, or waive your rights with respect to any circumstances constituting Good Reason. In addition, the occurrence of an event described in (i) through (v) shall constitute the basis for voluntary termination for Good Reason only if you provide written notice of your intent to terminate employment within 90 days of the first occurrence of such event and the Corporation has had at least 30 days from the date on which such notice is provided to cure such occurrence. If you do not terminate employment for Good Reason within 180 days after the first occurrence of the applicable grounds, then you will be deemed to have waived your right to terminate for Good Reason with respect to such grounds.

8.4. Special Rule. Notwithstanding Section 8.1 or 8.2, if a payment in accordance with those provisions would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, then the date of distribution to you shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

Section 9. Amendment and Termination.

As provided in Section 9 of the Plan, the Board of Directors may at any time amend, suspend or discontinue the Plan and the Committee may at any time amend this Award Agreement. Notwithstanding the foregoing, no such action by the Board of Directors or the Committee shall amend Sections 1, 2, 3, 4, or 5 in a manner adverse to you or reduce the amount payable hereunder in a material manner without your written consent. For this purpose, a change in the amount payable hereunder that occurs solely by reason of a change in the date or form of payment due to Section 409A of the Code or Section 16 of the Exchange Act shall in no case be treated as a reduction prohibited by this Section 9. Thus, for example, if an amount payable by reason of Section 8 is delayed by an amendment to this Award Agreement or other action undertaken to

comply with Section 409A of the Code and the amount payable is reduced solely by reason of a corresponding delay in the date of valuation of a share of Stock, such a change shall not be treated as a reduction prohibited by this Section 9. This Section 9 shall be construed and applied so as to permit the Committee to amend this Award Agreement at any time in any manner reasonably necessary or appropriate in order to comply with the requirements of Section 16 of the Exchange Act and of Section 409A of the Code, including amendments regarding the timing and form of payments hereunder.

Section 10. Data Privacy Consent For Employees Located Outside Of The United States.

To the extent recognized under applicable law, you hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Award Agreement by and among the Corporation for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You understand that the Corporation holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares or directorships held in the Corporation, details of all awards or any other entitlement to shares awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Corporation may elect to administer the settlement of any award. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. You understand, however, that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

Section 11. No Assurance of Employment; No Right to an Award; Value of Award.

Nothing contained in the Plan or in this Award Agreement shall confer upon you any right to continue in the employ or other service of the Corporation or constitute any contract (of employment or otherwise) or limit in any way the right of the Corporation to

change your compensation or other benefits or to terminate your employment with or without cause. You acknowledge and agree as follows:

- (a) the Plan is discretionary in nature and that the Board of Directors may amend, suspend, or terminate it at any time;
- (b) the grant of the PSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of any PSUs, or benefits in lieu of any PSUs even if PSUs have been granted repeatedly in the past;
- (c) all determinations with respect to such future PSUs, if any, including but not limited to the times when PSUs shall be granted or when PSUs shall vest, will be at the sole discretion of the Committee;
- (d) your participation in the Plan is voluntary;
- (e) the value of the PSUs is an extraordinary item of compensation, which is outside the scope of your employment contract (if any), except as may otherwise be explicitly provided in your employment contract;
- (f) the PSUs are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating termination, severance, resignation, redundancy, end of service, or similar payments, or bonuses, long-service awards, pension or retirement benefits;
- (g) the PSUs shall expire upon termination of your employment for any reason except as may otherwise be explicitly provided in the Plan and this Award Agreement;
- (h) the future value of the shares is unknown and cannot be predicted with certainty; and
- (i) no claim or entitlement to compensation or damages arises from the termination of the PSUs or diminution in value of the PSUs or Stock and you irrevocably release the Corporation from any such claim that may arise.

Section 12. Conflict.

In the event of a conflict between this Award Agreement and the Plan, the Plan document shall control.

Section 13. Compliance with Section 409A of the Code.

It is the intent of the Company that your Award not be subject to taxation under Section 409A(a)(1) of the Code. Nevertheless, in the event that your Award is or could be subject to Section 409A of the Code, as determined by the Senior Vice President, Human Resources, in consultation with the General Tax Counsel or his or her delegate, the following rules apply: (i) the Award will be interpreted and administered to meet the requirements of Sections 409A(a)(2), (3) and (4) of the Code and thus to be exempt from taxation under Section 409A(a)(1) of the Code; (ii) no Award payment will be made on account of your termination of employment unless the termination of employment

constitutes a "separation from service" under Code section 409A(a)(2)(a)(i); and (iii) if you are a "specified employee" within the meaning of Code section 409A, any payment in respect of this Award made on account of a termination of employment will be delayed for six (6) months following such termination of employment, and then made at the earliest date permitted by Section 409A of the Code.

Section 14. Post-Employment Covenants & Stock Ownership Requirements.

Except where prohibited by law, by accepting this Award Agreement as described in Section 18, you agree to the terms of the Post-Employment Conduct Agreement contained in Exhibit A to this Award Agreement and you acknowledge receipt of the Stock Ownership Requirements ("Ownership Requirements") attached as Exhibit B to this Award Agreement and agree to comply with such Ownership Requirements as amended from time to time. If you are not a Vice President (or above) on January 26, 2017, but you are promoted to Vice President (or above) prior to January 26, 2020, the Ownership Requirements as in effect at that time shall become applicable to you on the date of your promotion to Vice President (or above).

Section 15. English Language.

You have received the terms and conditions of this Award Agreement and any other related communications, and you consent to having received these documents, in English. If you have received this Award Agreement or any other documents related to the Plan translated into a language other than English, and if the translated version is different from the English version, the English version will control.

Quebec Residents Only: The Parties have agreed that this Award Agreement, the Plan as well as any notice, document or instrument relating to them be drawn up in English only. You acknowledge that, upon your reasonable request, the Corporation will provide a French translation of such documents to you. Les parties aux présentes ont convenu que la présente accord, le "Plan," ainsi que tous autres avis, actes ou documents s'y rattachant soient rédigés en anglais seulement. Vous reconnaissez que, à votre demande raisonnable, "the Corporation" fournit une traduction française de ces documents à vous.

Section 16. Currency Exchange Risk.

If your functional currency is not the U.S. dollar, you agree and acknowledge that you will bear any and all risk associated with the exchange or fluctuation of currency associated with the Award (the "Currency Exchange Risk"). You waive and release the Corporation and its subsidiaries from any potential claims arising out of the Currency Exchange Risk.

Section 17. Exchange Control Requirements.

You agree and acknowledge that you will comply with any and all exchange control requirements applicable to the Award and any resulting funds including, without limitation, reporting or repatriation requirements.

Section 18. Execution; Acceptance; Electronic Delivery.

By executing this Award Agreement, you consent to receive copies of the Prospectus applicable to this Award from this internet site (<http://www.stockplanconnect.com>) as well as to electronic delivery of the Corporation's annual report on Form 10-K, annual proxy statement and quarterly reports on Form 10-Q. This consent can only be withdrawn by written notice to the Vice President of Compensation and Performance Management at the address noted below. The Corporation may, in its sole discretion, decide to deliver any documents related to the Award under the Plan or future Awards that may be awarded under the Plan by electronic means or request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation.

No Award is enforceable until you properly acknowledge your acceptance by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as soon as possible but in no event later than May 31, 2017. Acceptance of this Award Agreement must be made only by you personally or by a person acting pursuant to a power of attorney in the event of your inability to acknowledge your acceptance (and not by your estate, your spouse or any other person) and constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award. Notwithstanding the foregoing, this Award will be enforceable and deemed accepted, and will not be forfeited, if you are unable to accept this Award Agreement personally by May 31, 2017 due to your death, disability, incapacity, deployment in the Armed Forces, or similar unforeseen circumstance as determined by the Corporation in its discretion. The Committee has authorized electronic means for the delivery and acceptance of this Award Agreement. If you desire to accept this Award, you must acknowledge your acceptance and receipt of this Award Agreement, either electronically or by signing and returning a copy of this letter on or before May 31, 2017, as follows:

- Electronic Acceptance: Go to <http://www.stockplanconnect.com>; or
- By Mail: Nick Lossia, Vice President of Compensation and Performance Management, Lockheed Martin Corporation, Mail Point 126, 6801 Rockledge Drive, Bethesda, MD 20817.

Assuming prompt and proper acknowledgment of this Award Agreement as described in Section 18, this Award will be effective as of the Award Date.

Sincerely,

Patricia L. Lewis
Senior Vice President,
Human Resources

(For written acceptance, please complete, sign, and return by mail.)

