2002 ANNUAL REPORT

Lockheed Martin Corporation

Lockheed Martin Corporation

2002 FINANCIAL HIGHLIGHTS

On the Cover:

Our customers are government agencies that require advanced technology and systems integration solutions to perform under the most demanding of circumstances to accomplish critically important missions. Meeting those objectives depends on thousands of people doing their jobs right, every step of the way from concept design, through manufacturing, to successful execution—that singular defining moment. It depends on people who have an unwavering commitment to Mission Success, a passion for invention, and an aptitude for whole-

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Dear Fellow Shareholders

In the past year, the men and women of Lockheed Martin responded again with dedication and hard work to the daunting challenges that face free people worldwide. As a lead systems integrator, Lockheed Martin continues to deliver best-value solutions to our customers whose efforts to secure peace, prevail in combat, and serve the public good are indispensable. Your company has maintained and sharpened its resolve to address our core markets in defense, homeland security, and government information technology and services.

In 2002, we focused our attention on several key areas that were fundamental to positive financial results for our shareholders and superior performance for our customers. We directed our attention to the successful execution of our backlog, which has stood at over $70 billion for two consecutive years, and the winning of new business.

Over the past two years, we successfully implemented a strategy of disciplined growth that put Lockheed Martin on the path to long-term financial strength and enhanced shareholder value. This strategy has yielded robust operational and financial performance; and in 2002 resulted in an improved credit standing, greater financial flexibility, profitable organic sales growth, strong cash flow, and operating margin expansion.

We worked to better align value in our commercial Space Systems business. Clearly, there is overcapacity in the commercial satellite and launch industries. We are committed to streamlining and strengthening the competitive posture of commercial satellite manufacturing by improving operational efficiencies within the business. We continue to work largely with the U.S. Air Force to improve the business model for launch vehicles.

We focused on continued portfolio shaping by divesting and monetizing our global telecommunications assets in 2002. As of the end of the year, we closed three of the divestiture transactions and had a signed contract for the fourth. We also completed the full integration of our latest acquisition, OAO Corporation, into the Technology Services business area.

Unfortunately, there were some disappointments as well. We lost several major competitions in 2002 but have

CRITICAL RESPONSIBILITIES:

PROTECTING *and* DEFENDING LIBERTY

Critical Responsibilities: Protecting and Defending Liberty

The challenges of the new security environment require original solutions that leverage America's advantages and protect against asymmetric vulnerabilities. The mission of the armed forces for those who hold freedom dear is to dissuade and deter, and if called upon, to defeat adversaries. The goal is an armed forces that sustains America's strategic position which helps underpin peace and stability in the world. Six operational goals are at the heart of creating an effects-based defense:

PROTECTING CRITICAL BASES OF OPERATION ON THE U.S. HOMELAND AND ABROAD, AS WELL AS OUR ALLIES AND FRIENDS. DEFEATING NUCLEAR, BIOLOGICAL AND CHEMICAL WEAPONS AND THEIR MEANS OF DELIVERY

PROJECTING AND SUSTAINING U.S. FORCES IN DISTANT ANTI-ACCESS ENVIRONMENTS AND DEFEATING THOSE THREATS

DENYING SANCTUARY TO ENEMIES BY PROVIDING PERSISTENT SURVEILLANCE, TRACKING AND RAPID ENGAGEMENT WITH HIGH-VOLUME PRECISION STRIKE, THROUGH A COMBINATION OF COMPLEMENTARY AIR, GROUND, AND NAVAL CAPABILITIES AGAINST CRITICAL MOBILE AND FIXED TARGETS AT VARIOUS RANGES AND IN ALL WEATHER AND TERRAINS

PROVIDING INFORMATION SUPERIORITY BY LEVERAGING INFORMATION TECHNOLOGY AND INNOVATIVE CONCEPTS TO DEVELOP AN INTEROPERABLE, JOINT NETWORK-CENTRIC ARCHITECTURE AND CAPABILITY

ASSURING ACCESS TO NECESSARY INFORMATION IN THE FACE OF ATTACK AND CONDUCTING EFFECTIVE INFORMATION OPERATIONS

PROVIDING RELIABLE AND ASSURED ACCESS TO SPACE

Previous Spread: *Aboard an Aegis Cruiser*
Facing Page: *F/A-22 Raptor*

As a large-scale systems integrator, Lockheed Martin provides technologies and capabilities to address these strategic goals. Missile defense capabilities including Patriot Advanced Capability (PAC-3), the Medium Extended Air Defense System (MEADS), Theater High Altitude Area Defense (THAAD) as well as command and control for National Missile Defense are critical in protecting bases of operations and defeating nuclear, biological and chemical weapons. MEADS, a partnership with Germany and Italy, made successful progress last year on its risk reduction phase.

