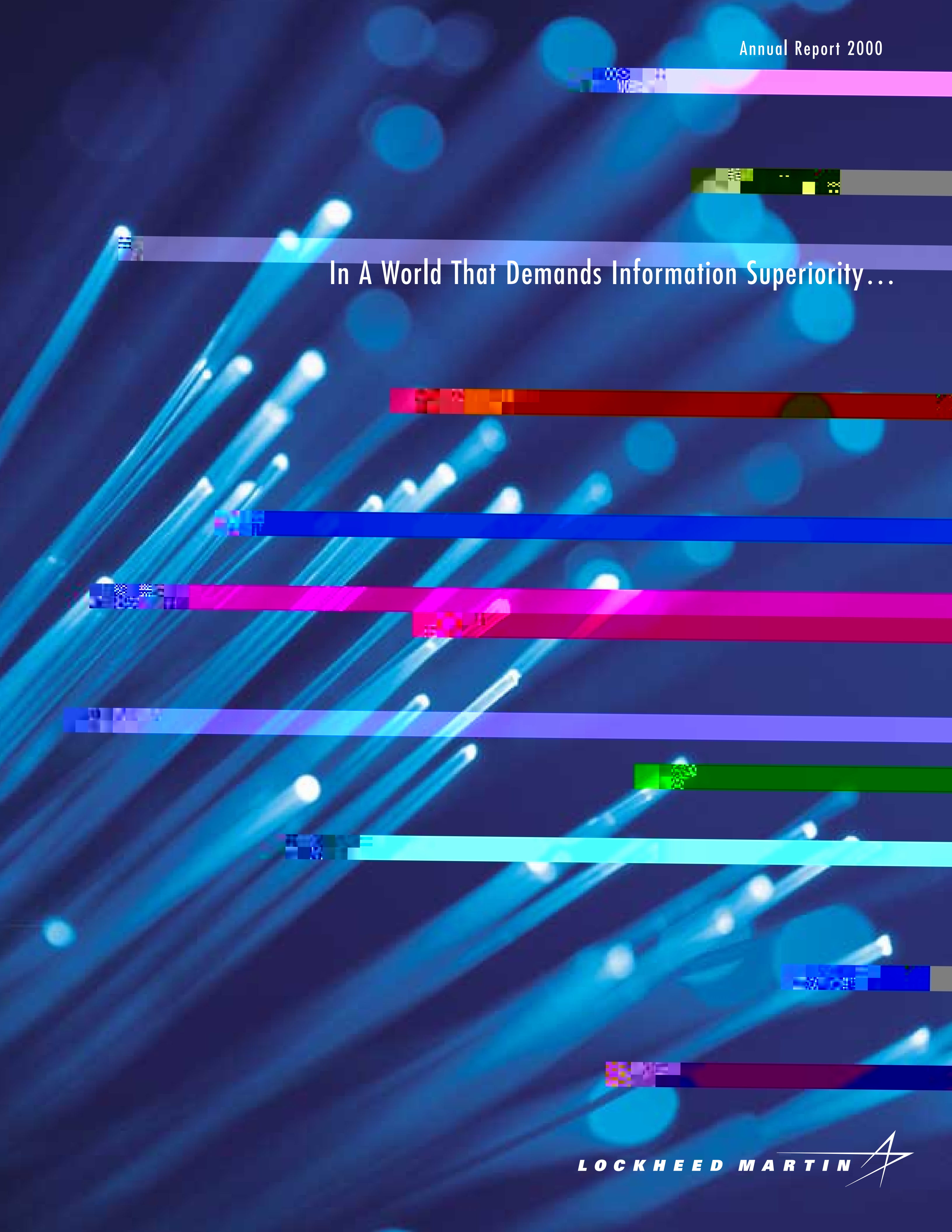
Annual Report 2000

In A World That Demands Information Superiority...



LOCKHEED MARTIN

Financial Highlights

(In millions, except per share data and number of employees)	**2000**	1999	1998
Net sales	**$25,329**	$25,530	$26,266
Operating profit	**1,205**	2,009	2,522
Operating profit before amortization of intangibles	**1,655**	2,449	2,958
Net (loss) earnings	**(519)**	382	1,001
Diluted (loss) earnings per share	**(1.29)**	.99	2.63
Pro forma diluted earnings per share excluding nonrecurring and unusual items	**1.07**	1.50	2.99
Cash dividends per common share	**.44**	.88	.82
Total assets	**30,349**	30,261	28,744
Short-term borrowings	**12**	475	1,043
Long-term debt (including current maturities)	**9,947**	11,479	9,843
Stockholders' equity	**7,160**	6,361	6,137
Negotiated backlog	**$56,424**	$45,913	$45,345
Employees	**130,000**	147,000	165,000

Note: For a discussion of nonrecurring and unusual items and other matters affecting the comparability of the information presented above, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 23 through 41 of this Annual Report.

Contents

On The Cover: *In a world that increasingly demands information superiority, Lockheed Martin applies its advanced technologies as well as the commitment of its talented and dedicated people to meeting our customers' priorities.*

Lockheed Martin Applies Its Vision, Its Purpose And Its Values To Customer Priorities

Our Values:

- *Ethics*

Achieving Results Through…

- *Leadership And Teamwork*
- *Commitment Of Our People To Our Customers*
- *Excellence As A Premier Systems Integrator*
- *Innovation In Technology And Business*
- *Partnerships Worldwide*

Leadership And Teamwork

From left to right: (seated) Robert J. Stevens, ; Vance D. Coffman, ;
(standing) Robert B. Coutts, ; Dain M. Hancock, ;
Albert E. Smith, ; John V. Sponyoe, ; Michael F. Camardo,

Dear Fellow Shareholder:

2000

15% 25%.

40% 50%,

2000

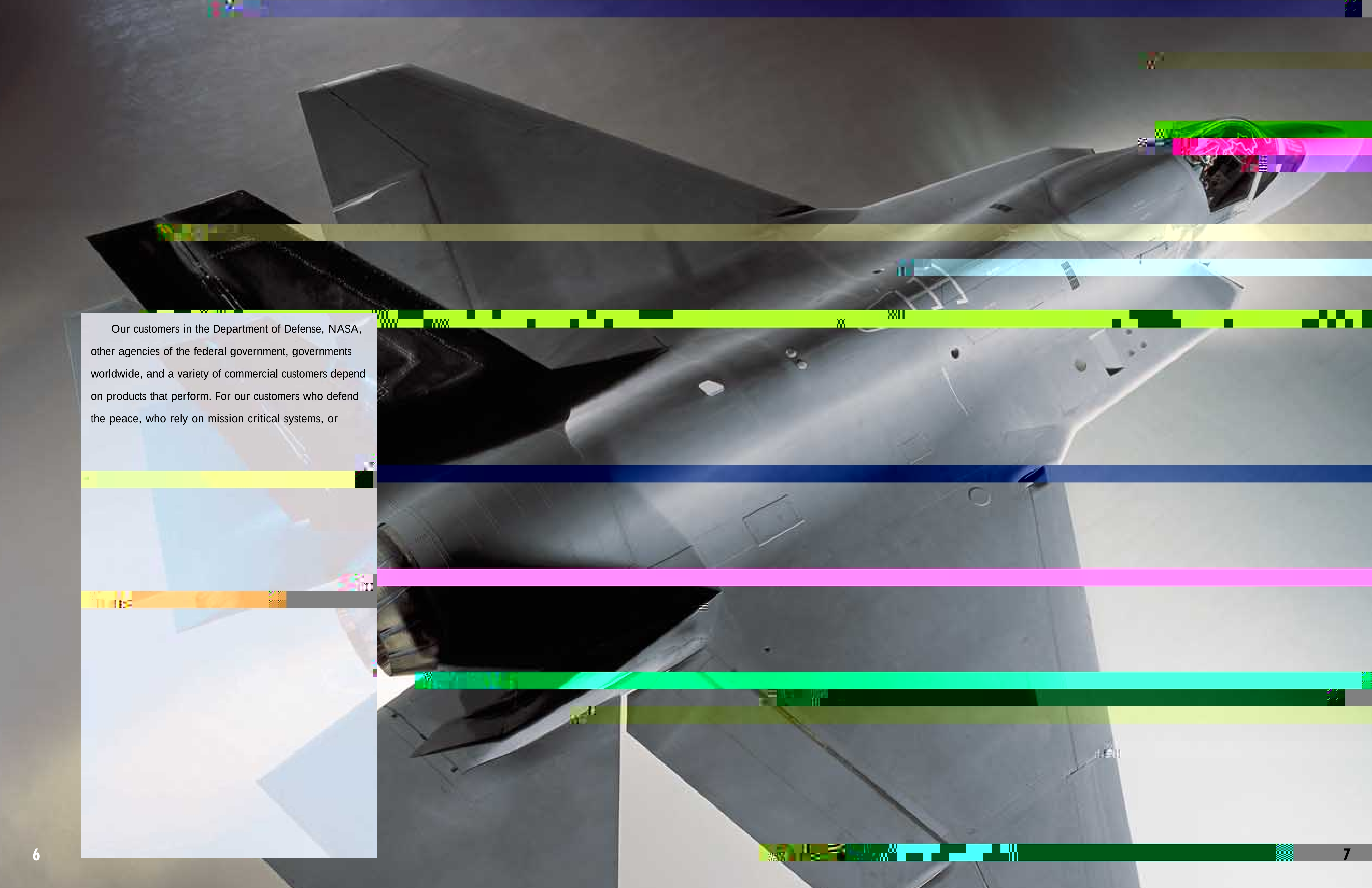
130,000

2000.