Acknowledged by:

Signature

Date

Print Name

Employee ID

Appendix A

Capitalized Terms

Average TSR	§ 3.2(a)
Award	6th ¶
Award Date	Header
Cash Flow	§ 4.2(a)
Cash Flow Performance Factor	§ 4.2
Cash Flow Target	§ 2.1(c)
Cause	§ 8.3(a)
Change in Control	Plan
Code	Plan
Committee	1st ¶
Corporation	6th ¶
DDE	§ 1.1(c)
Divestiture	§ 5.1(c)(ii)
Earned Cash Flow Performance Award	§ 2.1(c)
Earned ROIC Performance Award	§ 2.1(b)
Earned Total Stockholder Return Performance Award	§ 2.1(a)
Employee	Plan
Exchange Act	Plan
Fair Market Value	Plan
Good Reason	§ 8.3(b)
Insider	Plan
Maximum Award	§ 1.1(b)
Peer Performance Group	§ 3.1
Performance-Based Award	Plan
Performance Period	§ 1.2
Plan	1st ¶
PSU	§ 1.1(a)
Retirement	§ 5.1(c)(iii)
Return	§ 4.1(a)
ROIC	§ 4.1(a)
ROIC Performance Factor	§ 4.1
ROIC Target	§ 2.1(b)
Share-Based Awards	Plan
Stock	Plan
Target Award	6th ¶ § 1.1(a)
Target Cash Flow Performance Award	§ 1.1(a)(iii)
Target ROIC Performance Award	§ 1.1(a)(ii)
Target Total Stockholder Return Performance Award	§ 1.1(a)(i)
Total Disability	§ 5.1(c)(i)
Total Stockholder Return	Plan; § 3.2(a)
Total Stockholder Return Performance Factor	§ 3.1; § 3.2
Vesting Period	§ 1.3

Exhibit A

Post-Employment Conduct Agreement
(PSU Grant)

This Post-Employment Conduct Agreement (this "PECA") attached as Exhibit A to the Award Agreement with an Award Date of January 26, 2017, (the "Award Agreement") is entered into in consideration of, among other things, the grant of performance restricted stock units to me under the Award Agreement (the "PSUs") pursuant to the Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (the "Plan"). References to the "Corporation" shall include Lockheed Martin Corporation and its Subsidiaries. By accepting the PSUs, I agree as follows:

1. Restrictions Following Termination of Employment.

(a) Covenant Not To Compete - Without the express written consent of the "Required Approver" (as defined in Section 6), during the one-year period (or two-year period for Elected Officers) following the date of my termination of employment (the "Termination Date") with the Corporation, I will not, directly or indirectly, be employed by, provide services to, or advise a "Restricted Company" (as defined in Section 6), whether as an employee, advisor, director, officer, partner or consultant, or in any other position, function or role that, in any such case,

(i) oversees, controls or affects the design, operation, research, manufacture, marketing, sale or distribution of "Competitive Products or Services" (as defined in Section 6) of or by the Restricted Company, or

(ii) would involve a substantial risk that the "Confidential or Proprietary Information" (as defined in Section 1(c)) of the Corporation (including but not limited to technical information or intellectual property, strategic plans, information relating to pricing offered to the Corporation by vendors or suppliers or to prices charged or pricing contemplated to be charged by the Corporation, information relating to employee performance, promotions or identification for promotion, or information relating to the Corporation's cost base) could be used to the disadvantage of the Corporation.

Section 1(a)(i) and (ii) shall not apply to residents of California.

To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct (such as the ABA Model Rules of Professional Conduct and state versions thereof), Sections 1(a)(i) and (ii) and Section 1(b) relating to non-solicitation, shall apply to individuals who are employed by the Corporation in an attorney position and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation does not include practicing law.

In lieu of Section 1(a)(i) and (ii), as well as Section 1(b) relating to non-solicitation, the following Section 1(a)(iii) shall apply to individuals who are employed by the Corporation in an attorney position, and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation includes practicing law.

(iii) **Post-Employment Activity As a Lawyer** – I acknowledge that as counsel to the Corporation, I owe ethical and fiduciary obligations to the Corporation and that at least some of these obligations will continue even after my Termination Date with the Corporation. I agree that after my Termination Date I will comply fully with all applicable ethical and fiduciary obligations that I owe to the Corporation. To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct, I agree that I will not:

- (a) Represent any client in the same or a substantially related matter in which I represented the Corporation where the client's interests are materially adverse to the Corporation; or
- (b) Disclose confidential information relating to my representation of the Corporation, including the disclosure of information that is to the disadvantage of the Corporation, except for information that is or becomes generally known.

The Corporation's Senior Vice President, General Counsel, and Corporate Secretary or the General Tax Counsel, as applicable, will determine in his or her discretion whether an individual is employed by the Corporation in an attorney position.

(b) **Non-Solicit** – Without the express written consent of the Required Approver, during the one-year period (two-year period for Elected Officers) following the Termination Date, I will not (i) interfere with any contractual relationship between the Corporation and any customer, supplier, distributor or manufacturer of or to the Corporation to the detriment of the Corporation or (ii) induce or attempt to induce any person who is an employee of the Corporation to perform work or services for any entity other than the Corporation.

(c) **Protection of Proprietary Information** – Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar agreements that I signed while employed by the Corporation committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Corporation or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such agreements. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Corporation or others to which I had access or that I was responsible for creating or overseeing during my employment with the Corporation. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Corporation's Senior Vice President, General Counsel and

Corporate Secretary as to the existence of the obligation and will cooperate with any reasonable request by the Corporation for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Corporation shall be and remain the property of the Corporation. For purposes of this PECA, "Confidential or Proprietary Information" means Proprietary Information within the meaning of CRX-015C (a copy of which has been made available to me), including but not limited to information that a person or entity desires to protect from unauthorized disclosure to third parties that can provide the person or entity with a business, technological, or economic advantage over its competitors, or which, if known or used by third parties or if used by the person's or entity's employees or agents in an unauthorized manner, might be detrimental to the person's or entity's interests. Confidential or Proprietary Information may include, but is not limited to:

(i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or

(ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

(d) No Disparagement – Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Corporation or its directors, officers, employees, technology, products or services with respect to any matter whatsoever.

(e) Cooperation in Litigation and Investigations – Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Corporation in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Corporation or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Corporation, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

2. Consideration and Acknowledgement. I acknowledge and agree that the benefits and compensation opportunities being made available to me under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to me in connection with my employment by the Corporation and that the grant of the PSUs is expressly made contingent upon my agreements with the Corporation set forth in this PECA. I acknowledge that the scope and duration of the

restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to me under the Award Agreement. I further acknowledge and agree that as a result of the high level executive and management positions I hold with the Corporation and the access to and extensive knowledge of the Corporation's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Corporation's legitimate business interests.

3. Remedies For Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) If I become (or currently am) an Insider (as defined in the Plan) or receive a PSU Award, I agree, upon demand by the Corporation, to forfeit, return or repay to the Corporation the "Benefits and Proceeds" (as defined below) in the event any of the following occur:

(i) I breach any of the covenants or agreements in Section 1;

(ii) The Corporation determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person's intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Corporation, contributed to the Corporation having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission;

(iii) The Corporation determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report the acts of another person of which I had knowledge during the period I was employed by the Corporation) contributed to another person's fraud, bribery or other illegal act, which in any such case adversely affected the Corporation's financial position or reputation; or

(iv) Under such other circumstances specified by final regulation issued by the Securities and Exchange Commission entitling the Corporation to recapture or clawback "Benefits and Proceeds" (as defined below).

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Corporation for any of the conduct described in Section 3(a) and shall not limit the Corporation from seeking damages or injunctive relief.

(c) For purposes of this Section 3, "Benefits and Proceeds" means (i) to the extent I own Stock issued in respect of vested PSUs, such Stock; (ii) to the extent I no longer own the shares of Stock of the Corporation issued in respect of the PSUs, cash in an amount equal to the greater of (x) the value of such Stock on the date the associated PSUs vested (which, unless otherwise determined by the Management Development and Compensation Committee of the Board of Directors of the Corporation, shall be equal to the closing price of the shares of

Common as finally reported by the New York Stock Exchange on such date), and (y) the proceeds received in connection with the disposition of such Stock; and (iii) to the extent I have not earned the PSUs fully, all of my remaining rights, title or interest in my Award and any accrued dividend equivalents with respect thereto.

4. Injunctive Relief. I acknowledge that the Corporation's remedies at law may be inadequate to protect the Corporation against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to the Corporation at law or in equity (including but not limited to, an action under Section 3(a)), the Corporation shall be entitled to injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

6. Definitions. Capitalized terms not defined in this PECA have the meaning given to them in the Plan, as applicable. For purposes of this PECA, the following terms have the meanings given below:

(a) "Restricted Company" means The Boeing Company, General Dynamics Corporation, Northrop Grumman Corporation, the Raytheon Company, United Technologies Corporation, Honeywell International Inc., BAE Systems Inc., L-3 Communications Corporation, the Harris Corporation, Thales, Airbus Group, Inc., Textron Inc., Finmeccanica SpA, Leidos Holdings, Inc. and (i) any entity directly or indirectly controlling, controlled by, or under common control with any of the foregoing, and (ii) any successor to all or part of the business of any of the foregoing as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) "Competitive Products or Services" means products or services that compete with, or are an alternative or potential alternative to, products sold or services provided by a subsidiary, business area, division or operating unit or business of the Corporation as of the Termination Date and at any time within the two-year period ending on the Termination Date; provided, that, (i) if I had direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided during that two-year period by the subsidiary, business area, division or operating unit of the Corporation for which I had responsibility, and (ii) if I did not have direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided by

a subsidiary, business area, division or operating unit of the Corporation for which I had access (or was required or permitted such access in the performance of my duties or responsibilities with the Corporation) to Confidential or Proprietary Information of the Corporation at any time during the two-year period ending on the Termination Date.