Air power projection and air mobility are provided with the F/A-22 air superiority fighter, F-16, C-130J airlifter, and C-5 modernization program; and in the future with the F-35 Joint Strike Fighter. Advanced shipboard combat systems, such as Aegis, assist in projecting and sustaining U.S. military power where it is needed. Internationally in 2002, the Republic of Korea selected Aegis for its KDX-III naval modernization program, and the Aegis system for the new F-100 Frigate was delivered to Spain. Precision strike that can deny enemies sanctuary in any weather and at any time is also the role of the F/A-22, F-35 JSF, Joint Air-to-Surface Standoff Missile, Longbow, and the Sniper/Pantera advanced targeting pod which provides pilots with the most advanced targeting and precision strike capability in the world. A truly international program, the F-35 team includes in the System Development and Demonstration phase the United States, United Kingdom, Italy, Netherlands, Turkey, Canada, Denmark, Australia and Norway.

Network-centric warfare and information superiority maximize the effectiveness of U.S. and allied forces. The goal of this netted architecture is situational awareness where forces can communicate with each other, share information about their location and that of the enemy simultaneously, and see the same precise real-time picture of the battlespace. Lockheed Martin is a leader in advanced C4ISR systems with the Theater Battle Management Core Systems, cockpit electronics and radars. The Integrated Space Command and Control program integrates 40 separate systems into one architecture to weld a potent joint force. Reliable and assured access to space is vital to national security, and the Atlas family of launchers, including the most advanced Atlas V, get military assets to the ultimate high ground when needed. The Atlas V, which made its first launch in 2002, is powered by the Russian RD-180 engine, an example of inventive global partnerships. Lockheed Martin's Milstar secure communications satellites and Space Based Infrared System (SBIRS) are essential to fulfilling vital information superiority requirements.

Facing Page: *High Mobility Artillery Rocket System (HIMARS) (Top Left), Patriot Advanced Capability (PAC-3) (Top Middle), Aegis Shipboard Combat System (Top Right), Atlas V Launch (Bottom)*

The Flame of Liberty Shall Not Be Dimmed

To those who would strike at the heart of freedom's citadel, there can be no sanctuary, but it is also imperative that as a nation we secure the homeland from the threat of terrorism. The values that sustain and guide this country from its founding to the present day are immutable, and not subject to negotiation or compromise.

With a cabinet-level Department of Homeland Security, the United States is prepared to address the threats posed by the adversaries of a just and open society. The United States is challenged to:

ELIMINATE MAJOR VULNERABILITIES WITH CRITICAL INFRASTRUCTURE PROTECTION

PREEMPT TERRORISM WITH THREAT INFORMATION SHARING AND ALERTING AS WELL AS EFFECTIVE BORDER CONTROL

PREPARE FOR INCIDENTS WITH EMERGENCY RESPONSE AND INCIDENT RESPONSE

BALANCE OUR NEED FOR INCREASED SECURITY WITH CONTINUED RESPECT FOR INDIVIDUAL LIBERTIES

Leveraging its capabilities as a large-scale systems integrator in both defense and civil markets worldwide, Lockheed Martin offers solutions in the key areas of homeland security: Coast Guard; border and transportation security; emergency preparedness and response; science and technology; information analysis and infrastructure protection; and Secret Service.

Lockheed Martin is a partner with the U.S. Coast Guard as it fulfills its vital mission of protecting America's shores. Lockheed Martin and its global industry team were selected in 2002 for the Deepwater Program, the most comprehensive modernization in the Coast Guard's history. The program encompasses modernizing ships, aircraft, command and control, communications, and logistics systems. Lockheed Martin delivers solutions for the Immigration and Naturalization Service and the U.S. Customs Service, as well as technologies to support marine traffic management and port control.

In addition, Lockheed Martin technologies assist: U.S. law enforcement agencies with fingerprint identification that can match criminals to fingerprints in just minutes from a database of over 400 million prints; and the Transportation Security Administration to implement new security operations to help ensure air passenger safety at the nation's airports. The Airport Security Rollout Program upgrades passenger security measures at airports and helped to convert passenger screening operations throughout the U.S. to federal control. In addition, Lockheed Martin assisted the Transportation Security Administration to exceed its objectives by training more than 50,000 baggage and passenger screeners ahead of schedule at all U.S. commercial airports.

Previous Spread: *U.S. Coast Guard on Patrol*
Facing Page: *Aerostat Radar Screen (Top Left), Protecting America's Borders (Top Right), Aerostat Border Surveillance (Middle Right), Airport Security Screening (Bottom Right)*

Serving *the* Public Good

Serving the Public Good

A government that serves the governed. A government by and for the people. These are the pillars of a democracy where the rule of law is guaranteed by a Constitution forged in the battle for independence and freedom. These are values that have not changed—through war, depression, or at the peak of triumph.