2000

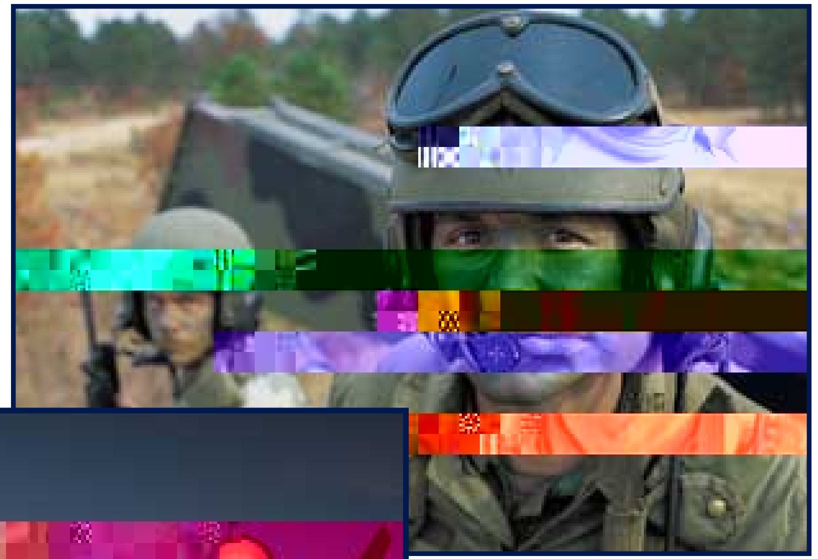
1, 2001

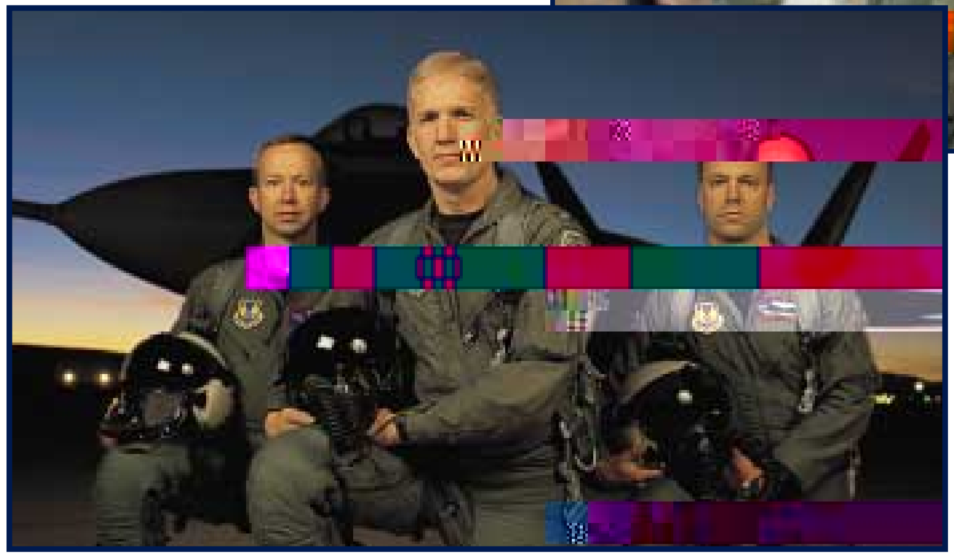
Vance D. Coffman



Our customers in the Department of Defense, NASA, other agencies of the federal government, governments worldwide, and a variety of commercial customers depend on products that perform. For our customers who defend the peace, who rely on mission critical systems, or

Evolving With Customer Priorities





As a world-class advanced-technology systems integrator, we are continually improving on performance with innovations in science and technology.

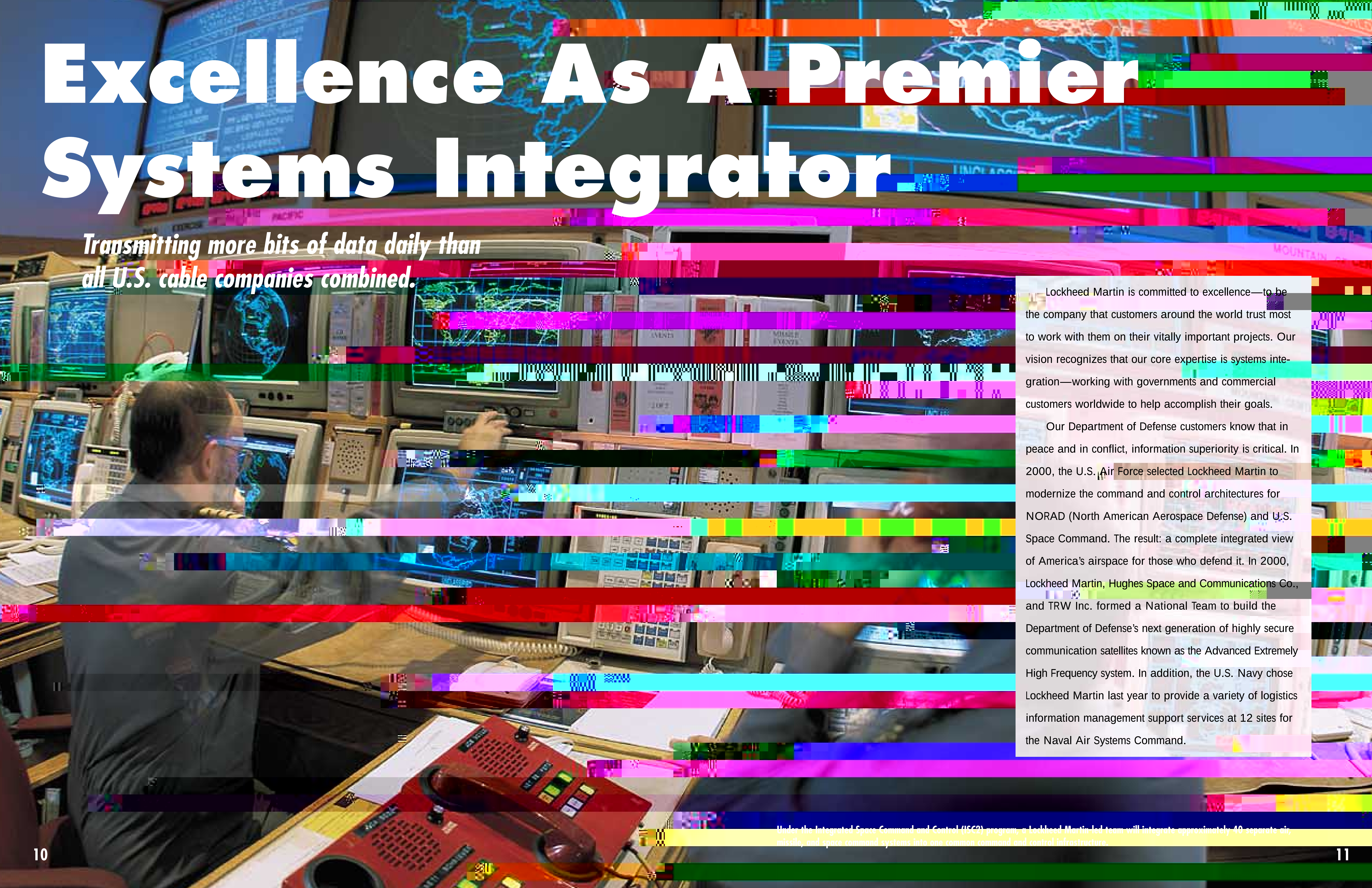
Pe a ce a a e e a ed L eed Ma ' e ec a a a e e e a e U.S. Na ' e a c a ca e, CVN-77. S e e a a e e de e e a .
T e Pa Ad a ced Ca ab -3 (PAC-3) e e e ded ec d cce e a ce e cce e a d c ec e e ce , c d e de c a e a - c e e . I add , e T ea e H A de A ea De e e (THAAD) a e e ed e E ee a d Ma ac De e e a e, a d e J A - -S ace S a d M e cce c d c ed a d a de a ed e a ce cce b e e .

For our customers who defend the peace, who rely on mission critical systems, or depend on large information networks—performance is key.

T e L eed Ma ea a a e NASA c da e e a a a NASA ce e . T e C da ed S ace O e a C ac (CSOC) cce de a ed a ea O S a e, c e ca e a c ed c . T a e- e-a ec a c e e a c a d e acec a a e a e e, a c e a d- ed de ce ead be ed a e c ce e . I add , CSOC de e ed e e T a F C a ead c ed ea d b d e .
A e e a , ea a e a a e Yea 2000 Ce a acc ac a e 99.8%. L eed Ma ' Da a Ca e S e (DCS) 2000 ce ed e ea 148 a de a da ed c e e U ed S a e a e e ce be .

Excellence As A Premier Systems Integrator

Transmitting more bits of data daily than all U.S. cable companies combined.



Lockheed Martin is committed to excellence—to be the company that customers around the world trust most to work with them on their vitally important projects. Our vision recognizes that our core expertise is systems integration—working with governments and commercial customers worldwide to help accomplish their goals.

Our Department of Defense customers know that in peace and in conflict, information superiority is critical. In 2000, the U.S. Air Force selected Lockheed Martin to modernize the command and control architectures for NORAD (North American Aerospace Defense) and U.S. Space Command. The result: a complete integrated view of America's airspace for those who defend it. In 2000, Lockheed Martin, Hughes Space and Communications Co., and TRW Inc. formed a National Team to build the Department of Defense's next generation of highly secure communication satellites known as the Advanced Extremely High Frequency system. In addition, the U.S. Navy chose Lockheed Martin last year to provide a variety of logistics information management support services at 12 sites for the Naval Air Systems Command.

Under the Integrated Space Command and Control (ISC2) program, a Lockheed Martin-led team will integrate approximately 40 separate air, missile, and space command systems into one common command and control infrastructure.