(c) "Required Approver" means:

(i) with respect to the Chairman, President and Chief Executive Officer, the Management and Development Committee of the Corporation's Board of Directors;

(ii) with respect to an Elected Officer, the Corporation's Chairman, President and Chief Executive Officer; or

(iii) with respect to all other employees, the Senior Vice President, Human Resources of the Corporation.

(d) "Elected Officer" means an officer of the Corporation who was elected to his or her position by the Corporation's Board of Directors.

7. Miscellaneous.

(a) The Plan, the Award Agreement (with Exhibit B) and this PECA constitute the entire agreement governing the terms of the award of the PSUs to me.

(b) This PECA shall be governed by Maryland law, without regard to its provisions governing conflicts of law. Any enforcement of, or challenge to, this PECA may only be brought in the Circuit Court of Maryland or the United States District Court for the District of Maryland. Both parties consent to the proper jurisdiction and venue of the Circuit Court of Maryland and the United States District Court for the District of Maryland for the purpose of enforcing or challenging this PECA.

(c) This PECA shall inure to the benefit of the Corporation's successors and assigns and may be assigned by the Corporation without my consent.

(d) This PECA provides for certain obligations on my part following the Termination Date and shall not, by implication or otherwise, affect in any way my obligations to the Corporation during the term of my employment by the Corporation, whether pursuant to written agreements between the Corporation and me, the provisions of applicable Corporate policies that may be adopted from time to time or applicable law or regulation.

This PECA is effective as of the acceptance by me of the award of PSU under the Award Agreement and is not contingent on the vesting of my PSU Award.

Exhibit B

Stock Ownership Requirements

Lockheed Martin's Stock Ownership Requirements for Key Employees apply to all senior level positions of Vice President and above. This reflects the expectations of our major stockholders that management demonstrate its confidence in Lockheed Martin through a reasonable level of personal share ownership. This practice is consistent with other major U.S. corporations which link some portion of personal financial interests of key employees with those of shareholders.

Stock Ownership Requirements

<u>Title</u>	<u>Annual Base Pay Multiple</u>
Chairman, President and Chief Executive Officer	6 times
Chief Operating Officer	5 times
Chief Financial Officer	4 times
Executive Vice Presidents	3 times
Senior Vice Presidents	2 times
Other Elected Officers	2 times
Other Vice Presidents	1 times

Satisfaction of Requirements

Covered employees may satisfy their ownership requirements with common stock in these categories:

- Shares owned directly.
- Shares owned by a spouse or a trust.
- Shares represented by monies invested in 401(k) Company Common Stock Funds or comparable plans.
- Share equivalents as represented by income deferred to the Company Stock Investment Option of the Deferred Management Incentive Compensation Plan (DMICP).
- Unvested Restricted Stock Units

Key employees will be required to achieve the appropriate ownership level within five years and are expected to make continuous progress toward their target. Appointment to a new level will reset the five year requirement. Unexercised options prior to vesting are not counted toward meeting the guidelines.

Holding Period

Covered employees must retain net vested Restricted Stock Units and Performance Stock Units and the net shares resulting from any exercise of stock options if the ownership requirements are not yet satisfied.

Covered employees are asked to report annually on their progress toward attainment of their share ownership goals.

Long-Term Incentive Performance (Annual)

Award Date: January 26, 2017



**THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING
SECURITIES THAT HAVE BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933**

Re: Lockheed Martin Corporation 2011 Incentive Performance Award Plan:
Long-Term Incentive Performance Award (2017-2019 Performance Period)

Dear Awardee:

On behalf of the Management Development and Compensation Committee (the "Committee") of the Board of Directors of Lockheed Martin Corporation, I am pleased to tell you that you have been granted a Long-Term Incentive Performance ("LTIP") Award under the Corporation's 2011 Incentive Performance Award Plan, as amended (the "Plan"). The purpose of this letter is to serve as the LTIP Award Agreement and to set forth your Target Award as well as the terms and conditions to the payment of your Award. Additional terms and conditions are set forth in the Plan and in the Prospectus relating to the Plan of which the Plan document and this Award Agreement are a part. Your Target Award and the Prospectus are available at <http://www.stockplanconnect.com>. You should retain the Prospectus and the attached copy of the Plan in your records.

Except as described in Section 18, your Award is not effective or enforceable until you properly acknowledge your acceptance of the Award by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as instructed below as soon as possible but in no event later than May 31, 2017. **Except as described in Section 18, if you do not properly acknowledge your acceptance of this Award Agreement on or before May 31, 2017, this Award will be forfeited.**

Assuming prompt and proper acknowledgement of your acceptance of this Award Agreement as described above and in Section 18, this Award will be effective as of the Award Date. Acceptance of this Award Agreement constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award and your agreement to be bound by the restrictions contained in Section 18 and Exhibit A ("Post-Employment Conduct Agreement") and Exhibit B ("Stock Ownership Requirements"), as amended from time to time, except where prohibited by law.

The Corporation will comply with all applicable U.S. Tax withholding requirements applicable to the Award. **Please see the prospectus for the Plan for a discussion of certain material U.S. Tax consequences of the Award.** If you are a taxpayer in a country other than the U.S., you agree to make appropriate arrangements with the Corporation or its subsidiaries for the satisfaction of all income and employment tax withholding requirements, as well as social insurance contributions applicable to the Award. Please see the tax summary for your country

at <http://www.stockplanconnect.com>. If you are a taxpayer in a country other than the U.S., you represent that you will consult with your own tax advisors in connection with this Award and that you are not relying on the Corporation for any tax advice.

In general, the Corporation will reduce the amount paid to you under this Award Agreement by an amount sufficient to satisfy any applicable Tax withholding obligation, generally at the highest individual tax rate, unless you elect otherwise in accordance with procedures established by the Corporation during an election window that may be offered by the Corporation. If you elect a lower tax rate for withholding, then you may owe additional taxes as a result of the payment of the Award. The Corporation shall also have the right to (i) offset any other obligation of the Corporation to you (including but not limited to withholding from your salary) by an amount sufficient to satisfy the Tax withholding obligation, or (ii) require you (or your estate) to pay the Corporation an amount equal to the Tax withholding obligation.

Capitalized terms used in this Award Agreement either shall be defined in this Award Agreement or if not defined in this Award Agreement shall have the meaning given to the term in the Plan. The term "Target Award" as used in this Award Agreement refers only to the Target Award awarded to you under this Award Agreement and the term "Award" refers only to the LTIP Award set forth in this Award Agreement. References to the "Corporation" include Lockheed Martin Corporation and its Subsidiaries. Appendix A contains an index of all capitalized terms used in this Award Agreement.

Section 1. Target Award; Performance Period.

1.1 Target Award. Your Target Award for the Performance Period under this Award Agreement shall be the U.S. dollar amount identified as your Target Award in your account at <http://www.stockplanconnect.com>.

1.2 Performance Period. The Performance Period under this Award Agreement is a three-year performance period that runs from January 1, 2017 until December 31, 2019.

1.3 Payment of Award. The amount payable to you under your Award is dependent upon the Corporation's performance as compared to the metrics described in Section 3 and Section 4 of this Award Agreement and your continued employment with the Corporation in accordance with Section 5 of this Award Agreement. As a result of these requirements, any payments you receive may be larger or smaller than your Target Award (*e.g.*, the performance factors could result in no payment in respect of your Award). With respect to US-based Employees, when an Award becomes vested in accordance with Section 5.2(a), the Award amount will be paid to the Participant in US Dollars. With respect to non-US based employees, when an Award becomes vested in accordance with Section 5.2(a), the amount payable to the Participant in cash will be the amount of the Participant's Award converted into the Participant's functional currency at the conversion rate determined by the Corporation in its discretion as of the date the Award becomes vested in accordance with Section 5.2(a).

Section 2. Calculation of Award Payments.

2.1 End of Performance Period Calculation. Following the end of the Performance Period and prior to any payments being made,

(a) The Committee will calculate the Total Stockholder Return Performance Factor based on the Corporation's performance during the Performance Period relative to the performance of other corporations which compose the "Peer Performance Group" as defined in Section 3.1 below.