But solutions to government challenges can and do change with 21st century technology that moves at the speed of a mouse click. Managing large sources of data, integrating complex IT systems, as well as bringing to bear the talents of 12 software maturity level-5 and level-4 companies, Lockheed Martin is well positioned to serve and assist federal agencies accomplish their nationally consequential missions by:

MANAGING LARGE INFORMATION TECHNOLOGY INFRASTRUCTURES

APPLYING SYSTEMS INTEGRATION CAPABILITIES TO DELIVER
VITAL SERVICES TO MILLIONS OF CITIZENS

VALUES
of
A CORPORATE CITIZEN

Education is another pillar of corporate citizenship and as a technology company, Lockheed Martin is vitally interested in the quantity and quality of our nation’s technology graduates. Lockheed Martin supports a variety of educational programs and initiatives, such as grants to colleges and universities that have nationally recognized science, engineering and computer science programs. In addition, Lockheed Martin initiatives are devoted to strengthening math, science and engineering education from kindergarten through grade 12.

Related to these initiatives is the volunteerism of our employees who serve as mentors and tutors to children across the country. Employee volunteers also contribute to the health of the communities where they live through food and blood drives to aid those in need, as well as fundraising efforts to combat disease.

Philanthropy is a vital element of Lockheed Martin’s corporate citizenship, recognizing the aesthetic and cultural value that the arts play in a free society. Ours is a company that deals in the currency of ideas, and the arts build the strength of that currency. And wherever possible we link our support for the arts directly to education, such as school visits by music and dramatic arts organizations or student visits to concerts.

Freedom, education, values, citizenship, diversity and devotion are not hollow words. They are ideals which men and women have defended with their own lives. They are the ideals that have steered the course of this nation and free people wmen and

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December 31, 2002

The financial section of our Annual Report includes management's discussion and analysis, our consolidated financial statements, notes to those financial statements and a 5-year summary of financial information. We have prepared the following summary, or "roadmap," to assist in your review of the financial section. It is designed to give you an overview of our company and direct you to some of the more important events that happened this year.

LOCKHEED MARTIN'S BUSINESS

Lockheed Martin Corporation is mainly involved in the research, design, development, manufacture, integration and operation of advanced technology systems, products and services. We have customers in both domestic and international defense and commercial markets. Our principal customers are agencies of the U.S. Government. Our main areas of focus are in the defense, space, homeland security, and government/civil information technology markets.

FINANCIAL SECTION OVERVIEW

The financial section includes the following:

Management's discussion and analysis, or MD&A (pages 26 through 48)—provides information about industry trends, risks and uncertainties relating to Lockheed Martin, accounting policies that we view as critical in light of our operations, our results of operations, including discussions about the operations of each of our business segments, our financial position and cash flows, and important events or transactions that have occurred over the last three years.

Financial statements, notes to the financial statements and related reports—

(pages 49 through 50)—include the following:

- A report from our management, indicating our responsibility for financial reporting and maintaining an internal control environment, and
- A report from our independent auditors, Ernst & Young LLP, which includes their opinion about the fairness of our financial statements based on their audits. The report includes their opinion about the conformity of our financial statements, which includes the notes to the financial statements, with accounting principles that are generally accepted in the United States.

(pages 51 through 54)—include our consolidated statements of operations, (pages 55 through 78)—

d are an integral part of our financial
xplanations of our significant account-
ut certain of the captions on the finan-
mation about significant events or
occurred, discussions about commit-
es, and selected financial information
segments. The notes to the financial

IGHLIGHTS

The financial section of our Annual Report describes our ongoing operations, including discussions about particular lines of business or programs, our ability to finance our operating activities, and trends and uncertainties in our industry and how they might affect our future operations. We also discuss "unusual" items relative to our ongoing operations. We separately disclose these items to assist in your evaluation of our overall operating performance and financial condition. We would like to draw your attention to the following items disclosed in this financial section and where you will find them:

Topic	Location(s)
Critical accounting policies	Page 29
Post-retirement benefit plans	Page 30 and page 70
Exit from global telecommunications business	Page 32 and page 59
Divestiture activities	Page 34 and page 61
Adoption of FAS 142 (accounting for goodwill)	Page 35 and page 58
Summary of unusual items	Page 36
Changes in our business segment presentation, and discussions of each segment's operations	Page 38 and page 74
Cash flows	Page 43 and page 52
Capital structure and resources	Page 44, page 53 and page 54
Environmental matters	Page 32, page 47 and page 72
Stock options	Page 68

The Corporation has entered into an agreement with RD AMROSS, a joint venture of the Pratt & Whitney division of United Technologies Corporation and the Russian firm NPO Energomash, for the development and purchase, subject to certain conditions, of RD-180 booster engines for use in the Corporation's Atlas launch vehicles. Terms of the agreement call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Approximately $61 million of payments made under this agreement for engines not yet delivered were included in the Corporation's inventories at December 31, 2002.