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T e c a a e ce e ede a e e a e a c -

Innovation In Technology And Business

Lockheed Mar in rain a rona for f mi ion he In erna ional Space S a ion.

S em; U.S. Ai Fo ce Special Ope a ion Command comba ai c e aining and mi ion ehea al ope a ion ; he U.S. Na ' fi econ-fig able EA-6B eapon   em aine ; and a ne comme cial fligh aining cen e .

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NAVY

December 31, 2000

Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. The Corporation serves customers in both domestic and international defense and commercial markets, with its

$115 million after transaction costs and federal and state income tax payments.

In 1997, the Corporation repositioned 10 of its non-core business units as a new independent company, L-3 Communications Holdings, Inc. (L-3), in which the Corporation retained an approximate 35 percent ownership interest at closing. The Corporation's ownership percentage was reduced to approximately 25 percent in the second quarter of 1998 as a result of an initial public offering of L-3's common stock. This transaction resulted in the recognition of a nonrecurring and unusual gain, net of state income taxes, of $18 million, and increased 1998 net earnings by $12 million, or $.03 per diluted share. In 1999, the Corporation sold its remaining shares of L-3 in two separate transactions. On a combined basis, these two transactions resulted in a nonrecurring and unusual gain, net of state income taxes, of $155 million, and increased 1999 net earnings by $101 million, or $.26 per diluted share.

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a nonrecurring and unusual gain, net of state income taxes, of $33 million. In October 1999, the Corporation exited its commercial 3D graphics business through a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a nonrecurring and unusual gain, net of state income taxes, of $33 million. On a combined basis, these transactions increased 1999 net earnings by $43 million, or $.11 per diluted share.

Industry Considerations

The Corporation's primary lines of business are in advanced technology systems, products and services for aerospace and defense, serving both government and commercial customers. In recent years, domestic and worldwide political and economic developments have strongly affected these markets, requiring significant adaptation by market participants.

The U.S. aerospace and defense industry has experienced years of pressures and uncertainties relative to budgets for research, development, test and evaluation, and procurement. After over a decade of downward trends in the U.S. defense budget, the portion of the Federal budget devoted to defense is at one of its lowest levels in modern history. In addition, worldwide defense budgets have been declining, with the limited funds available for such budgets targeted for operational readiness and personnel issues instead of acquisition programs. An increasing portion of expenditures for defense is used for upgrading and modernizing existing equipment rather than acquisition of new equipment. Such trends in defense spending have created risks associated with demand and timing of orders relative to certain of the Corporation's existing programs. For example, though the Corporation received several new orders for C-130J airlift aircraft in 2000, the program since inception has not experienced the level of orders anticipated which has resulted in lower than expected production levels. The Corporation is continuing to focus its efforts on new orders from domestic and foreign customers, although it cannot predict the outcome of these efforts.

December 31, 2000

as evidenced by the acquisition in 2000 of the Corporation's government policies, and dependence on annual Congressional appropriation and allotment of funds. Many of the Corporation's programs involve development and application of state-of-the-art technology aimed at achieving challenging goals. As a result, setbacks and failures can occur. It is important for the Corporation to resolve performance issues related to such programs in a timely manner to achieve success on these programs.

The nature of the Corporation's business also makes it subject to export control regulation by the U.S. Department of State and the Department of Commerce. Violations of these regulations can result in monetary penalties and denial of export privileges. Management is currently unaware of any violations of export control regulations which could have a material adverse effect on the Corporation's business or its consolidated results of operations, cash flows or financial position.

The Corporation also conducts business in related com-

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In addition, pursuant to the ORBIT Act, the FCC commenced a proceeding in 2000 to determine whether “sufficient opportunities” exist to directly access INTELSAT from the U.S. If the FCC determines that such opportunities do not exist, it may take actions that could adversely affect the Corporation’s ability to utilize contractually committed future capacity on the INTELSAT system. A decision is expected in 2001.

The Global Telecommunications segment is also subject to substantial and increasing competition on a variety of fronts. There has been an increase in the number of competing satellite systems and other telecommunications services providers in recent years, including a substantial deployment of undersea fiber cables. Many of those companies have plans to substantially increase capacity. A number of the new satellite systems have had difficulty attracting customers and financing at the levels contemplated by their business plans following the bankruptcies of the Iridium and ICO satellite systems mentioned previously. LMGT has investments in a number of new or development-stage satellite systems, such as ACeS International, Ltd. (ACeS) and Astrolink International, LLC. In addition, the Corporation owns approximately 15% of Loral Space & Communications Ltd. (Loral Space), which is a major investor in Globalstar Telecommunications Limited (Globalstar). There can be no assurance that these ventures will be successful in attracting the financing necessary to complete and operate their systems or the customer bases required for profitable operations.

In connection with expanding its portfolio of offered products and services in commercial space and telecommunications activities, the Corporation has entered into various joint venture, teaming and other business arrangements. Such arrangements generally include a formal plan for funding of the business which typically requires commitments for funding from the partners, and may require the business to obtain financing from other sources. To the extent the business is unable to obtain such financing, the business partners, including the Corporation, would be required to assess alternatives relative to further funding for the business. In addition, some of these business arrangements include foreign partners. The conduct of international business introduces other risks into the Corporation’s operations, including fluctuating economic conditions, fluctuations in relative currency values, regulation by foreign jurisdictions and the potential for unanticipated cost increases and timing issues resulting from the possible deterioration of political relations.

In 1992, the Corporation entered into a joint venture with two Russian government-owned space firms to form Lockheed-Khrunichev-Energia International, Inc. (LKEI). Lockheed Martin owns 51 percent of LKEI and consolidates the operations of LKEI into its financial statements. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton rocket from a launch site in Kazakhstan. In 1995, another joint venture was formed, International Launch Services (ILS), with the Corporation and LKEI each holding a 50 percent ownership. ILS was formed to market commercial Atlas and Proton launch services worldwide. Contracts for Proton launch services typically provide for substantial advances from the customer in advance of launch, and a sizable percentage of these advances are forwarded to Khrunichev State Research and Production Space Center (Khrunichev), the manufacturer in Russia, to provide for the manufacture of the related launch vehicle. Significant portions of such advances would be required to be refunded to each customer if launch services were not successfully provided within the contracted time frames. At December 31, 2000, approximately $409 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and approximately $602 million of payments to Khrunichev for launches not yet provided was included in inventories. Through year-end 2000, launch services provided through LKEI and ILS have been in accordance with contract terms.

The Corporation has entered into agreements with RD

The note references in the preceding table refer to the Notes to Consolidated Financial Statements included in this Annual Report.

Excluding the effects of these nonrecurring and unusual items for each year, operating profit for 2000 would have decreased by one percent compared to 1999, and would have decreased by 34 percent for 1999 compared to 1998. For 2000 compared to 1999, reductions in operating profit at the Space Systems, Global Telecommunications and Corporate and Other segments more than offset increases in operating profit at the remaining business segments. Operating profit for 2000 compared to 1999 in the Aeronautics and Space Systems segments were favorably impacted by the absence in 2000 of negative adjustments recorded in 1999 on the C-130J airlift aircraft and Titan IV

launch vehicle programs, respectively. In addition, as more fully discussed in Note 14, "Post-Retirement Benefit Plans," operating profit for 2000 was favorably impacted by an increase in net pension income of $213 million as compared to 1999. This increase was due primarily to an increase in

The Corporation reported a net loss for 2000 of $519 million, a decrease of approximately $900 million compared to 1999 results. Reported net earnings for 1999 were $382 million, a decrease of 62 percent compared to 1998. The 2000 reported amount included the combined after-tax effects of the nonrecurring and unusual items presented above. The combination of these nonrecurring and unusual items reduced 2000 net earnings by $951 million, or $2.36 per diluted share. The after-tax effects of the 1999 and 1998 nonrecurring and unusual items are also presented above. On a combined basis, these nonrecurring and unusual items decreased 1999 and 1998 net earnings by $193 million, or $.51 per diluted share, and $136 million, or $.36 per diluted share, respectively.

The Corporation reported diluted (loss) earnings per share of $(1.29), $.99, and $2.63 for 2000, 1999, and 1998, respectively. If the nonrecurring and unusual items described above were excluded from the calculation of earnings per share, diluted earnings per share for 2000, 1999 and 1998 would have been $1.07, $1.50, and $2.99, respectively.

Discussion of Business Segments

The Corporation operates in five principal business segments: Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities of the Corporation fall within the Corporate and Other segment. The following tables of financial information and related discussions of the results of operations of the Corporation's business segments correspond to additional segment information presented in "Note 17—Information on Industry Segments and Major Customers" of the Notes to Consolidated Financial Statements.

In the third quarter of 2000, Lockheed Martin began presenting LMGT, which includes the operations of COMSAT and IBS, as a separate segment called Global Telecommuni-

Systems Integration

Net sales of the Systems Integration segment increased by one percent in 2000 compared to 1999, and increased by three percent in 1999 compared to 1998. For the year ended December 31, 2000 compared to 1999, net sales increased by approximately $360 million as a result of volume increases in the segment's Naval Electronic and Surveillance Systems product line and electronic platform integration activities. Net sales also increased by approximately $115 million in the segment's Missiles & Air Defense product line, primarily as a result of the Theater High Altitude Area Defense (THAAD) program's movement into the engineering, manufacturing and development (EMD) phase. These increases were partially offset by a reduction in net sales of approximately $410 million related to the AES and Control Systems businesses primarily due to the divestiture of these businesses in 2000. The increase in 1999 was comprised of a $100 million increase related to increased volume on surface systems activities, an $80 million increase in volume on tactical training systems and a $65 million increase in postal systems program activities. These increases were partially offset by a decrease of $100 million in classified activities and space electronics programs. The remaining increase was primarily attributable to increased electronics activities in the United Kingdom.