- (b) The Committee will calculate the ROIC Performance Factor based on the Corporation's ROIC during the Performance Period as compared to the projected ROIC for the Performance Period as set forth in the January 25, 2017 Committee resolution ("ROIC Target").
- (c) The Committee will calculate the Cash Flow Performance Factor based on the Corporation's cumulative Cash Flow during the Performance Period as compared to the projected cumulative Cash Flow for the Performance Period as set forth in the January 25, 2017 Committee resolution ("Cash Flow Target").
- (d) Your "Potential Award" shall be calculated by multiplying the weighted average of the Total Stockholder Return Performance Factor, the ROIC Performance Factor, and the Cash Flow Performance Factor by your Target Award. The Total Stockholder Return Performance Factor, the ROIC Performance Factor, and the Cash Flow Performance Factor shall be weighted as follows in determining the weighted average of the three performance factors:

Total Stockholder Return Performance Factor	50%
ROIC Performance Factor	25%
Cash Flow Performance Factor	25%

You must (except as specified in Section 5) remain employed by the Corporation through December 31, 2019 to receive your Potential Award.

2.2 Adjustment of ROIC Target and Cash Flow Target. The Committee will adjust the ROIC Target and Cash Flow Target established as described in Section 2.1(b) and Section 2.1(c), respectively, to account for the impact of an acquisition or divestiture with a transaction value in excess of \$1 billion at the time the transaction takes effect.

Section 3. Total Stockholder Return Performance Factor.

3.1. Peer Performance Group. The Total Stockholder Return Performance Factor will be based upon the relative ranking of the Corporation's Average TSR (as defined in Section 3.2(a)) for the Performance Period to the Average TSR for such Period for each corporation in the "Peer Performance Group." The "Peer Performance Group" shall consist of the corporations which compose the Standard and Poor's Aerospace and Defense Index reported under symbol S5AERO by Bloomberg L.P. The Corporation's Total Stockholder Return will be based on the performance of the Stock. With respect to the corporations that make up the Standard and Poor's Aerospace and Defense Index, the Total Stockholder Return of each corporation that is taken into account in computing the Peer Performance Group Total Stockholder Return will be based on the equity security of the relevant corporation that is used in computing the Standard and Poor's Aerospace and Defense Index.

3.2. Calculation of Total Stockholder Return Performance Factor.

- (a) Calculation of Average TSR. During the Performance Period, the Committee shall compute the Total Stockholder Return (as defined in the Plan and assuming the reinvestment of any cash dividends) for the Corporation and for each other corporation

in the Peer Performance Group for thirty-six (36) periods during the Performance Period where each period begins on January 1, 2017 (based on the closing price for the stock on December 31, 2016) and ends on the last day of each successive calendar month in the Performance Period on which the New York Stock Exchange is open for trading. Each such Total Stockholder Return shall be computed from data available to the public. At the end of the Performance Period, the thirty-six (36) Total Stockholder Return figures for each corporation for the Performance Period will be averaged to determine each corporation's average Total Stockholder Return ("Average TSR") for the Performance Period. Each corporation's Average TSR shall be ranked among the Average TSR for each other corporation in the Peer Performance Group on a percentile basis (using the Excel PERCENTRANK function).

(b) Percentage Level of Target Award. Your Total Stockholder Return Performance Factor, expressed as a percentage, will be determined under this Section 3.2(b) (and Section 3.2(c) to the extent interpolation is necessary) based on the Percentile Ranking (as determined under Section 3.2(a)) of the Corporation's Average TSR for the Performance Period under the following chart:

<u>Band</u>	<u>Percentile Ranking</u>	<u>Total Stockholder Return Performance Factor</u>
One	75th – 100th	200% (Maximum)
Two	60th	150%
Three	50th	100%
Four	40th	50%
Five	35th	25% (Threshold)

(c) Total Stockholder Return Performance Factor Interpolation. If the Percentile Ranking as determined under Section 3.2(a) puts the Corporation over the listed Percentile Ranking for the applicable Band (other than Band One) in Section 3.2(b), your Total Stockholder Return Performance Factor under Section 3.2(b) shall be interpolated on a linear basis.

If the Corporation's Average TSR for the three-year Performance Period is negative, the maximum Total Stockholder Return Performance Factor shall not exceed 100%.

Section 4. ROIC Performance Factor and Cash Flow Performance Factor.

4.1 **ROIC Performance Factor.** The ROIC Performance Factor will be determined by comparing the Corporation's ROIC for the Performance Period to the ROIC Target and then identifying the ROIC Performance Factor based upon the factor associated with the difference on the following table:

<u>ROIC Band</u>	<u>ROIC Performance Factor</u>
Target + ³ 160 basis points	200% (Maximum)
Target + 120 basis points	175%
Target + 80 basis points	150%
Target + 40 basis points	125%
Target	100%
Target – 10 basis points	75%
Target – 20 basis points	50%
Target – 30 basis points	25% (Threshold)

(a) **ROIC Definition.** For purposes of this Award Agreement, "ROIC" means return on invested capital for the Performance Period calculated as (A) average annual (i) net income (excluding any charge or addition to net income resulting solely from adjustment of deferred tax assets and liabilities for the effect of enactment of corporate tax reform and related legislation and regulations that change the top United States federal or other national corporate income tax rate ("Tax Reform")) plus (ii) interest expense times one minus the average of the highest marginal federal corporate income tax rates over the three year Performance Period ("Return"), divided by (B) the average thirteen quarter-end investment balances (beginning with the quarter-end immediately preceding the beginning of the Performance Period) consisting of (i) debt (including current maturities of long-term debt) plus (ii) stockholders' equity plus the postretirement plans amounts determined quarterly as included in the Corporation's Statement of Stockholders' Equity. For any year in which net income would otherwise be affected by Tax Reform, net income shall be adjusted by substituting the effective tax rate assumed in the 2017 Long Range Plan for the actual effective tax rate (and ignoring the adjustment under clause (i) above, if any, to the extent necessary to avoid double counting of tax impacts).

(b) **ROIC Determination.** Each component of ROIC and the calculation of any postretirement plans amounts recorded in the Corporation's Statement of Stockholders' Equity shall be determined by the Committee in accordance with generally accepted accounting principles in the United States and be based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the date or period on which ROIC is being determined, the Committee shall make its determination in a manner consistent with the historical practices used by the Corporation in determining the components of ROIC and postretirement plans amounts recorded in the Corporation's Statement of Stockholders' Equity for purposes of reporting those items on its audited financial statements, as modified by this paragraph. Notwithstanding the foregoing, ROIC will be adjusted to exclude the impact of any change in accounting standards or adoption of any new accounting standards that is required under generally accepted accounting principles in the United States after January 26, 2017 and that is reported in the Corporation's filings with the Securities and Exchange Commission as having a material effect on the Corporation's consolidated financial statements. ROIC, as included in the 2017 Long Range Plan, and the change in ROIC for purposes of the ROIC Performance Factor, will be determined in accordance with this Section 4.1(b).

4.2 **Cash Flow Performance Factor.** The Cash Flow Performance Factor will be determined by comparing the Corporation's cumulative Cash Flow during the Performance Period to the Cash Flow Target, and then identifying the Cash Flow Performance Factor based upon the factor associated with the change from the Cash Flow Target on the following table:

Cash Flow Band	Cash Flow Performance Factor
Target + ³ \$2.0B or more	200% (Maximum)
Target + \$1.5B	175%
Target + \$1.0B	150%
Target + \$0.5B	125%
Target	100%
Target – \$0.2B	75%
Target - \$0.5B	50%
Target - \$0.7B	25% (Threshold)

(a) **Cash Flow Definition.** For purposes of this Award Agreement, Cash Flow means net cash flow from operations, adjusted to exclude the impact of: (i) the aggregate after tax difference between the amount forecasted in the Corporation's 2017 Long Range Plan to be contributed by the Corporation to the Corporation's defined benefit pension plans during the Performance Period and the actual amounts contributed by the Corporation during the Performance Period; (ii) any tax payments or tax benefits during the Performance Period associated with the divestiture of business units, other than tax payments or tax benefits that were included in the Corporation's 2017 Long Range Plan; and (iii) for any year in which Cash Flow would otherwise be affected by Tax Reform, the aggregate difference between the tax payments forecasted in the 2017 Long Range Plan and the actual tax payments (and adjusting the amount under clause (i) above, if any, to the extent necessary to avoid double counting of tax impacts).

(b) **Cash Flow Determination.** Cash Flow shall be determined by the Committee based upon the comparable numbers reported on the Corporation's audited consolidated financial statements or, if audited financial statements are not available for the period for which Cash Flow is being determined, the Committee shall determine Cash Flow in a manner consistent with the historical practices used by the Corporation in determining net cash provided by operating activities as reported in its audited consolidated statement of cash flows, in either case as modified by this paragraph. Notwithstanding the foregoing, Cash Flow will be adjusted to exclude the impact of any change in accounting standards or adoption of any new accounting standards that is required under generally accepted accounting principles in the United States after January 26, 2017 and that is reported in the Corporation's filings with the Securities and Exchange Commission as having a material effect on the Corporation's consolidated financial statements.