Critical Accounting Policies

Contract Accounting/Revenue Recognition

A large part of our business is derived from long-term development and production contracts which we account for consistent with the American Institute of Certified Public Accountants' (AICPA) audit and accounting guide, "Audits of Federal Government Contractors," and the AICPA's Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." We consider the nature of these contracts and the types of products and services provided when we determine the proper accounting for a particular contract. Generally, we record long-term fixed-price contracts on a percentage of completion basis using units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenue. For certain other long-term fixed-price contracts which, along with other factors, require us to deliver minimal quantities over a longer period of time or to perform a substantial level of development effort in comparison to the total value of the contract, revenues are recorded when we achieve performance milestones or using the cost-to-cost method of accounting. Under the cost-to-cost method of accounting, we recognize revenue based on the ratio of costs incurred to our estimate of total costs at completion. We record sales under cost-reimbursement-type contracts as we incur the costs. As a general rule, we recognize sales and profits earlier in a production cycle when we use the cost-to-cost and milestone methods of percentage of completion accounting versus when we use the units-of-delivery method. We have accounting policies in place to address these and other complex issues in accounting for long-term contracts. For other information on accounting policies we have in place for recognizing sales and profits, see our discussion under

Environmental Liabilities

We

in Inmarsat did not impact our results of operations. The transaction generated net cash proceeds of about $115 million after transaction costs and federal and state income tax payments.

On an ongoing basis, we will continue to explore the sale of various non-core businesses, passive equity investments and surplus real estate. If we were to decide to sell any such holdings or real estate, the resulting gains, if any, would be recorded when the transactions are consummated and losses, if any, would be recorded when they are probable and estimable. We also continue to review our businesses on an ongoing basis to identify ways to improve organizational effectiveness and performance, and to focus on our core business strategy.

Results of Operations

Since our operating cycle is long-term and involves many

Our results of operations for 2002, 2001 and 2000 included the effects of various unusual items. The impact of these items on operating profit (earnings from continuing operations before interest and taxes), net earnings (loss) and amounts per diluted share is as follows:

Effects of unusual items:

	Operating (Loss)	Net (Loss)	Earnings per Diluted

Interest expense for 2002 was $581 million, $119 million lower than the comparable amount in 2001 mainly due to reductions in our debt portfolio and the benefit from interest rate swap agreements. Interest expense for 2001 was $700 million, $219 million lower than the amount for 2000 mainly as a result of reductions in our debt portfolio.

Our effective tax rate was 7.7% for 2002, 67.7% for 2001 and 355.7% for 2000. The rate for each year was affected by the tax impact from unusual items. Included in the unusual items for 2002 was a $90 million tax benefit related to the settlement of a research and development tax credit claim. In addition, for years prior to 2002, the rates were increased by non-deductible goodwill that was being amortized for financial accounting purposes. For 2000, the tax rate was further increased by write-offs of non-deductible goodwill for businesses divested in that year. Adjusting for the impact of unusual items and the adoption of FAS 142, our effective tax rates would have been 31% for 2002, 32.6% for 2001 and 36.2% for 2000. For 2002 and 2001 these adjusted effective tax rates were lower than the 35% statutory rate primarily due to the lower tax rates on extraterritorial income. For 2000, the adjusted rate was higher than the statutory rate due to adjustments for revisions to prior year estimates.

For 2002, we reported earnings from continuing operations of $533 million ($1.18 per diluted share) compared to $43 million ($0.10 per diluted share) for 2001. In 2000, we reported

DISCUSSION OF BUSINESS SEGMENTS

Space Systems

Space Systems' operating results included the following:

([illegible])	**2002**	2001	2000
Net sales	**$7,384**	$6,836	$7,339
Operating profit	**443**	360	345

Net sales for Space Systems increased by 8% in 2002 compared to 2001. The increase in sales for 2002 resulted from higher volume in government space of $370 million and commercial space of $180 million. In government space, increases of $470 million in government satellite programs and $130 million in ground systems activities more than offset volume declines of $175 million on government launch vehicles and $55 million on strategic missile programs. The increase in commercial space sales is primarily attributable to an increase in launch vehicle activities, with nine commercial launches during 2002 compared to six in 2001.