Operating profit for the segment increased by two percent both in 2000 compared to 1999 and in 1999 compared to 1998. In 2000, the previously mentioned volume increases in the segment's Naval Electronic and Surveillance Systems product line and electronic platform integration activities contributed approximately $40 million to the increase in operating profit from 1999. This increase was partially offset by an approximate $20 million decline in operating profit related to the AES and Control Systems businesses due to their divestiture in 2000. Also during 2000, increases in operating profit attributable to the

favorable progress occurs in terms of orders and cost. Of the remaining decrease in 1999 operating profit, $80 million resulted from reduced F-16 deliveries, with the remainder due to volume decreases on various other aircraft programs.

Technology Services

Net sales of the Technology Services segment increased by three percent in 2000 as compared to 1999, and by 17 percent in 1999 compared to 1998. The increase in 2000 net sales is comprised of an approximate $150 million increase in various federal technology services programs including the Consolidated Space Operations Contract and the Rapid Response contract. These increases were partially offset by an approximate $95 million decline in volume on aircraft maintenance and logistics contracts and certain defense and science energy services contracts due to program completions. The increase in 1999 net sales was mainly the result of an approximate $300 million increase in volume on the Consolidated Space Operations Contract, which was awarded in September 1998.

Operating profit for the segment increased by 17 percent in 2000 compared to 1999, and by one percent in 1999 compared to 1998. The increase in 2000 is primarily attributable to various federal technology services programs including the impact of the volume increases discussed above and increased profitability on certain information services contracts, and improved performance on certain aircraft maintenance and logistics contracts. These increases were partially offset by the operating profit impact of the previously mentioned volume declines on certain defense and science energy services contracts. The increase in 1999 operating profit was primarily attributable to the Consolidated Space Operations Contract. The remaining change was comprised of increases related to improved performance on aircraft maintenance and logistics contracts that were partially offset by decreases attributable to the timing of award fees on certain defense and science energy services contracts.

Global Telecommunications

Net sales of the Global Telecommunications segment increased by 97 percent in 2000 compared to 1999, and by 55 percent in 1999 compared to 1998. The increase in 2000 net sales was primarily attributable to the Corporation's consummation of the merger with COMSAT and the inclusion of COMSAT's consolidated operations in the segment's results beginning August 1, 2000. COMSAT contributed approximately $250 million to the increase in 2000 net sales. The majority of the remaining increase was associated with the recognition of approximately $65 million in net sales on a Proton launch vehicle, which successfully launched the ACeS 1 satellite in the first quarter of 2000. The remainder of the increase was mainly related to an approximate $35 million increase in volume on various network systems and technology programs. The 1999 increase was comprised of $75 million related to increased volume on information technology outsourcing contracts and $75 million in international telecommunications contracts, government services programs and various systems and technology programs. These increases more than offset declines in other Global Telecommunications activities.

Global Telecommunications' operating loss increased by approximately $1 million in 2000 compared to 1999, and by approximately $93 million in 1999 compared to 1998. During 2000, pricing pressures and the impact of negative adjustments related to performance on certain

and decreases in new orders on Command, Control, Communications, Computers and Intelligence (C4I) programs. Approximately one half of the 1999 increase from 1998 was comprised of new orders for missile systems, with the remaining increase primarily attributable to increased orders for various platform integration activities and increased surface ship system awards.

Total Space Systems backlog decreased by six percent in 2000 compared to 1999, and by eight percent in 1999 compared to 1998. The decrease in 2000 was primarily attributable to declines in backlog on government launch vehicles and commercial satellites due to decreases in new orders and sales on existing orders, respectively. Additional decreases in orders of military, civil, and classified satellites were partially offset by an increase in orders for commercial launch vehicles. The decrease in 1999 was mainly attributable to significant decreases in launch vehicle backlog as a result of a decline in new orders and sales on existing orders, as well as in backlog associated with military satellites and classified activities. Approximately one half of these decreases were partially offset by new orders for commercial and civil satellites.

Total Aeronautics backlog increased by 95 percent in 2000 compared to 1999 after decreasing by 12 percent in 1999 compared to 1998. The 2000 increase is primarily due to approximately $10.6 billion in orders related to the F-16 fighter aircraft program, including new F-16 contracts with the U.S. Government, the United Arab Emirates (UAE), Israel, Greece, Singapore and Korea, collectively. This increase was partially offset by a reduction in backlog for the F-22 fighter aircraft program as a result of increased sales on existing orders. The decline in 1999 backlog was a result of approximately equal decreases on F-16 programs and C-130J airlift aircraft programs related to the timing of new orders and sales recorded during 1999. An increase in orders associated with the F-22 program offset approximately one-third of the aforementioned decreases.

Total Technology Services backlog decreased by one percent in 2000 compared to 1999 after having increased by 26 percent in 1999 compared to 1998. The decrease in 2000 was primarily associated with sales on existing federal technology services contracts, principally the Consolidated Space Operations Contract. The increase in 1999 was attributable to new orders associated with the 1999 award of an aircraft engine maintenance contract by the U.S. Air Force which was partially offset by sales on the Consolidated Space Operations Contract.

Total Global Telecommunications backlog increased approximately six percent in 2000 compared to 1999, and increased significantly in 1999 compared to 1998. The 2000 increase was primarily the result of the acquisition of COMSAT in 2000 and new orders on network systems and technology programs. The 1999 increase was primarily the result of new orders on information outsourcing contracts with the remainder of the increase reflecting new orders on various network systems and technology programs.

Total Corporate and Other backlog increased by 17 percent in 2000 compared to 1999, and increased by five percent in 1999 compared to 1998. The 2000 increase was mainly attributable to new orders on various state and municipal services programs. The 1999 increase was primarily the result of increases on various state and municipal services programs which were partially offset by the absence at year-end 1999 of backlog related to the Corporation's Real 3D business unit, which was divested in the fourth quarter of 1999.

financing activities in 1999 as compared to the cash used during 1998 reflects the Corporation's issuance of $3.0 billion in long-term debt securities in the fourth quarter of 1999, partially offset by repayments of long-term debt totaling $1.1 billion and a net decrease of $868 million in short-term borrowings outstanding. During 1998, operating activities generated a significant amount of cash which allowed the Corporation to reduce its total debt by more than $1.0 billion.

The Corporation paid dividends of $183 million in 2000 compared to $345 million in 1999 and $310 million in 1998.

Other

The Corporation receives advances on certain contracts to finance inventories. At December 31, 2000, approximately $1.9 billion in advances and progress payments related to work in process were received from customers and recorded as a reduction to inventories in the Corporation's Consolidated Balance Sheet. Also at December 31, 2000, approximately $626 million of customer advances and progress payments were recorded in receivables as an offset to unbilled costs and accrued profits. Approximately $4.8 billion of customer advances and amounts in excess of costs incurred, which are typically from foreign governments and commercial customers, were included in current liabilities at the end of 2000.

Capital Structure and Resources

Total debt, including short-term borrowings, decreased by approximately 17 percent during 2000 from approximately $12.0 billion at December 31, 1999. The decrease was primarily the result of the completion of the tender offers mentioned previously. The remaining change in debt was comprised of scheduled repayments of long-term debt totaling approximately $50 million and net repayments of short-term debt of approximately $463 million, primarily attributable to commercial paper repayments of approximately $475 million. These decreases were partially offset by approximately $410 million in debt assumed in conjunction with the COMSAT Merger. The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures. At year-end 2000, the Corporation held cash and cash equivalents of approximately $1.5 billion, a portion of which is expected to be used to meet scheduled long-term debt maturities in 2001.

Total stockholders' equity was $7.2 billion at December 31, 2000, an increase of approximately $800 million from the December 31, 1999 balance. This increase resulted from the issuance of 27.5 million shares of the Corporation's common stock and the assumption of 4.3 million COMSAT stock options related to the completion of the Merger with COMSAT. On a combined basis, these non-cash items increased stockholders' equity by approximately $1.4 billion. Employee stock option and ESOP activities accounted for a further increase of approximately $218 million. These increases were partially offset by the 2000 net loss of $519 million, the payment of dividends of $183 million and other comprehensive losses of approximately $134 million primarily related to the temporary decline in value of the Corporation's investment in Loral Space. As a result of the above factors, the Corporation's total debt to capitalization ratio decreased from 65 percent at December 31, 1999 to 58 percent at December 31, 2000.

At the end of 2000, the Corporation had in place a revolving credit facility in the amount of $3.5 billion, which expires on December 20, 2001 (the Credit Facility). No borrowings were outstanding under this facility at December 31, 2000. In March 2000, the Corporation filed a shelf registration with the Securities and Exchange Commission (SEC) to provide for the issuance of up to $1 billion in debt securities. The registration statement was declared effective on April 14, 2000. Were the Corporation to issue debt securities under this shelf registration, it would expect to use the net proceeds for general corporate purposes. These purposes may include repayment of other debt, working capital needs, capital expenditures, acquisitions and any other general corporate purpose.

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

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

In connection with the UAE's order for F-16 fighter aircraft discussed previously, in June 2000, the Corporation issued a letter of credit in the amount of $2 billion related to advance payments to be received under the contract. At December 31, 2000, in accordance with the terms of the agreement with the UAE, the amount of the letter of credit available for draw down in the event of the Corporation's nonperformance under the contract was limited to the amount of advance payments received to date, or approximately $900 million. These advance payments were recorded in customer advances and amounts in excess of costs incurred in the Consolidated Balance Sheet at December 31, 2000.

The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain other contracts. At December 31, 2000, the Corporation had contingent liabilities on outstanding letters of credit, guarantees and other arrangements aggregating approximately $940 million.