4.3 **Interpolation of ROIC and Cash Flow Metrics.** If the change in ROIC or Cash Flow falls between two numbers listed in the applicable table in Section 4.1 or 4.2, the appropriate factor will be interpolated on a linear basis. Notwithstanding the foregoing, the ROIC Performance Factor will always be zero if the ROIC for the Performance Period falls short of the ROIC Target by more than 30 basis points and the Cash Flow Performance Factor will always be zero if the aggregate Cash Flow for the Performance Period falls short of the Cash Flow Target by more than \$0.7 billion.

Section 5. Payment of Award.

5.1. Employment Requirement.

(a) General Rule. In order to be eligible to receive payment of your Award as determined under Section 2.1, you must accept this Award Agreement as described in Section 18 and remain employed by the Corporation through the last day of the Performance Period. Except as provided below or where prohibited by law, if your employment as an Employee terminates during the Performance Period, you shall forfeit your right to receive all or any part of your Award. If you are on Corporation-approved leave of absence at any point during the Performance Period, for purposes of this Award Agreement, you will be considered to still be in the employ of the Corporation, unless otherwise provided in an agreement between you and the Corporation.

(b) Exceptions. Notwithstanding Section 5.1(a), if the Committee determines

(1) that your employment as an Employee terminated as a result of your death, Total Disability or Retirement, or a Divestiture (each as defined in Section 5.1(c)), or

(2) that the Corporation terminated your employment involuntarily after July 26, 2017 (except that, if you are an employee who has been identified by the Corporation as subject to Divestiture, "after July 26, 2017" does not apply to you) as a result of a layoff, including through a voluntary layoff program that constitutes a window program under Section 409A of the Code,

you shall be eligible to receive a fraction of your Award. The numerator of such fraction shall equal the number of days in the Performance Period before your employment as an Employee terminated, and the denominator shall equal the total number of days in the Performance Period. The Committee shall have complete and absolute discretion to make the determinations called for under this Section 5.1(b), and all such determinations shall be binding on you and on any person who claims all or any part of your Award on your behalf as well as on the Corporation. If you terminate employment during the Performance Period but are eligible to receive a portion of your Potential Award as a result of an exception under this Section 5.1(b), payment of such portion of your Potential Award shall be in full satisfaction of all rights you have under this Award Agreement.

(c) Special Definitions. For purposes of this Award Agreement:

(1) Your employment as an Employee shall be treated as terminating because of a "Total Disability" on the date you commence receiving a benefit under the Corporation's long-term disability plan in which you participate, or if you are not enrolled in the Corporation's long-term disability plan, the date on which long-term disability benefits would commence under the plan under which you would have been covered, had you enrolled, using the standards set forth in that plan;

(2) Your employment as an Employee shall be treated as terminating as a result of Divestiture if the Corporation divests all or substantially all of a business operation of the Corporation and such divestiture results in the termination of your employment with the Corporation and a transfer of such employment to the other party in the Divestiture. A "Divestiture" shall mean a transaction that results in the transfer of control of the business operation divested to any person, corporation, association, partnership, joint venture, limited liability company or other business entity of which less than 50% of the voting stock or other equity interests are directly or indirectly owned or controlled by the Corporation, by one or more of the Corporation's Subsidiaries or by a combination thereof; and

(3) Your employment as an Employee shall be treated as terminating because of "Retirement" if the effective date of your termination of employment is after July 26, 2017 and (i) after you reach age 65, or (ii) after you reach age 55 and have (at the time of your termination) completed at least ten years of service with the Corporation. The effective date of your termination is the first day of the month following the date you terminate services with the Corporation.

(d) Resignation or Termination before the Last Day of the Performance Period.

(1) Except where prohibited by law, if you resign or your employment otherwise terminates before the last day of the Performance Period, other than on account of death, Total Disability, layoff, Retirement or Divestiture (as described above) or Change in Control (as described below), you will forfeit your right to receive all or any part of your Award on the date of your termination.

(2) Except where prohibited by law, if your employment terminates before the last day of the Performance Period by action of the Corporation due to your misconduct, then you will forfeit your right to receive all or any part of your Award on the date of your termination. If your employment terminates due to your misconduct after July 26, 2017, but before the last day of the Performance Period, then you will not be eligible to receive a fraction of your Award pursuant to Section 5.1(b) of the Award Agreement, even if at the time of your termination due to misconduct you have attained (i) age 55 and ten years of service, or (ii) age 65. The business area or Enterprise Operations review committee responsible for determinations of misconduct, or the Committee if you are an Elected Officer, will determine if your employment terminates due to misconduct.

5.2. Payment Rules.

(a) General Rule: Vesting; Method of Payment; Timing of Payment. If you are eligible to receive all, or a portion of, your Potential Award under Section 5.1, up to \$10,000,000 of your Potential Award shall be fully vested on the date on which the Committee certifies in writing (for purposes of Section 162(m) of the Code) that your Target Award has become a Potential Award for the Performance Period. This portion of your award shall be known as the "Payable Portion" of your Potential Award. The Payable Portion of your Potential Award shall be (i) paid to you in cash as soon as administratively practicable after the certification date described above, but not later than March 15, 2020, or (ii) deferred in accordance with Section 5.2(c). Subject to your deferral election under Section 5.2(c), in the event of your death, the Payable Portion of your Potential Award will be made to your estate.

(b) Special Rules for Certain Employees Terminated During Performance Period. If you terminate employment during the Performance Period but are eligible to receive a portion of your Potential Award as a result of an exception under Section 5.1(b), payment of such portion of your Potential Award shall be in full satisfaction of all rights you have under this Award Agreement. The portion of your Potential Award payable to you following a termination of employment during the Performance Period under circumstances described in Section 5.1(b) shall be paid to you or, in the event of your death, to your estate, at the time specified in Section 5.2(a) (subject to section 5.2(c)).

(c) Deferral. You will be given an opportunity to elect to defer any amounts payable under Section 5.2 of this Award Agreement. Such election shall be irrevocable, shall be made in accordance with the terms of the Lockheed Martin Corporation Deferred Management Incentive Compensation Plan ("DMICP") and the requirements of Code section 409A, and shall be subject to such additional terms and conditions as are set by the Committee. A deferral election form and the terms and conditions for any deferral will be furnished to you in due course. The beneficiary designation for the DMICP shall govern any amounts deferred under the terms of the DMICP. This Section 5.2(c) shall not apply if you are a taxpayer in a country other than the United States.

(d) Payment Rules Applicable to Canadian Employees. If you are employed in Canada, for purposes of the Award Agreement, the date of termination of employment will be the last day of actual and active employment. For the avoidance of doubt, except as may be required by applicable minimum standards legislation, no period of notice or payment in lieu of notice that is given or that ought to have been given under any applicable law or contract in respect of such termination of employment that follows or is in respect of a period after your last day of actual and active employment, if any, will be considered as extending your period of employment for the purposes of determining your entitlement under this Agreement.

5.3. Cutback. Any portion of your Potential Award in excess of the Payable Portion of your Potential Award will be forfeited to the extent that such portion, together with payments attributable to any other Cash-Based Awards that are granted during 2017 as Performance Based Awards, exceeds \$10,000,000. Amounts in excess of any Plan limits also shall be forfeited.

5.4. Means of Satisfying Code Section 409A. If any payment that would otherwise be made under this Award Agreement is required to be delayed by reason of Section 13, such payment shall be made at the earliest date permitted by Code section 409A. The amount of any delayed payment shall be the amount that would have been paid prior to the delay, adjusted to include interest from the original payment date to the actual payment date, at a rate equivalent to the six month London Interbank Offered Rate (LIBOR) as published in the Money Rates section of the Wall Street Journal, plus 25 basis points. The increase over LIBOR may be adjusted to reflect the six month unsecured borrowing rate of the Corporation.

Section 6. No Assignment – General Creditor Status.

You shall have no right to assign any interest you might have in all or any part of the Target Award or Potential Award which has been granted to you under this Award Agreement and any attempt to do so shall be null and void and shall have no force or effect whatsoever. Furthermore, all payments called for under this Award Agreement shall be made in cash from the Corporation's general assets, and your right to payment from the Corporation's general assets shall be the same as the right of a general and unsecured creditor of the Corporation.

Section 7. Plan.

This Award Agreement shall be subject to all of the terms and conditions set forth in the Plan.

Section 8. Change in Control.

8.1. Vesting of Award Upon Change in Control. In the event of a consummation of a Change in Control during the Performance Period, your Target Award will become vested (i) on the effective date of the Change in Control if the LTIP Award is not assumed or continued, or equivalent cash incentives are not substituted for your LTIP Award by the Corporation or its successor, or (ii) if the LTIP is assumed, continued or substituted, upon your involuntary termination other than for Cause (not including death or Total Disability) or your voluntary termination with Good Reason, in either case, within the 24-month period following the consummation of the Change in Control. The cash payment in which you have become vested shall be delivered to you within fourteen (14) days of the date on which you become vested.