Net sales for the segment decreased by 7% in 2001 compared to 2000. The decrease in sales for 2001 resulted from volume declines in commercial space of $560 million, which more than offset increases in government space of $60 million. In commercial space, sales declined due to volume reductions of $480 million in commercial launch vehicle activities and $80 million in satellite programs. There were six launches in 2001 compared to 14 launches in 2000. The increase in government space resulted from a combined increase of $230 million related to higher volume on government satellite programs and ground systems activities. These increases were partially offset by a $110 million decrease related to volume declines in government launch vehicle activity, primarily due to program maturities, and by $50 million due to the absence in 2001 of favorable adjustments recorded on the Titan IV program in 2000.

Operating profit for the segment increased 23% in 2002 as compared to 2001, mainly driven by the commercial space business. Reduced losses in commercial space during 2002 resulted in increased operating profit of $90 million when compared to 2001. Commercial satellite manufacturing losses declined $100 million in 2002 as operating performance improved and satellite deliveries increased. In the first quarter of 2001, a $40 million loss provision was recorded on certain commercial satellite manufacturing contracts. Due to the industry-wide oversupply and deterioration of pricing in the commercial launch market, financial results on commercial launch vehicles continue to be challenging. During 2002, this trend led to a decline in operating profit of $10 million on commercial launch vehicles when compared to 2001. This decrease was primarily due to lower profitability of $55 million on the three additional launches in the current year, additional charges of $60 million (net of a favorable contract adjustment of $20 million) for market and pricing pressures and included the adverse effect of a $35 million adjustment for commercial launch vehicle contract settlement costs. The 2001 results also included charges for market and pricing pressures, which reduced that year's operating profit by $145 million. The $10 million decrease in government space's operating profit for the year is primarily due to the reduced volume on government launch vehicles and strategic missile programs, which combined to decrease operating profit by $80 million, partially offset by increases of $40 million in government satellite programs and $30 million in ground systems activities.

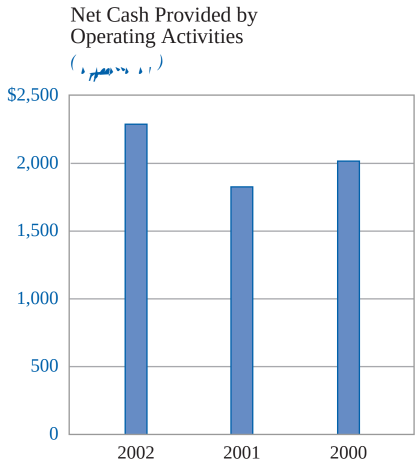
Operating profit for the segment increased by 4% in 2001 compared to 2000. Operating profit increased in 2001 due to a $35 million increase in government space partially offset by higher year-over-year losses of $20 million in commercial space. In government space, operating profit increased due to the impact of higher volume and improved performance in ground systems and government satellite programs. The year-to-year comparison of operating profit was not affected by the $50 million favorable Titan IV adjustment recorded in 2000 discussed above, due to a $55 million charge related to a more conservative assessment of government launch vehicle programs that was recorded in the fourth quarter of 2000. In commercial space, decreased operating profit of $15 million on launch vehicles more than offset lower losses on satellite manufacturing activities. The commercial launch vehicle operating results included $60 million in higher charges for market and pricing pressures when compared to 2000. These negative adjustments were partially offset by $50 million of favorable contract adjustments on certain launch vehicle contracts. Commercial satellite manufacturing losses decreased slightly from 2000 and included the adverse impact of a $40 million loss provision recorded in the first quarter of 2001 for certain commercial satellite contracts related to schedule and technical issues.

Aeronautics

Aeronautics' operating results included the following:

([illegible])	**2002**	2001	2000
Net sales	**$6,471**	$5,355	$4,885
Operating profit	**448**	329	280

Net sales for Aeronautics increased by 21% in 2002 compared to 2001. The higher sales were primarily driven by vol-



Liquidity and Cash Flows

Operating Activities

Operating activities provided $2.3 billion of cash in 2002, compared to $1.8 billion in 2001 and $2.0 billion in 2000. Operating activities included earnings (loss) from continuing operations, as adjusted for noncash items, and the cash provided by changes in our operating assets and liabilities. Management of our working capital accounts (accounts receivable, inventory, accounts payable and customer advances) contributed $202 million of cash flow in 2002, $1.1 billion in 2001 and $355 million in 2000. The timing of income tax payments or refunds also affects our operating cash flows. In 2002, we received $117 million from the settlement of the R&D tax credit claim while in 2001, we paid $655 million of income taxes related to divested businesses. Included in operating activities is cash provided from discontinued operations of $25 million in 2002, $34 million in 2001 and $25 million in 2000. Operating cash flows were sufficient to operate our businesses, finance capital expenditures and to pay dividends on our common stock each year.