The Corporation satisfied its contractual obligation with respect to its guarantee of certain indebtedness of Globalstar with a net payment of $150 million on June 30, 2000 to repay a portion of Globalstar's borrowings under a revolving credit agreement. The Corporation has no remaining guarantees in place related to Globalstar. The Corporation continues to guarantee certain borrowings of Space Imaging LLC (Space Imaging), a joint venture in which the Corporation holds a 46 percent ownership interest. The amount of borrowings outstanding as of December 31, 2000 for which Lockheed Martin was guarantor was approximately $120 million. This amount is included in the aggregate amount of contingent liabilities mentioned in the preceding paragraph.

The Corporation's investment in Space Imaging is accounted for under the equity method of accounting. At December 31, 2000, the Corporation's investment in and receivables from Space Imaging amounted to approximately $131 million. The Corporation expects to continue to provide debt guarantees of up to $150 million in connection with a new loan facility which Space Imaging is negotiating.

Effective March 31, 2000, the Corporation converted its 45.9 million shares of Loral Space Series A Preferred Stock into an equal number of shares of Loral Space common stock. The Corporation plans to divest its shares of Loral Space; however, the timing of such divestitures and the related amount of cash received will depend on market conditions.

Environmental Matters

As more fully described in "Note 16—Commitments and Contingencies" of the Notes to Consolidated Financial Statements (Note 16), the Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with its former facilities in Redlands, California. The Corporation estimates that expenditures required to implement work currently approved by the Regional Board related to the Redlands facilities will be approximately $90 million. Also in connection with the Redlands facilities, the Corporation is coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct

The management of Lockheed Martin prepared and is responsible for the consolidated financial statements and all related financial information contained in this Annual Report. The consolidated financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with accounting principles generally accepted in the United States.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, the Corporation maintains a system of internal accounting controls designed and intended to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded. An environment that provides for an appropriate level of control consciousness is maintained and monitored and includes examinations by an internal audit staff and by the independent auditors in connection with their annual audit.

Essential to the Corporation's internal control system is management's dedication to the highest standards of integrity, ethics and social responsibility. In connection therewith, management has issued the Code of Ethics and Business Conduct and written policy statements that cover, among other topics, environmental protection, potentially conflicting outside interests of employees, proper business practices, and adherence to high standards of conduct and practices in dealings with customers, including the U.S. Government. The importance of ethical behavior is regularly communicated to all employees through the distribution of the Code of Ethics and Business Conduct, and through ongoing education and review programs designed to create a strong compliance environment.

The Audit and Ethics Committee of the Board of Directors is composed of six outside directors. This Committee meets

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Balance at December 31, 1997	$194	$ 25	$5,173	$(216)	$ —	$5,176	
Net earnings	—	—	1,001	—	—	1,001	$1,001
Common stock dividends declared ($.82 per share)	—	—	(310)	—	—	(310)	—
Stock awards and options, and ESOP activity	2	204	—	34	—	240	—
Stock issued for acquisitions	—	38	—	—	—	38	—
Other comprehensive loss	—	—	—	—	(8)	(8)	(8)
Two-for-one stock split	197	(197)	—	—	—	—	—
Balance at December 31, 1998	393	70	5,864	(182)	(8)	6,137	$ 993
Net earnings	—	—	382	—	—	382	$ 382
Common stock dividends declared ($.88 per share)	—	—	(345)	—	—	(345)	—
Stock awards and options, and ESOP activity	5	152	—	32	—	189	—
Other comprehensive loss	—	—	—	—	(2)	(2)	(2)
Balance at December 31, 1999	398	222	5,901	(150)	(10)	6,361	$ 380
Net loss	**—**	**—**	**(519)**	**—**	**—**	**(519)**	**$ (519)**
Common stock dividends declared ($.44 per share)	**—**	**—**	**(183)**	**—**	**—**	**(183)**	**—**
Stock awards and options, and ESOP activity	**6**	**177**	**—**	**35**	**—**	**218**	**—**
Stock issued in COMSAT Merger	**27**	**1,319**	**—**	**—**	**—**	**1,346**	**—**
COMSAT stock options assumed	**—**	**71**	**—**	**—**	**—**	**71**	**—**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(134)**	**(134)**	**(134)**
Balance at December 31, 2000	**$431**	**$1,789**	**$5,199**	**$(115)**	**$(144)**	**$7,160**	**$ (653)**

[illegible]

December 31, 2000

Note 1—Summary of Significant Accounting Policies

O ga i a i Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. Its products and services range from aircraft, spacecraft and launch vehicles to missiles, electronics, information systems and telecommunications. The Corporation serves customers in both domestic and international defense and commercial markets, with its principal customers being agencies of the U.S. Government.

Ba i f c lida i a d e f e irra e The consolidated financial statements include the accounts of wholly-owned and majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The preparation of consolidated financial statements in confortion or losses are also included in other income and expenses. Investments in equity securities also include the Corporation's ownership interests in companies in which its investment represents less than 20 percent. These investments are generally accounted for under the cost method of accounting.

I a gible a e—Intangible assets related to contracts and programs acquired are amortized over the estimated periods of benefit (15 years or less) and are displayed in the Consolidated Balance Sheet net of accumulated amortization of $1,085 million and $958 million at December 31, 2000 and 1999, respectively. Cost in excess of net assets acquired (goodwill) is amortized ratably over appropriate periods, generally 30 to 40 years, and is displayed on the Consolidated Balance Sheet net of accumulated amortization of $1,184 million and $1,373 million at December 31, 2000 and 1999, respectively. The carrying values of intangible assets, as well as other long-lived assets, are reviewed for impairment if changes in the facts and circumstances indicate potential impairment of their carrying values. Any impairment determined is recorded in the current period and is measured by comparing the discounted cash flows of the related business operations to the appropriate carrying values.

C me ad a ce a d am i e ce f c i c ed The Corporation receives advances and progress payments from customers in excess of costs incurred on certain contracts, including contracts with agencies of the U.S. Government. Such advances and progress payments, other than those reflected as an offset to accounts receivable or inventories as discussed above, are classified as current liabilities.

E i me al ma e The Corporation records a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. A substantial portion of these costs are expected to be reflected in sales and cost of sales pursuant to U.S. Government agreement or regulation. At the time a liability is recorded for future environmental costs, an asset is recorded for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government. The portion of those costs expected to be allocated to commercial business is reflected in cost of sales at the time the liability is established.

Sale a d ea i g Sales and anticipated profits under long-term fixed-price production contracts are recorded on a percentage of completion basis, generally using units of delivery as the measurement basis for effort accomplished. Estimated contract profits are taken into earnings in proportion to recorded sales. Sales under certain long-term fixed-price contracts which, among other things, provide for the delivery of minimal quantities or require a significant amount of development effort in relation to total contract value, are recorded upon achievement of performance milestones or using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion.

Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs. Sales of products and services provided essentially under commercial terms and conditions are recorded upon shipment or completion of specified tasks.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions which increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs.

When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

December 31, 2000

Re ea ch a d de el me a d imila c Corporation-sponsored research and development costs primarily include research and development and bid and proposal efforts related to government products and services. Except for certain arrangements described below, these costs are generally included as part of the general and administrative costs that are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Corporation-sponsored product development costs not otherwise allocable are charged to expense when incurred. Under certain arrangements in which a customer shares in product development costs, the Corporation's portion of such unreimbursed costs is expensed as incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for as contract costs.

De i a i e fi a cial i me The Corporation may use derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. Forward exchange contracts are designated as qualifying hedges of firm commitments or specific anticipated transactions. Gains and losses on these contracts are recognized in income when the hedged transactions occur. At December 31, 2000, the fair values of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material. The Corporation does not hold or issue derivative financial instruments for trading purposes. Effective January 1, 2001, the Corporation began to account for derivative financial instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities."

S ck-ba ed c m e a i The Corporation measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Corporation has adopted those provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options awarded.

C m ehe i e i c me Comprehensive income (loss) for the Corporation consists primarily of net earnings (loss), after-tax foreign currency translation adjustments and after-tax unrealized gains and losses on available-for-sale securities. At December 31, 2000, 1999 and 1998, the accumulated balances of other comprehensive income related to foreign currency translation adjustments were insignificant. For the year ended December 31, 2000, other comprehensive loss included net unrealized losses, net of income tax benefits, of $129 million, primarily related to the temporary decline in value of the Corporation's investment in Loral Space & Communications, Ltd. (Loral Space).

Ne acc i g cem e Effective January 1, 2001, the Corporation adopted SFAS No. 133. This Statement requires the recognition of all derivative financial instruments as either assets or liabilities in the Consolidated Balance Sheet, and the periodic adjustment of those instruments to fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings. The effect of adopting SFAS No. 133 was not material to the Corporation's consolidated results of operations, cash flows, or financial position.

Effective January 1, 1999, the Corporation adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) No. 98-5, "Reporting on the Costs

combined earnings data does not purport to be indicative of the results of operations that would have resulted if the COMSAT transaction had occurred at the beginning of the respective periods. Moreover, this data is not intended to be indicative of future results of operations.