8.2 Special Definitions.

(a) Cause shall mean either of the following:

- 1) Conviction for an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic-related offenses or as a result of vicarious liability);
- 2) Willful misconduct that is materially injurious to the Corporation's financial position, operating results or reputation; provided, however that no act or failure to act shall be considered "willful" unless done, or omitted to be done, by you (a) in bad faith; (b) for the purpose of receiving an actual improper personal benefit in the form of money, property or services; or (c) in circumstances where you had reasonable cause to believe that the act, failure to act, or omission was unlawful.

(b) Good Reason shall mean, without your express written consent, the occurrence of any one or more of the following after the Change in Control:

- 1) A material and substantial reduction in the nature or status of your authority or responsibilities;
- 2) A material reduction in your annualized rate of base salary;
- 3) A material reduction in the aggregate value of your level of participation in any short or long term incentive cash compensation plan, employee benefit or retirement plan or compensation practices, arrangements, or policies;
- 4) A material reduction in the aggregate level of participation in equity-based incentive compensation plans; or

5) Your principal place of employment is relocated to a location that is greater than fifty (50) miles from your principal place of employment on the date the Change in Control is consummated.

Your continued employment following an event that would constitute a basis for voluntary termination with Good Reason shall not constitute Good Reason if you consent to, or waive your rights with respect to, any circumstances constituting Good Reason. In addition, the occurrence of an event described in 1) through 5) shall constitute the basis for voluntary termination for Good Reason only if you provide written notice of your intent to terminate employment within 90 days of the first occurrence of such event and the Corporation has had at least 30 days from the date on which such notice is provided to cure such occurrence. If you do not terminate employment for Good Reason within 180 days after the first occurrence of the applicable grounds, then you will be deemed to have waived your right to terminate for Good Reason with respect to such grounds.

8.3. Special Rule. Notwithstanding Section 8.1, if a payment in accordance with those provisions would result in a nonexempt short-swing transaction under Section 16(b) of the Exchange Act, then the date of distribution to you shall be delayed until the earliest date upon which the distribution either would not result in a nonexempt short-swing transaction or would otherwise not result in liability under Section 16(b) of the Exchange Act.

Section 9. Amendment and Termination.

As provided in Section 9 of the Plan, the Board of Directors may at any time amend, suspend or discontinue the Plan and the Committee may at any time amend this Award Agreement. Notwithstanding the foregoing, no such action by the Board of Directors or the Committee shall amend Sections 1, 2, 3, 4, or 5 in a manner adverse to you or reduce the amount payable hereunder in a material manner without your written consent. For this purpose, a change in the amount payable hereunder that occurs solely by reason of a change in the date or form of payment due to Section 409A of the Code or Section 16 of the Exchange Act shall in no case be treated as a reduction prohibited by this Section 9. Thus, for example, if an amount payable by reason of Section 8 is delayed by an amendment to this Award Agreement or other action undertaken to comply with Section 409A of the Code and the amount payable is reduced solely by reason of a corresponding delay in the date of valuation of a share of Stock, such a change shall not be treated as a reduction prohibited by this Section 9. This Section 9 shall be construed and applied so as to permit the Committee to amend this Award Agreement at any time in any manner reasonably necessary or appropriate in order to comply with the requirements of Section 16 of the Exchange Act and of Section 409A of the Code, including amendments regarding the timing and form of payments hereunder.

Section 10. Data Privacy Consent For Employees Located Outside Of The United States.

To the extent recognized under applicable law, you hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Award Agreement by and among the Corporation for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You understand that the Corporation holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares

or directorships held in the Corporation, details of all awards or any other entitlement to shares awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Corporation may elect to administer the settlement of any award. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. You understand, however, that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

Section 11. No Assurance of Employment; No Right to an Award; Value of Award.

Nothing contained in the Plan or in this Award Agreement shall confer upon you any right to continue in the employ or other service of the Corporation or constitute any contract (of employment or otherwise) or limit in any way the right of the Corporation to change your compensation or other benefits or to terminate your employment with or without cause. You acknowledge and agree as follows:

- (a) the Plan is discretionary in nature and that the Board of Directors may amend, suspend, or terminate it at any time;
- (b) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of any Awards, or benefits in lieu of any Award even if Awards have been granted repeatedly in the past;
- (c) all determinations with respect to such future Awards, if any, including but not limited to the times when Awards shall be granted or when Awards shall vest, will be at the sole discretion of the Committee;
- (d) your participation in the Plan is voluntary;
- (e) the value of the Award is an extraordinary item of compensation, which is outside the scope of your employment contract (if any), except as may otherwise be explicitly provided in your employment contract;
- (f) the Award is not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating termination, severance, resignation, redundancy, end of service, or similar payments, or bonuses, long-service awards, pension or retirement benefits;

- (g) the Award shall expire upon termination of your employment for any reason except as may otherwise be explicitly provided in the Plan and this Award Agreement;
- (h) the future value of the Award is unknown and cannot be predicted with certainty; and
- (i) no claim or entitlement to compensation or damages arises from the termination of the Award or diminution in value of the Award and you irrevocably release the Corporation from any such claim that may arise.

Section 12. Conflict.

In the event of a conflict between this Award Agreement and the Plan, the Plan document shall control.

Section 13. Compliance with Section 409A of the Code.

It is the intent of the Corporation that your Award not be subject to taxation under Section 409A(a)(1) of the Code. Nevertheless, in the event that your Award is or could be subject to Section 409A of the Code, as determined by the Senior Vice President, Human Resources, in consultation with the General Tax Counsel or his or her delegate, the following rules apply: (i) the Award will be interpreted and administered to meet the requirements of Sections 409A(a)(2), (3) and (4) of the Code and thus to be exempt from taxation under Section 409A(a)(1) of the Code; (ii) no Award payment will be made on account of your termination of employment unless the termination of employment constitutes a "separation from service" under Code section 409A(a)(2)(a)(i); and (iii) if you are a "specified employee" within the meaning of Code section 409A, any payment in respect of this Award made on account of a termination of employment will be delayed for six (6) months following such termination of employment, and then made at the earliest date permitted by Section 409A of the Code.

Section 14. Post-Employment Covenants & Stock Ownership Requirements.

Except where prohibited by law, by accepting this Award Agreement as described in Section 18, you agree to the terms of the Post-Employment Conduct Agreement contained in Exhibit A to this Award Agreement and you acknowledge receipt of the Stock Ownership Requirements ("Ownership Requirements") attached as Exhibit B to this Award Agreement and agree to comply with such Ownership Requirements as amended from time to time. If you are not a Vice President (or above) on January 26, 2017, but you are promoted to Vice President (or above) prior to January 26, 2020, the Ownership Requirements as in effect at that time shall become applicable to you on the date of your promotion to Vice President (or above).

Section 15. English Language.

You have received the terms and conditions of this Award Agreement and any other related communications, and you consent to having received these documents, in English. If you have received this Award Agreement or any other documents related to the Plan translated into a language other than English, and if the translated version is different from the English version, the English version will control.

Quebec Residents Only: The Parties have agreed that this Award Agreement, the Plan as well as any notice, document or instrument relating to them be drawn up in English only.

You acknowledge that, upon your reasonable request, the Corporation will provide a French translation of such documents to you. Les parties aux présentes ont convenu que la présente accord, le "Plan," ainsi que tous autres avis, actes ou documents s'y rattachant soient rédigés en anglais seulement. Vous reconnaissez que, à votre demande raisonnable, "the Corporation" fournit une traduction française de ces documents à vous.

Section 16. Currency Exchange Risk.

If your functional currency is not the U.S. dollar, you agree and acknowledge that you will bear any and all risk associated with the exchange or fluctuation of currency associated with the Award (the "Currency Exchange Risk"). You waive and release the Corporation and its subsidiaries from any potential claims arising out of the Currency Exchange Risk.

Section 17. Exchange Control Requirements.

You agree and acknowledge that you will comply with any and all exchange control requirements applicable to the Award and any resulting funds including, without limitation, reporting or repatriation requirements.

Section 18. Electronic Delivery; Acceptance; Execution.

By executing this Award Agreement, you consent to receive copies of the Prospectus applicable to this Award from this internet site (<http://www.stockplanconnect.com>) as well as to electronic delivery of the Corporation's annual report on Form 10-K, annual proxy statement and quarterly reports on Form 10-Q. This consent can only be withdrawn by written notice to the Vice President of Compensation and Performance Management at the address noted below. The Corporation may, in its sole discretion, decide to deliver any documents related to the Award under the Plan or future Awards that may be awarded under the Plan by electronic means or request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation.

No Award is enforceable until you properly acknowledge your acceptance by completing the electronic receipt or returning an executed copy of this Award Agreement to the Vice President of Compensation and Performance Management as soon as possible but in no event later than May 31, 2017. Acceptance of this Award Agreement must be made only by you personally or by a person acting pursuant to a power of attorney in the event of your inability to acknowledge your acceptance (and not by your estate, your spouse or any other person) and constitutes your consent to any action taken under the Plan consistent with its terms with respect to this Award. Notwithstanding the foregoing, this Award will be enforceable and deemed accepted, and will not be forfeited, if you are unable to accept this Award Agreement personally by May 31, 2017 due to your death, disability, incapacity, deployment in the Armed Forces, or similar unforeseen circumstance as determined by the Corporation in its discretion. The Committee has authorized electronic means for the delivery and acceptance of this Award Agreement. If you desire to accept this Award, you must acknowledge your acceptance and receipt of this Award Agreement, either electronically or by signing and returning a copy of this letter on or before May 31, 2017, as follows:

- Electronic Acceptance: Go to <http://www.stockplanconnect.com>; or

- By Mail: Nick Lossia, Vice President of Compensation and Performance Management, Lockheed Martin Corporation, Mail Point 126, 6801 Rockledge Drive, Bethesda, MD 20817.