Investing Activities

Investing activities used $539 million of cash in 2002, compared to providing $139 million in 2001 and $1.8 billion in 2000. Cash used for property, plant and equipment expenditures increased 7% in 2002 and 24% in 2001 and included $10 million in 2002, $74 million in 2001 and $58 million in 2000 for the discontinued businesses. During 2002, we received proceeds of $134 million from the sale of our discontinued telecommunications businesses and $93 million primarily from the disposal of property, plant and equipment. Investments of $104 million were made in 2002, primarily related to our acquisition of OAO Corporation.

During 2001, we received proceeds of $825 million from the sale of our IMS business. Investments in affiliated companies of $192 million primarily consisted of $140 million to complete our funding commitment to Astrolink and $30 million to Intelsat. The remainder of the 2001 activity was attributable to proceeds from the disposal of property, plant and equipment, and various other investing activities.

During 2000, we received $1.7 billion from the sale of our AES business, $510 million from the sale of our Control Systems business and $164 million from the sale of a portion of our investment in Inmarsat. Investments in affiliated companies of $257 million mainly consisted of our funding commitment to Astrolink of $127 million and an additional investment in Intelsat of $58 million. Proceeds from the sale of property and other activities contributed $175 million to our investing activities.

Financing Activities

Financing activities provided $77 million of cash in 2002, as compared to using $2.6 billion in 2001 and $2.7 billion in 2000. Proceeds of $436 million from stock option activity more than offset dividend payments of $199 million, repayment of debt (primarily ESOP obligations) of $110 million and $50 million for the repurchase of 1 million shares of common stock in 2002. Including the $450 million of debentures we called in 2003 to be repaid early and the $150 million of debt we recorded relating to our guarantee of Space Imaging, LLC's existing credit facility (see the related discussions under Capital Structure and Resources), debt maturities will amount to $1,365 million in 2003.

During 2001, improved operating cash flows and cash provided by investing activities allowed us to reduce our long-term debt by approximately $2.4 billion. The reduction in long-term debt was primarily attributable to the pre-payment of notes issued to a wholly-owned subsidiary of General Electric Company (GE), payments on scheduled debt maturities, and the early retirement of certain other debt instruments.

Debt retirements in 2000 were mainly attributable to our completing tender offers for some of our long-term debt during the fourth quarter of 2000. We used $2.1 billion to consummate the tender offers, resulting in the early repayment of $1.9 billion in long-term debt and an unusual loss, net of state income tax benefits, of $146 million, or $95 million after tax.

We paid dividends of $199 million in 2002, $192 million in 2001 and $183 million in 2000.

Other

We receive advances on some contracts to finance inventories. At December 31, 2002 and 2001, approximately $4.3 billion and $2.9 billion, respectively, in advances, performance-based payments and progress payments for work in process were received from customers and recorded as a reduction to inventories in our balance sheet. Also at December 31, 2002 and 2001, $466 million and $566 million, respectively, of customer advances, performance-based payments and progress payments were recorded in receivables as a reduction to unbilled costs and accrued profits. Approximately $4.5 billion and $5.0 billion of customer advances and amounts in excess of costs incurred, which are usually from foreign governments and commercial customers, were included in current liabilities at the end of 2002 and 2001, respectively (see Note 1).

CAPITAL STRUCTURE AND RESOURCES

Total debt increased by $71 million during 2002 from a balance of $7.5 billion at December 31, 2001. Current maturities of long-term debt at December 31,aTw Lve

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We actively seek to finance our business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. Our management continually not been able to obtain commitments for, additional investment or funding. In addition to our equity investment, we also guarantee up to $150 million of Space Imaging's borrowings under a credit facility that matures on March 31, 2003, and have about $33 million in receivables from the joint venture at the end of 2002. In light of our decision and the decision of the other major member in the joint venture not to provide further funding at this time, our assessment that Space Imaging will likely not be able to repay its obligation under the credit facility when due, and the uncertainties as to whether Space Imaging will be successful in obtaining the additional investment necessary to fund replacement satellites, we wrote off our investment in the joint venture and recorded the obligation to fund amounts due from us under the guarantee. As a result, we recorded a charge, net of state income taxes, of $163 million which reduced net earnings by $106 million ($0.23 per diluted share), and increased current maturities of long-term debt by $150 million, representing our obligation under the guarantee, which is expected to be paid in the first quarter of 2003.

In March 2000, we converted our 45.9 million shares of Loral Space & Communications Ltd. Series A Preferred Stock into an equal number of shares of Loral Space common stock. Due to the market price of Loral Space stock and the potential impact of underlying market and industry conditions on Loral Space's ability to execute its current business plans, we recorded an unusual charge, net of state income tax benefits, of $361 million in the third quarter of 2001 related to our investment in Loral Space. The charge reduced net earnings by $235 million, or $0.54 per diluted share (see Note 8 to the financial statements). The value of our investment continues to be impacted by adverse market and industry conditions, including low demand for commercial satellites as a result of excess capacity in the telecommunications industry.