[illegible]	2000	1999
Net sales	**$25,674**	$26,072
(Loss) earnings before extraordinary item and cumulative effect of change in accounting	**(413)**	639
Net (loss) earnings	**(508)**	284
(Loss) earnings per common share:		
Basic:		
Before extraordinary item and cumulative effect of change in accounting	**(.98)**	1.56[a]
(Loss) earnings per common share	**(1.21)**	.69[a]
Diluted:		
Before extraordinary item and cumulative effect of change in accounting	**(.98)**	1.55[a]
(Loss) earnings per common share	**(1.21)**	.69[a]

(a) [illegible]

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

Note 3—Divestiture Activities

In July 2000, the Corporation decided to sell its Aerospace Electronics Systems (AES) businesses and announced that it had reached a definitive agreement to sell these businesses to BAE SYSTEMS, North America Inc. (BAE SYSTEMS) for $1.67 billion in cash (the AES Transaction). As a result of this decision, the Corporation classified the assets of these businesses as "held for disposal" under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The sum of the carrying value of the net assets of the AES businesses and estimated transaction costs exceeded the sales price per the definitive sales agreement. Therefore, the Corporation recorded an impairment loss in the third quarter of 2000 to adjust the book values of the assets to be disposed of to their fair values. Based on preliminary calculations and analyses, the Corporation recorded a loss, including state income taxes, of approximately $755 million. The loss negatively impacted the net loss for the third quarter by approximately $980 million, or $2.42 per diluted share. The AES Transaction closed in November 2000. In connection with the closing, the Corporation refined certain estimates included in its calculation of the loss on the transaction based on more current information and analyses. As a result, the Corporation recorded an adjustment in the fourth quarter of 2000 to reduce the amount of the loss, net of state income taxes, by $157 million, which increased fourth quarter net earnings by $102 million. In total for the year ended December 31, 2000, the Corporation recorded a nonrecurring and unusual loss of $598 million related to the AES Transaction which is included in other income and expenses. The loss negatively impacted the net loss for 2000 by $878 million, or $2.18 per diluted share.

On September 25, 2000, the Corporation consummated the sale of Lockheed Martin Control Systems (Control Systems) to BAE SYSTEMS for $510 million in cash. This transaction resulted in the recognition of a nonrecurring and unusual gain, net of state income taxes, of $302 million which is reflected in other income and expenses. The gain favorably impacted the net loss for 2000 by $180 million, or $.45 per diluted share.

In September 2000, the Corporation completed the sale of approximately one-third of its interest in Inmarsat Ventures Limited (Inmarsat) for $164 million. The investment in Inmarsat was acquired as part of COMSAT in conjunction with the Merger. As a result of the transaction, the Corporation's interest in Inmarsat was reduced from approximately 22% to 14%. The sale of shares in Inmarsat did not impact the Corporation's results of operations for 2000.

In March 1997, the Corporation repositioned 10 of its non-core business units as a new independent company, L-3 Communications Holdings, Inc. (L-3), in which the Corporation retained an approximate 35 percent ownership interest at closing. In May 1998, L-3 completed an initial public offering which resulted in a reduction in the Corporation's ownership to approximately 25 percent and the recognition of a gain, net of state income taxes, of $18 million. The gain increased net earnings by $12 million, or $.03 per diluted share. In 1999, the Corporation sold its remaining interest in L-3 in two separate transactions. On a combined basis, these transactions resulted in a nonrecurring and unusual gain, net of state income taxes, of $155 million which increased net earnings by $101 million, or $.26 per diluted share.

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a nonrecurring and unusual gain, net of state income taxes, of $33 million in other income and expenses. In October 1999, the Corporation exited its commercial 3D graphics business through consummation of a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a nonrecurring and unusual gain, net of state income taxes, of $33 million in other income and expenses. On a combined basis, these transactions increased net earnings by $43 million, or $.11 per diluted share.

Note 4—Restructuring and Other Charges

In the fourth quarter of 1998, the Corporation recorded a nonrecurring and unusual pretax charge, net of state income tax benefits, of $233 million related to actions surrounding the decision to fund a timely non-bankruptcy shutdown of the business of CalComp Technology, Inc. (CalComp), a majority-owned subsidiary. This charge decreased net earnings by $183 million, or $.48 per diluted share. As of December 31, 1999, CalComp had, among other actions, sold substantially all of its assets, terminated substantially all of its work force, and initiated the corporate dissolution process under the applicable state and foreign government statutes. The financial impacts of these actions were less than anticipated in the Corporation's plans and estimates and, in the fourth quarter of 1999, the Corporation reversed approximately 10 percent of the original charge recorded in 1998. As of December 31, 2000, the Corporation had substantially completed the shutdown of CalComp's operations. Based on management's assessment of the remaining actions to be taken to complete initiatives contemplated in the Corporation's original plans and estimates, the Corporation reversed approximately $33 million of the original charge, which favorably impacted the net loss for 2000 by $21 million, or $.05 per diluted share. While uncertainty remains concerning the resolution of matters in dispute or litigation, management believes that the remaining amount recorded at December 31, 2000, which represents approximately 10 percent of the original charge, is adequate to provide for resolution of these matters and to complete the dissolution process.

During 1997 and 1996, the Corporation recorded nonrecurring and unusual charges, net of state income tax benefits, which in the aggregate totaled $764 million. These charges reflected the estimated effects of exiting non-strategic lines of business and impairment in the values of various non-core investments and certain other assets, and included estimated costs for facility closings and transfers of programs related to the Corporation's acquisition of Loral Corporation in April 1996. All initiatives undertaken as part of the 1997 and 1996 charges had been completed as of December 31, 2000, other than actions contemplated as part of the Corporation's exit from a certain environmental remediation line of business and a fixed price systems development line of business in the area of children and family services. In 1999, the Corporation recorded an additional charge of approximately $40 million related to these remaining initiatives. The estimated costs related to these remaining initiatives represent approximately 30 percent of the total amounts recorded. During 2000, there were no further adjustments associated with these charges. The amounts recorded in the Consolidated Balance Sheet at December 31, 2000 related to these actions are, in the opinion of management, adequate to complete the remaining initiatives originally contemplated in the 1997 and 1996 charges.

Under existing U.S. Government regulations, certain costs incurred for consolidation actions that can be demonstrated to result in savings in excess of the cost to implement can be deferred and amortized for government contracting purposes and included as allowable costs in future pricing of the Corporation's products and services. Included in the Consolidated Balance Sheet at December 31, 2000 is approximately $300 million of deferred costs related primarily to consolidation actions undertaken in connection with the formation of Lockheed Martin in 1995 that will be recognized in future sales and cost of sales.

Note 5—Earnings Per Share

Basic and diluted per share results for all periods presented were computed based on the net loss or net earnings for the respective periods. The weighted average number of common shares outstanding during the period was used in the calculation of basic (loss) earnings per share and, for 1999 and 1998, this number of shares was increased by the effects of dilutive stock options based on the treasury stock method in the calculation of diluted (loss) earnings per share. The diluted loss per share for 2000 was computed in the same manner as the basic loss per share, since adjustments related to the dilutive effects of stock options would have been antidilutive.

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

([illegible])	**2000**	1999	1998
Net (loss) earnings:			
(Loss) earnings before extraordinary item and cumulative effect of change in accounting	**$ (424)**	$ 737	$1,001
Extraordinary loss on early extinguishment of debt	**(95)**	—	—
Cumulative effect of change in accounting	**—**	(355)	—
Net (loss) earnings for basic and diluted computations	**$ (519)**	$ 382	$1,001
Average common shares outstanding:			
Average number of common shares outstanding for basic computations	**400.8**	382.3	376.5
Dilutive stock options—based on the treasury stock method	**—[a]**	1.8	4.6
Average number of common shares outstanding for diluted computations	**400.8[a]**	384.1	381.1
(Loss) earnings per share:			
Basic:			
Before extraordinary item and cumulative effect of change in accounting	**$ (1.05)**	$ 1.93	$ 2.66
Extraordinary loss on early extinguishment of debt			

[illegible]

Note 6—Receivables

[illegible]	**2000**	1999
U.S. Government:		

December 31, 2000

Note 8—Property, Plant and Equipment

(In millions)	2000	1999
Land	**$ 174**	$ 218
Buildings	**2,931**	3,027
Machinery and equipment	**5,334**	5,662
	8,439	8,907
Less accumulated depreciation and amortization	**(4,993)**	(5,273)
	$ 3,446	$ 3,634

Note 9—Investments in Equity Securities

(In millions)	2000	1999
Equity method investments:		

amount of approximately $9.9 billion. The fair values were estimated based on quoted market prices for those instruments publicly traded. For privately placed debt, the fair

Information regarding options outstanding at December 31, 2000 follows (number of options in thousands):

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options Outstanding:			
Less than $20.00	10,909	$17.52	6.8
$20.00–$29.99	8,263	25.65	5.7
$30.00–$39.99	9,831	36.69	6.9
$40.00–$50.00	4,865	45.57	6.1
Greater than $50.00	4,714	52.08	7.1
Total	38,582	31.91	6.5
Options Exercisable:			
Less than $20.00	4,360	$16.05	
$20.00–$29.99	6,625	25.70	
$30.00–$39.99	7,316	36.58	
$40.00–$50.00	4,865	45.57	
Greater than $50.00	4,714	52.08	
Total	27,880	34.97	

All stock options granted in 2000, 1999 and 1998 under the Omnibus Plan have 10 year terms and generally vest over a two year service period. Exercise prices of options awarded in those years were equal to the market price of the stock on the date of grant. Pro forma information regarding net earnings and earnings per share as required by SFAS No. 123 has been prepared as if the Corporation had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2000, 1999 and 1998, respectively: risk-free interest rates of 6.61 percent, 4.64 percent and 5.39 percent; dividend yields of .8 percent, 2.4 percent and 1.9 percent; volatility factors related to the expected market price of the Corporation's common stock of .342, .247 and .174; and a weighted average expected option life of five years. The weighted average fair value of each option granted during 2000, 1999 and 1998 was $7.62, $8.53 and $10.96, respectively.