Assuming prompt and proper acknowledgment of this Award Agreement as described in Section 18, this Award will be effective as of the Award Date.

Sincerely,

Patricia L. Lewis
Senior Vice President,
Human Resources

(For written acceptance, please complete, sign, and return by mail.)

Acknowledged by:

Signature

Date

Print Name

Employee ID

Appendix A
Capitalized Terms

Average TSR	§ 3.2(a)
Award	6th ¶
Award Date	Header
Cash-Based Award	Plan
Cash Flow	§ 4.2(a)
Cash Flow Performance Factor	§ 4.2
Cash Flow Target	§ 2.1(c)
Cause	§ 8.2(a)
Change of Control	Plan
Code	Plan
Committee	1st ¶
Corporation	6th ¶
Divestiture	§ 5.1(c)(2)
Employee	Plan
Exchange Act	Plan
Good Reason	§ 8.2(b)
Insider	Plan
Payable Portion	§ 5.2(a)
Peer Performance Group	§ 3.1
Performance-Based Award	Plan
Performance Period	§ 1.2
Plan	1st ¶
Potential Award	§ 2.1(d)
Retirement	§ 5.1(c)(3)
Return	§ 4.1(a)
ROIC	§ 4.1(a)
ROIC Performance Factor	§ 4.1
ROIC Target	§ 2.1(b)
Subsidiary	Plan
Target Award	6th ¶, § 1.1
Total Disability	§ 5.1(c)(1)
Total Stockholder Return	Plan; § 3.2(a)
Total Stockholder Return Performance Factor	§ 3.1; § 3.2

Exhibit A

Post-Employment Conduct Agreement
(LTIP Grant)

This Post-Employment Conduct Agreement (this "PECA") attached as Exhibit A to the Award Agreement with an Award Date of January 26, 2017, (the "Award Agreement") is entered into in consideration of, among other things, the grant of a Long Term Incentive Performance Award to me under the Award Agreement (the "LTIP") pursuant to the Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (the "Plan"). References to the "Corporation" shall include Lockheed Martin Corporation and its Subsidiaries. By accepting the LTIP, I agree as follows:

1. Protective Covenants.

(a) Covenant Not To Compete – Without the express written consent of the "Required Approver," during the one-year (or two-year for Elected Officers) period following the date of my termination of employment (the "Termination Date") with the Corporation, I will not, directly or indirectly, be employed by, provide services to, or advise a "Restricted Company" (as defined in Section 6), whether as an employee, advisor, director, officer, partner or consultant, or in any other position, function or role that, in any such case,

- (i) oversees, controls or affects the design, operation, research, manufacture, marketing, sale or distribution of "Competitive Products or Services" (as defined in Section 6) of or by the Restricted Company, or
- (ii) would involve a substantial risk that the "Confidential or Proprietary Information" (as defined in Section 1(c)) of the Corporation (including but not limited to technical information or intellectual property, strategic plans, information relating to pricing offered to the Corporation by vendors or suppliers or to prices charged or pricing contemplated to be charged by the Corporation, information relating to employee performance, promotions or identification for promotion, or information relating to the Corporation's cost base) could be used to the disadvantage of the Corporation.

Section 1(a)(i) and (ii) shall not apply to residents of California.

To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct (such as the ABA Model Rules of Professional Conduct and state versions thereof), Sections 1(a)(i) and (ii) and Section 1(b) relating to non-solicitation, shall apply to individuals who are employed by the Corporation in an attorney position and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation does not include practicing law.

In lieu of Section 1(a)(i) and (ii), as well as Section 1(b) relating to non-solicitation, the following Section 1(a)(iii) shall apply to individuals who are employed by the Corporation in an attorney position, and whose occupation during the one-year (or two-year, for Elected Officers) period following employment with the Corporation includes practicing law.

- (iii) Post-Employment Activity As a Lawyer – I acknowledge that as counsel to the Corporation, I owe ethical and fiduciary obligations to the Corporation and that at least some of these obligations will continue even after my Termination Date with the

Corporation. I agree that after my Termination Date I will comply fully with all applicable ethical and fiduciary obligations that I owe to the Corporation. To the extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct, I agree that I will not:

- (a) Represent any client in the same or a substantially related matter in which I represented the Corporation where the client's interests are materially adverse to the Corporation; or
- (b) Disclose confidential information relating to my representation of the Corporation, including the disclosure of information that is to the disadvantage of the Corporation, except for information that is or becomes generally known.

The Corporation's Senior Vice President, General Counsel, and Corporate Secretary or the General Tax Counsel, as applicable, will determine in his or her discretion whether an individual is employed by the Corporation in an attorney position.

(b) Non-Solicit – Without the express written consent of the Required Approver, during the one-year period (two-year period for Elected Officers) following the Termination Date, I will not (i) interfere with any contractual relationship between the Corporation and any customer, supplier, distributor or manufacturer of or to the Corporation to the detriment of the Corporation, or (ii) induce or attempt to induce any person who is an employee of the Corporation to perform work or services for any entity other than the Corporation.

(c) Protection of Proprietary Information – Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar agreements that I signed while employed by the Corporation committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Corporation or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such agreements. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Corporation or others to which I had access or that I was responsible for creating or overseeing during my employment with the Corporation. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Corporation's Senior Vice President, General Counsel, and Corporate Secretary as to the existence of the obligation and will cooperate with any reasonable request by the Corporation for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Corporation shall be and remain the property of the Corporation. For purposes of this PECA, "Confidential or Proprietary Information" means Proprietary Information within the meaning of CRX-015C (a copy of which has been made available to me), including but not limited to information that a person or entity desires to protect from unauthorized disclosure to third parties that can provide the person or entity with a business, technological, or economic advantage over its competitors, or which, if known or used by third parties or if used by the person's or entity's employees or agents in an

unauthorized manner, might be detrimental to the person's or entity's interests. Confidential or Proprietary Information may include, but is not limited to:

- (i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or
- (ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

(d) No Disparagement – Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Corporation or its directors, officers, employees, technology, products or services with respect to any matter whatsoever.

(e) Cooperation in Litigation and Investigations – Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Corporation in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Corporation or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Corporation, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

2. Consideration and Acknowledgement. I acknowledge and agree that the benefits and compensation opportunities being made available to me under the Award Agreement are in addition to the benefits and compensation opportunities that otherwise are or would be available to me in connection with my employment by the Corporation and that the grant of the LTIP is expressly made contingent upon my agreements with the Corporation set forth in this PECA. I acknowledge that the scope and duration of the restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the benefits and compensation opportunities being made available to me under the Award Agreement. I further acknowledge and agree that as a result of the high level executive and management positions I hold with the Corporation and the access to and extensive knowledge of the Corporation's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Corporation's legitimate business interests.

3. Remedies For Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) If I become (or currently am) an Insider (as defined in the Plan) or receive a Long-Term Incentive Performance Award, I agree, upon demand by the Corporation, to forfeit, return or repay to the Corporation the "Benefits and Proceeds" (as defined below) in the event any of the following occur:

- (i) I breach any of the covenants or agreements in Section 1;
- (ii) The Corporation determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person's intentional misconduct or

gross negligence of which I had knowledge during the period I was employed by the Corporation, contributed to the Corporation having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission;

- (iii) The Corporation determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report the acts of another person of which I had knowledge during the period I was employed by the Corporation) contributed to another person's fraud, bribery or other illegal act, which in any such case adversely affected the Corporation's financial position or reputation; or
- (iv) Under such other circumstances specified by final regulation issued by the Securities and Exchange Commission entitling the Corporation to recapture or clawback "Benefits and Proceeds" (as defined below).

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Corporation for any of the conduct described in Section 3(a) and shall not limit the Corporation from seeking damages or injunctive relief.

(c) For purposes of this Section 3, "Benefits and Proceeds" means (i) to the extent I have earned any of the LTIP, any cash paid to me, whether paid currently or deferred; and (ii) to the extent I have not earned the LTIP fully, all of my remaining rights, title or interest in the LTIP.