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods. The Corporation's pro forma information follows:

	2000	1999	1998
Pro forma net (loss) earnings	**$ (550)**	$351	$ 965
Pro forma (loss) earnings per share:			
Basic	**$(1.37)**	$ .92	$2.56
Diluted	**$(1.37)**	$ .91	$2.53

Note 14—Post-Retirement Benefit Plans

Defined contribution plans. The Corporation maintains a number of defined contribution plans which cover substantially all employees, the most significant of which are the 401(k) plans for salaried employees and hourly employees. Under the provisions of these 401(k) plans, employees' eligible contributions are matched by the Corporation at established rates. The Corporation's matching obligations

Unallocated common shares held by the ESOP are considered outstanding for voting and other Corporate purposes, but excluded from weighted average outstanding shares in calculating earnings per share. For 2000, 1999 and 1998, the weighted average unallocated ESOP shares excluded in calculating earnings per share totaled approximately 9.0 million, 11.3 million and 13.6 million common shares, respectively. The fair value of the unallocated ESOP shares at December 31, 2000 was approximately $276 million.

Certain plans for hourly employees include non-leveraged ESOPs. The Corporation's match to these plans was made through cash contributions to the ESOP trusts which were used, in part, to purchase common stock from terminating participants and in the open market for allocation to participant accounts. These ESOP trusts held approximately 3.6 million issued and outstanding shares of common stock at December 31, 2000.

Dividends paid to the salaried and hourly ESOP trusts on the allocated shares are paid annually by the ESOP trusts to the participants based upon the number of shares allocated to each participant.

Defined benefit pension plans, and retiree medical and life insurance plans Most employees are covered by defined benefit pension plans, and certain health care and life insurance benefits are provided to eligible retirees by the Corporation. The Corporation has made contributions to trusts (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans) established to pay future benefits to eligible retirees and dependents. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for 2000, 1999 and 1998 were based on assumptions in effect at the end of the respective preceding years.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
(In millions)	**2000**	1999	**2000**	1999
Change in Benefit Obligations				
Benefit obligations at beginning of year	**$18,073**	$18,146	**$ 2,706**	$ 2,685
Service cost	**517**	564	**38**	43
Interest cost	**1,372**	1,245	**198**	177
Benefits paid	**(1,180)**	(1,110)	**(232)**	(208)
Amendments	**5**	77	**36**	3
Divestitures	**(689)**	—	**(95)**	—
Actuarial losses (gains)	**423**	(852)	**298**	(23)
Participants' contributions	**3**	3	**35**	29
Benefit obligations at end of year	**$18,524**	$18,073	**$ 2,984**	$ 2,706
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$25,064**	$22,811	**$ 1,141**	$ 1,002
Actual return on plan assets	**(383)**	3,211	**(30)**	116
Corporation's contributions	**46**	149	**129**	118
Benefits paid	**(1,180)**	(1,110)	**(143)**	(124)
Participants' contributions	**3**	3	**35**	29
Divestitures	**(812)**	—	**(34)**	—
Fair value of plan assets at end of year	**$22,738**	$25,064	**$ 1,098**	$ 1,141
Funded (unfunded) status of the plans	**$ 4,214**	$ 6,991	**$(1,886)**	$(1,565)
Unrecognized net actuarial (gains) losses	**(2,975)**	(6,240)	**233**	(191)
Unrecognized prior service cost	**564**	659	**6**	(49)
Unrecognized transition asset	**(9)**	(13)	**—**	—
Prepaid (accrued) benefit cost	**$ 1,794**	$ 1,397	**$(1,647)**	$(1,805)

[illegible]

The net pension cost and the net post-retirement benefit cost related to the Corporation's plans include the following components:

[illegible]	**2000**	1999	1998

cost of sales. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other potentially responsible parties, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

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

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

Letters of credit and other matters The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts. At December 31, 2000, the Corporation had contingent liabilities on outstanding letters of credit, guarantees, and other arrangements aggregating approximately $940 million.

Note 17—Information on Industry Segments and Major Customers

The Corporation operates in five principal business segments. The five segments include Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities of the Corporation fall within the Corporate and Other segment.

Transactions between segments are generally negotiated and accounted for under terms and conditions that are similar to other government and commercial contracts; however, these intercompany transactions are eliminated in consolidation. Other accounting policies of the business segments are the same as those described in "Note 1—Summary of Significant Accounting Policies."

As mentioned previously, Lockheed Martin consummated its merger with COMSAT, and COMSAT's operations have been included in the results of operations of LMGT from August 1, 2000. Prior to the merger, the results of operations of LMGT, which began operations effective January 1, 1999, included the Corporation's 49 percent investment in COMSAT which was acquired on September 18, 1999 and accounted for under the equity method of accounting. In addition to the merger with COMSAT, in October 2000, the Corporation began including the operations of Integrated Business Solutions (IBS), a business unit serving commercial information technology markets, in LMGT's results of operations. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Corporation began presenting LMGT as a separate operating segment called Global Telecommunications in the third quarter of 2000. The operations of LMGT and IBS were previously included in the Corporate and Other segment. Earlier in 2000, the Corporation reassigned the Management & Data Systems business unit and the space applications systems line of business from the Systems Integration segment to the Space Systems segment.

The following segment descriptions and financial data have been adjusted to reflect the Corporation's Global Telecommunications business as a separate segment and the other changes in organizational structure noted above for the periods presented. Following is a brief description of the activities of each business segment:

Systems Integration Engaged in the design, development, integration and production of high performance electronic systems for undersea, shipboard, land, and airborne applications. Major product lines include missiles and fire control systems; air and theater missile defense systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; avionics and ground combat vehicle integration; platform integration systems; command, control, communications, computers and intelligence (C4I) systems for naval, airborne and ground applications; surveillance and reconnaissance systems; air traffic control systems; and postal automation systems.

Space Systems Engaged in the design, development, engineering and production of civil, commercial and military space systems. Major product lines include spacecraft, space launch vehicles and manned space systems; their supporting ground systems and services; and strategic fleet ballistic missiles. In addition to its consolidated business units, the segment has investments in joint ventures that are principally engaged in businesses which complement and enhance other activities of the segment.

Aeronautics Engaged in design, research and development, and production of combat and air mobility aircraft, surveillance/command systems, reconnaissance systems, platform systems integration and advanced development programs. Major products and programs include the F-16 multi-role fighter, the F-22 air-superiority fighter, the C-130J tactical airlift aircraft, support for the C-5, F-117 and U2 aircraft, and the Joint Strike Fighter concept demonstration program.

Technology Services Provides a wide array of management, engineering, scientific, logistic and information services to federal agencies and other customers. Major product lines include e-commerce, enterprise information services, software modernization and data center management for DOD and civil government agencies; engineering, science and information services for NASA; aircraft and engine maintenance and modification services; operation, maintenance, training, and logistics support for military and civilian systems; launch, mission, and analysis services for military, classified and commercial satellites; and research, development, engineering and science in support of nuclear weapons stewardship and naval reactor programs.

Global Telecommunications Provides communications services and advanced technology solutions through three lines of business: enterprise solutions, which provides telecommunications services, managed networks and information technology solutions in the U.S. and international markets; satellite services, which provides global fixed and mobile satellite services; and systems and technology, which designs, builds and integrates satellite gateways and provides systems integration services for telecommunications networks. In addition to its consolidated business units, the segment also has investments in joint ventures that are principally engaged in businesses which complement and enhance other activities of the segment.

Corporate and Other Includes the state and local government services line of business. In addition, this segment includes the Corporation's properties line of business as well as various Corporate activities.

Selected Financial Data by Business Segment

(In millions)	2000	1999	1998
Net sales			
Systems Integration	**$ 9,647**	$ 9,570	$ 9,334
Space Systems	**7,127**	7,209	8,600
Aeronautics	**4,885**	5,499	5,459
Technology Services	**2,318**	2,261	1,935
Global Telecommunications	**766**	389	251
Corporate and Other	**586**	602	687
	$25,329	$25,530	$26,266
Operating profit (loss)			
Systems Integration	**$ 583**	$ 880	$ 858
Space Systems	**416**	561	1,045
Aeronautics	**343**	247	649
Technology Services	**126**	137	135
Global Telecommunications	**(215)**	(97)	(4)
Corporate and Other	**(48)**	281	(161)
	$ 1,205	$ 2,009	$ 2,522
Intersegment revenue			
Systems Integration	**$ 472**	$ 470	$ 630
Space Systems	**64**	135	77
Aeronautics	**78**	88	60
Technology Services	**713**	641	507
Global Telecommunications	**38**	17	6
Corporate and Other	**48**	47	40
	$ 1,413	$ 1,398	$ 1,320

(In millions)	2000	1999	1998
Depreciation and amortization			
Systems Integration	**$ 183**	$223	$ 244
Space Systems	**152**	165	185
Aeronautics	**88**	82	74
Technology Services	**15**	14	12
Global Telecommunications	**45**	5	2
Corporate and Other	**35**	40	52
	$ 518	$529	$ 569
Amortization of intangible assets			
Systems Integration	**$ 245**	$276	$ 273
Space Systems	**56**	57	60
Aeronautics	**81**	80	80
Technology Services	**18**	18	18
Global Telecommunications	**49**	8	—
Corporate and Other	**1**	1	5
	$ 450	$440	$ 436
Equity in earnings of equity investees			
Systems Integration	**$ (16)**	$ —	$ 6
Space Systems	**40**	35	25
Aeronautics	**—**	—	—
Technology Services	**7**	—	—
Global Telecommunications	**29**	(17)	—
Corporate and Other	**—**	—	8
	$ 60	$ 18	$ 39
Nonrecurring and unusual items included in operating profit (loss)			
Systems Integration	**$(304)**	$ 13	$ 4
Space Systems	**25**	21	—
Aeronautics	**—**	—	—
Technology Services	**(34)**	—	—
Global Telecommunications	**(117)**	—	—
Corporate and Other	**(109)**	215	(166)
	$(539)	$249	$(162)
Expenditures for property, plant and equipment			
Systems Integration	**$ 185**	$214	$ 201
Space Systems	**126**	136	290
Aeronautics	**89**	123	100
Technology Services	**14**	24	25
Global Telecommunications	**42**	89	1
Corporate and Other	**44**	83	80
	$ 500	$669	$ 697