4. Injunctive Relief. I acknowledge that the Corporation's remedies at law may be inadequate to protect the Corporation against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to the Corporation at law or in equity (including but not limited to, an action under Section 3(a)), the Corporation shall be entitled to injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

5. Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

6. Definitions. Capitalized terms not defined in this PECA have the meaning given to them in the Plan, as applicable. For purposes of this PECA, the following terms have the meanings given below:

(a) "Restricted Company" means The Boeing Company, General Dynamics Corporation, Northrop Grumman Corporation, the Raytheon Company, United Technologies Corporation, Honeywell International Inc., BAE Systems Inc., L-3 Communications Corporation, the Harris Corporation, Thales, Airbus Group, Inc., Textron Inc., Finmeccanica SpA, Leidos Holdings, Inc. and (i) any entity directly or indirectly controlling, controlled by, or under common control with any of the foregoing, and (ii) any successor to all or part of the business of any of the foregoing as a result of a merger, reorganization, consolidation, spin-off, split-up, acquisition, divestiture, or similar transaction.

(b) "Competitive Products or Services" means products or services that compete with, or are an alternative or potential alternative to, products sold or services provided by a subsidiary, business area, division or operating unit or business of the Corporation as of the Termination Date and at any time within the two-year period ending on the Termination Date; provided, that, (i) if I had direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided during that two-year period by the subsidiary, business area, division or operating unit of the Corporation for which I had responsibility, and (ii) if I did not have direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Corporation at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided by a subsidiary, business area, division or operating unit of the Corporation for which I had access (or was required or permitted such access in the performance of my duties or responsibilities with the Corporation) to Confidential or Proprietary Information of the Corporation at any time during the two-year period ending on the Termination Date.

(c) "Required Approver" means:

- (i) with respect to the Chairman, President and Chief Executive Officer, the Management and Development Committee of the Corporation's Board of Directors;
- (ii) with respect to an Elected Officer, the Corporation's Chairman, President and Chief Executive Officer; or
- (iii) with respect to all other employees, the Senior Vice President, Human Resources of the Corporation.

(d) "Elected Officer" means an officer of the Corporation who was elected to his or her position by the Corporation's Board of Directors.

7. Miscellaneous.

(a) The Plan, the Award Agreement (with Exhibit B) and this PECA constitute the entire agreement governing the terms of the award of the LTIP to me.

(b) This PECA shall be governed by Maryland law, without regard to its provisions governing conflicts of law. Any enforcement of, or challenge to, this PECA may only be brought in the Circuit Court of Maryland or the United States District Court for the District of Maryland. Both parties consent to the proper jurisdiction and venue of the Circuit Court of Maryland and the United States District Court for the District of Maryland for the purpose of enforcing or challenging this PECA.

(c) This PECA shall inure to the benefit of the Corporation's successors and assigns, and may be assigned by the Corporation without my consent.

(d) This PECA provides for certain obligations on my part following the Termination Date and shall not, by implication or otherwise, affect in any way my obligations to the Corporation during the term of my employment by the Corporation, whether pursuant to written agreements between the Corporation and me, the provisions of applicable Corporate policies that may be adopted from time to time or applicable law or regulation.

This PECA is effective as of the acceptance by me of the award of an LTIP under the Award Agreement and is not contingent on the vesting of the LTIP.

Exhibit B

Stock Ownership Requirements

Lockheed Martin's Stock Ownership Requirements for Key Employees apply to all senior level positions of Vice President and above. This reflects the expectations of our major stockholders that management demonstrate its confidence in Lockheed Martin through a reasonable level of personal share ownership. This practice is consistent with other major U.S. corporations which link some portion of personal financial interests of key employees with those of shareholders.

Stock Ownership Requirements

<u>Title</u>	<u>Annual Base Pay Multiple</u>
Chairman, President and Chief Executive Officer	6 times
Chief Operating Officer	5 times
Chief Financial Officer	4 times
Executive Vice Presidents	3 times
Senior Vice Presidents	2 times
Other Elected Officers	2 times
Other Vice Presidents	1 times

Satisfaction of Requirements

Covered employees may satisfy their ownership requirements with common stock in these categories:

- Shares owned directly.
- Shares owned by a spouse or a trust.
- Shares represented by monies invested in 401(k) Company Common Stock Funds or comparable plans.
- Share equivalents as represented by income deferred to the Company Stock Investment Option of the Deferred Management Incentive Compensation Plan (DMICP).
- Unvested Restricted Stock Units

Key employees will be required to achieve the appropriate ownership level within five years and are expected to make continuous progress toward their target. Appointment to a new level will reset the five year requirement. Unexercised options prior to vesting are not counted toward meeting the guidelines.

Holding Period

Covered employees must retain net vested Restricted Stock Units and Performance Stock Units and the net shares resulting from any exercise of stock options if the ownership requirements are not yet satisfied.

Covered employees are asked to report annually on their progress toward attainment of their share ownership goals.

Lockheed Martin Corporation
Computation of Ratio of Earnings to Fixed Charges
(in millions, except ratios)

	Quarter ended March 26,	Years ended December 31,				
	2017	2016	2015	2014	2013	2012
Earnings						
Earnings from continuing operations before income taxes	\$ 995	\$4,886	\$4,299	\$4,677	\$3,715	\$3,388
Interest expense	155	663	443	340	350	383
Undistributed earnings from equity investees, net	68	(173)	(83)	(91)	(91)	20
Portion of rents representative of the interest factor	6	31	36	41	48	48
Earnings from continuing operations before income taxes, as adjusted	<u>\$ 1,224</u>	<u>\$5,407</u>	<u>\$4,695</u>	<u>\$4,967</u>	<u>\$4,022</u>	<u>\$3,839</u>
Fixed Charges						
Interest expense	\$ 155	\$ 663	\$ 443	\$ 340	\$ 350	\$ 383
Portion of rents representative of the interest factor	6	31	36	41	48	48
Total fixed charges	<u>\$ 161</u>	<u>\$ 694</u>	<u>\$ 479</u>	<u>\$ 381</u>	<u>\$ 398</u>	<u>\$ 431</u>
Ratio of Earnings to Fixed Charges	<u><u>7.6</u></u>	<u><u>7.8</u></u>	<u><u>9.8</u></u>	<u><u>13.0</u></u>	<u><u>10.1</u></u>	<u><u>8.9</u></u>

The ratio of earnings to fixed charges is a measure of our ability to meet the interest requirements of our outstanding debt securities and leases with current period earnings. A positive ratio indicates that earnings are sufficient to cover our current interest requirements.

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

Board of Directors
Lockheed Martin Corporation

We are aware of the incorporation by reference of our report dated April 26, 2017, relating to the unaudited consolidated interim financial statements of Lockheed Martin Corporation that is included in its Form 10-Q for the quarter ended March 26, 2017, in the following Registration Statements of Lockheed Martin Corporation:

- 33-58079 and 33-58097 on Form S-8, each dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
- 333-20117 and 333-20139 on Form S-8, each dated January 22, 1997;
- 333-27309 on Form S-8, dated May 16, 1997;
- 333-37069 on Form S-8, dated October 2, 1997;
- 333-40997 on Form S-8, dated November 25, 1997;
- 333-58069 on Form S-8, dated June 30, 1998;
- 333-92197 on Form S-8, dated December 6, 1999;
- 333-92363 on Form S-8, dated December 8, 1999;
- 333-78279 on Form S-8 (Post-Effective Amendments No. 2 and 3), each dated August 3, 2000;
- 333-56926 on Form S-8, dated March 12, 2001;
- 333-105118 on Form S-8, dated May 9, 2003;
- 333-113769, 333-113770, 333-113771, 333-113772, and 333-113773 on Form S-8, each dated March 19, 2004;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-127084 on Form S-8, dated August 1, 2005;
- 333-146963 on Form S-8, dated October 26, 2007;
- 333-155687 on Form S-8, dated November 25, 2008;
- 333-162716 on Form S-8, dated October 28, 2009;
- 333-155684 on Form S-8 (Post-Effective Amendment No. 1), dated August 23, 2011;
- 333-176440 on Form S-8, dated August 23, 2011;
- 333-188118 on Form S-8, dated April 25, 2013;
- 333-195466 on Form S-8, dated April 24, 2014 and July 23, 2014 (Post-Effective Amendment No.1);
- 333-197577 on Form S-3, dated July 23, 2014; and
- 333-199570 on Form S-3, dated October 23, 2014.

/s/ Ernst & Young LLP

McLean, Virginia
April 26, 2017

**CERTIFICATION OF MARILLYN A. HEWSON PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marilyn A. Hewson, 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/ Marilyn A. Hewson
Marilyn A. Hewson
Chief Executive Officer

Date: April 26, 2017

**CERTIFICATION OF BRUCE L. TANNER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bruce L. Tanner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lockheed Martin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying 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/ Bruce L. Tanner

Bruce L. Tanner
Chief Financial Officer

Date: April 26, 2017

**CERTIFICATION OF MARILLYN A. HEWSON AND BRUCE L. TANNER 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 March 26, 2017, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Marilyn A. Hewson, Chief Executive Officer of the Corporation, and I, Bruce L. Tanner, 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/ Marilyn A. Hewson

Marilyn A. Hewson
Chief Executive Officer

/s/ Bruce L. Tanner

Bruce L. Tanner
Chief Financial Officer

Date: April 26, 2017