December 31, 2000

[illegible]	2000	1999	1998
Assets[a]			
Systems Integration	**$ 9,758**	$12,209	$12,307
Space Systems	**5,500**	6,060	6,356
Aeronautics	**3,173**	3,206	3,593
Technology Services	**1,435**	1,484	1,421
Global Telecommunications	**4,616**	2,145	71
Corporate and Other	**5,867**	5,157	4,996
	$30,349	$30,261	$28,744
Customer advances and amounts in excess of costs incurred[b]			
Systems Integration	**$ 899**	$ 1,039	$ 756
Space Systems	**2,012**	2,553	2,136
Aeronautics	**1,636**	899	1,052
Technology Services	**16**	31	30
Global Telecommunications	**202**	132	2
Corporate and Other	**15**	1	36
	$ 4,780	$ 4,655	$ 4,012

(a) [illegible]

(b) [illegible] 31, 2000, [illegible] $ 00 [illegible] $40 [illegible] $ 0 [illegible] $ [illegible] -1 [illegible] $ 10 [illegible]

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[illegible]	2000	1999	1998
U.S. Government			
Systems Integration	**$ 6,855**	$ 7,017	$ 6,841
Space Systems	**5,854**	6,054	7,044
Aeronautics	**2,784**	2,979	2,706
Technology Services	**2,111**	2,033	1,718
Global Telecommunications	**113**	15	—
Corporate and Other	**—**	—	—
	$17,717	$18,098	$18,309

[illegible]	2000	1999	1998
Foreign governments[a][b]			
Systems Integration	**$ 2,231**	$ 2,125	$ 2,075
Space Systems	**79**	188	119
Aeronautics	**2,061**	2,501	2,721
Technology Services	**116**	106	97
Global Telecommunications	**1**	—	—
Corporate and Other	**1**	—	1
	$ 4,489	$ 4,920	$ 5,013
Commercial[b]			
Systems Integration	**$ 561**	$ 428	$ 418
Space Systems	**1,194**	967	1,437
Aeronautics	**40**	19	32
Technology Services	**91**	122	120
Global Telecommunications	**652**	374	251
Corporate and Other	**585**	602	686
	$ 3,123	$ 2,512	$ 2,944

(a) [illegible]

(b) [illegible] $ .4 [illegible] $ [illegible] $ .1 [illegible] 2000, 1 [illegible] 1 [illegible]

Note 18—Summary of Quarterly Information (Unaudited)

[illegible]	2000 Quarters			
	First[b]	Second[c]	Third[d]	Fourth[e]
Net sales	$5,562	$6,212	$5,960	$7,595
Earnings from operations	313	428	408	465
Earnings (loss) before extraordinary item	54	42	(704)	184
Net earnings (loss)	54	42	(704)	89
Diluted earnings (loss) per share before extraordinary item[a]	.14	.11	(1.74)	.44
Diluted earnings (loss) per share[a]	.14	.11	(1.74)	.21

[illegible]	1999 Quarters			
	First[f]	Second[g]	Third[h]	Fourth[i]
Net sales	$6,188	$6,203	$6,157	$6,982
Earnings from operations	487	131	488	559
Earnings (loss) before cumulative effect of change in accounting	268	(41)	217	293
Net (loss) earnings	(87)	(41)	217	293
Diluted earnings (loss) per share before cumulative effect of change in accounting	.70	(.11)	.57	.76
Diluted (loss) earnings per share	(.23)	(.11)	.57	.76

( ) [illegible]

( ) [illegible]

( ) [illegible]

( ) [illegible]

( ) [illegible]

( ) [illegible]

( ) [illegible]

( ) [illegible]

[illegible]	2000[a]	1999[b]	1998[c]	1997[d]	1996[e]
Operating Results					
Net sales	**$25,329**	$25,530	$26,266	$28,069	$26,875
Cost of sales	**23,715**	23,865	23,914	25,772	24,594
Earnings from operations	**1,614**	1,665	2,352	2,297	2,281
Other income and expenses, net	**(409)**	344	170	482	452
	1,205	2,009	2,522	2,779	2,733
Interest expense	**919**	809	861	842	700
Earnings before income taxes, extraordinary item and cumulative effect of change in accounting	**286**	1,200	1,661	1,937	2,033
Income tax expense	**710**	463	660	637	686
(Loss) earnings before extraordinary item and cumulative effect of change in accounting	**(424)**	737	1,001	1,300	1,347
Extraordinary item	**(95)**	—	—	—	—
Cumulative effect of change in accounting	**—**	(355)	—	—	—
Net (loss) earnings	**$ (519)**	$ 382	$ 1,001	$ 1,300	$ 1,347
(Loss) Earnings Per Common Share					
Basic:					
Before extraordinary item and cumulative effect of change in accounting	**$ (1.05)**	$ 1.93	$ 2.66	$ (1.56)	$ 3.40
Extraordinary item	**(.24)**	—	—	—	—
Cumulative effect of change in accounting	**—**	(.93)	—	—	—
	$ (1.29)	$ 1.00	$ 2.66	$ (1.56)	$ 3.40
Diluted:					
Before extraordinary item and cumulative effect of change in accounting	**$ (1.05)**	$ 1.92	$ 2.63	$ (1.56)	$ 3.04
Extraordinary item	**(.24)**	—	—	—	—
Cumulative effect of change in accounting	**—**	(.93)	—	—	—
	$ (1.29)	$ .99	$ 2.63	$ (1.56)	$ 3.04
Cash dividends	**$ .44**	$ .88	$ .82	$ .80	$ .80
Condensed Balance Sheet Data					
Current assets	**$11,259**	$10,696	$10,611	$10,105	$10,346
Property, plant and equipment	**3,446**	3,634	3,513	3,669	3,721
Intangible assets related to contracts and programs acquired	**1,088**	1,259	1,418	1,566	1,767
Cost in excess of net assets acquired	**8,855**	9,162	9,521	9,856	10,394
Other assets	**5,701**	5,510	3,681	3,165	3,312
Total	**$30,349**	$30,261	$28,744	$28,361	$29,540
Short-term borrowings	**$ 12**	$ 475	$ 1,043	$ 494	$ 1,110
Current maturities of long-term debt	**882**	52	886	876	180
Other current liabilities	**9,281**	8,285	8,338	7,819	7,382
Long-term debt	**9,065**	11,427	8,957	10,528	10,188
Post-retirement benefit liabilities	**1,647**	1,805	1,903	1,993	2,077
Other liabilities	**2,302**	1,856	1,480	1,475	1,747
Stockholders' equity	**7,160**	6,361	6,137	5,176	6,856
Total	**$30,349**	$30,261	$28,744	$28,361	$29,540
Common shares outstanding at year end	**431.4**	397.8	393.3	388.8	385.5

Notes to Five Year Summary

( ) … 2000. … $ 3 … $ … $2.12 … $.24 …

( ) … $24 … $1 2 … $.42 … $3 … $. 3 …

( ) … $1 2 … $13 … $.3 …

( ) … $311 … $3 … $24 … $.1 … $4. 3.

( ) … 1 … $3 … $3 1 … $30 … $20 … $.32.

(As of March 1, 2001)

BOARD OF DIRECTORS

Norman R. Augustine

Marcus C. Bennett

Vance D. Coffman

James F. Gibbons

Edward E. Hood, Jr.

Caleb B. Hurtt

Gwendolyn S. King

Eugene F. Murphy

Frank Savage

Robert J. Stevens

James R. Ukropina

Douglas C. Yearley

COMMITTEES

Audit and Ethics Committee

Executive Committee

Finance Committee

Management Development and Compensation Committee

Nominating and Corporate Governance Committee

(As of March 1, 2001)

OFFICERS

Joseph D. Antinucci

James F. Berry

Dennis R. Boxx

John M. Brophy

Charles T. Burbage

Michael F. Camardo

Joseph R. Cleveland

Vance D. Coffman

Robert B. Coutts

Brian D. Dailey

Richard W. Dessling

Terrance Drabant

Philip J. Duke

Robert T. Elrod

As of December 31, 2000, there were approximately

Forward-Looking Statements

This Annual Report contains statements which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "estimate," "anticipate," "project," "intend," "expect," and similar expressions are intended to identify forward-looking statements. All forward-looking statements involve risks and uncertainties, including, without limitation, statements and assumptions with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. Our operations are necessarily subject to various risks and uncertainties and, therefore, actual outcomes are dependent upon many factors, including, without limitation, our successful performance of internal plans and reorganization efforts; government customers' budgetary constraints and the timing of awards and contracts; customer changes in short-range and long-range plans; domestic and international competition in the defense, space and commercial areas; continued development and acceptance of new products; timing and customer acceptance of product delivery and launches; product performance; performance issues with the U.S. Government, key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; the outcome of contingencies, including completion of acquisitions and divestitures, litigation and environmental remediation; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support; domestic and international telecommunications regulatory developments; market conditions and other factors affecting the value of the Corporation's equity investments; as well as other economic, political and technological risks and uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this Annual Report. The Corporation does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Annual Report, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act and 21E of the Exchange Act.

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Corporation's Securities and Exchange Commission filings including, but not limited to, the discussion of "Competition and Risk" and the discussion of "Government Contracts and Regulations" on pages 16 through 17 and pages 17 through 18, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 23 through 41 of this Annual Report; and "Note 1—Summary of Significant Accounting Policies," "Note 3—Divestiture Activities," "Note 4—Restructuring and Other Charges," and "Note 16—Commitments and Contingencies" of the Notes to Consolidated Financial Statements on pages 48 through 51, pages 52 through 53, pages 53 through 54 and pages 63 through 65, respectively, of the Audited Consolidated Financial Statements included in this Annual Report and included in the Form 10-K.

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