We satisfied our contractual obligation relating to our guarantee of certain indebtedness of Globalstar, L.P. (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. This payment resulted in our recording an unusual charge, net of state income tax benefits, of approximately $141 million in 2000 which reduced net earnings for the year by $91 million, or $0.23 per diluted share (see Note 9 to the financial statements for more information). We have no remaining guarantees related to Globalstar. On February 15, 2002, Globalstar and certain of its affiliates filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Our main exposure to market risk relates to interest rates and, to a lesser extent, foreign currency exchange rates. Our financial instruments which are subject to interest rate risk mainly include commercial paper and fixed-rate long-term debt. At December 31, 2002, we did not have any commercial paper outstanding. We use interest rate swaps to manage our exposure to fixed and variable interest rates. At the end of the year 2002, we had agreements in place to swap fixed interest rates on about $920 million of our long-term debt for variable interest rates based on LIBOR. The interest rate swap agreements are designated as effective hedges of the fair value of the underlying fixed-rate debt instruments. At December 31, 2002, the fair values of interest rate swap agreements outstanding totaled about $25 million. The amounts of gains and losses from changes in the fair values of the swap agreements were entirely offset by those from changes in the fair value of the associated debt obligations. The interest rate swaps create a market exposure to changes in the LIBOR rate. To the extentw [(includin

[illegible]

Consolidated Statement of Operations

[illegible]	[illegible] 31, 2002	2001	2000
Net sales	**$26,578**	$23,990	$24,541
Cost of sales	**24,629**	22,447	22,881
Earnings from operations	**1,949**	1,543	1,660
Other income and expenses, net	**(791)**	(710)	(555)
	1,158	833	1,105
Interest expense	**581**	700	919
Earnings from continuing operations before income taxes	**577**	133	186
Income tax expense	**44**	90	663
Earnings (loss) from continuing operations	**533**	43	(477)
Discontinued operations	**(33)**	(1,089)	(42)
Net earnings (loss)	**$ 500**	$ (1,046)	$ (519)
Earnings (loss) per common share:			
Basic:			
Continuing operations	**$ 1.20**	$ 0.10	$ (1.19)
Discontinued operations	**(0.07)**	(2.55)	(0.10)
	$ 1.13	$ (2.45)	$ (1.29)
Diluted:			
Continuing operations	**$ 1.18**	$ 0.10	$ (1.19)
Discontinued operations	**(0.07)**	(2.52)	(0.10)
	$ 1.11	$ (2.42)	$ (1.29)

[illegible]

CONSOLIDATED STATEMENT OF CASH FLOWS

	31,		
	2002	2001	2000
OPERATING ACTIVITIES			
Earnings (loss) from continuing operations	**$ 533**	$ 43	$ (477)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:			
Loss from discontinued operations	**(33)**	(1,089)	(42)
Depreciation and amortization	**433**	425	464

[illegible]

Consolidated Balance Sheet

[illegible]	[illegible] 31, 2002	2001
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,738**	$ 912
Receivables	**3,655**	4,049
Inventories	**2,250**	3,140
Deferred income taxes	**1,277**	1,566
Assets of businesses held for sale	**210**	638
Other current assets	**496**	473
Total current assets	**10,626**	10,778
Property, plant and equipment, net	**3,258**	2,991
Investments in equity securities	**1,009**	1,884
Intangible assets related to contracts and programs acquired	**814**	939
Goodwill	**7,380**	7,371
Prepaid pension cost	**—**	2,081
Other assets	**2,671**	1,610
	$25,758	$27,654
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 1,102**	$ 1,419
Customer advances and amounts in excess of costs incurred	**4,542**	5,002
Salaries, benefits and payroll taxes	**1,272**	1,100
Income taxes	**107**	63
Current maturities of long-term debt	**1,365**	89
Liabilities of businesses held for sale	**122**	387
Other current liabilities	**1,311**	1,629
Total current liabilities	**9,821**	9,689
Long-term debt	**6,217**	7,422
Post-retirement benefit liabilities	**1,480**	1,565
Pension liabilities	**651**	—
Deferred income taxes	**—**	992
Other liabilities	**1,724**	1,543
Stockholders' equity:		
Common stock, $1 par value per share	**455**	441
Additional paid-in capital	**2,796**	2,142

Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1999	$398	$ 222	$ 5,901	$(150)	$ (10)	$ 6,361	
Net loss	—	—	(519)	—	—	(519)	$ (519)
Common stock dividends declared							
($0.44 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:							
Net unrealized loss from							
available-for-sale investments	—	—	—	—	(129)	(129)	(129)
Other	—	—	—	—	(5)	(5)	(5)
Balance at December 31, 2000	431	1,789	5,199	(115)	(144)	7,160	$ (653)
Net loss	—	—	(1,046)	—	—	(1,046)	$(1,046)
Common stock dividends declared							
($0.44 per share)	—	—	(192)	—	—	(192)	—
Stock awards and options, and ESOP activity	10	353	—	31	—	394	—
Other comprehensive income (loss):							
Reclassification adjustment related							
to available-for-sale investments	—	—	—	—	151	151	151
Minimum pension liability	—	—	—	—	(33)	(33)	(33)
Net unrealized gain from							
available-for-sale investments	—	—	—	—	23	23	23
Net foreign currency translation adjustments	—	—	—	—	(20)	(20)	(20)
Net unrealized gain from hedging activities	—	—	—	—	6	6	6

at fair value, with unrealized gains and losses recorded in other comprehensive income, in accordance with Statement of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." If declines in the value of investments accounted for under either the equity method or FAS 115 are determined to be other than temporary, a loss is recorded in earnings currently. Investments not accounted for under one of these methods are generally accounted for under the cost method of accounting.

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. In periods prior to the adoption of FAS 142 (see discussion under the caption "New accounting pronouncements" in this Note), goodwill, as well as the amount by which the Corporation's investment in Intelsat exceeded its share of Intelsat's net assets, was amortized ratably over appropriate periods, generally 30 to 40 years. Beginning January 1, 2002, these amounts are no longer amortized. Goodwill is displayed on the consolidated balance sheet net of accumulated amortization of $1,382 million at December 31, 2002 and 2001. Under FAS 142, goodwill is evaluated for potential impairment annually by comparing the fair value of a reporting unit to its carrying value, including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the derived fair value of goodwill to its carrying value, and any impairment determined is recorded in the current period.

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods (see Note 12). The Corporation's pro forma information follows:

	2002	2001	2000
NET EARNINGS (LOSS):			
As reported	**$ 500**	$(1,046)	$ (519)
Fair value-based compensation cost, net of taxes	**(67)**	(49)	(31)
Pro forma net earnings (loss)	**$ 433**	$(1,095)	$ (550)
BASIC EARNINGS (LOSS) PER SHARE:			
As reported	**$1.13**	$ (2.45)	$(1.29)
Pro forma	**$0.97**	$ (2.56)	$(1.37)
DILUTED EARNINGS (LOSS) PER SHARE:			
As reported	**$1.11**	$ (2.42)	$(1.29)
Pro forma	**$0.96**	$ (2.53)	$(1.37)

Comprehensive income (loss) for the Corporation consists primarily of net earnings (loss) and the after-tax impact of: additional minimum pension liabilities, unrealized gains and losses related to hedging activities and available-for-sale securities, reclassification adjustments related to available-for-sale investments, and foreign currency translation adjustments. Income taxes related to components of other comprehensive income are generally recorded based on an effective tax rate of 39%.

The accumulated balances of the components of other comprehensive income (loss) at December 31, 2002 are as follows: minimum pension liability—$(1,570) million; unrealized gains and losses from available-for-sale investments—$(2) million; unrealized gains and losses related to hedging activities—$17 million; foreign currency translation adjustments—$(43) million.

In April 2002, the Financial Accounting Standards Board issued FAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB-doptins and loss9.9(-sal2642 voc)15(D 4,)-3sale in Tc 0.ndsif53 T3(]TJ a0
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a pretax basis. The following table provides a reconciliation of reported earnings (loss) from continuing operations and related per share amounts for years ended December 31, 2001 and 2000 to adjusted amounts which exclude the effects of goodwill amortization and reflect the change in amortization related to the F-16 program for those periods.

([illegible])	**2002**	2001	2000
EARNINGS (LOSS) FROM CONTINUING OPERATIONS:			
As reported	**$ 533**	$ 43	$ (477)
Impact of:			
Goodwill amortization	**—**	215	250
Contract intangible amortization change	**—**	21	18
Adjusted	**$ 533**	$ 279	$ (209)
DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS:			
As reported	**$1.18**	$0.10	$(1.19)
Impact of:			
Goodwill amortization	**—**	0.50	0.62
Contract intangible amortization change	**—**	0.05	0.05
Adjusted	**$1.18**	$0.65	$(0.52)

Intangible assets related to contracts and programs acquired are displayed in the consolidated balance sheet net of accumulated amortization of $1,364 million and $1,239 million at December 31, 2002 and 2001, respectively. Amortization expense related to these intangible [illegible]

Notes to C

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Other Charges Related to Global Telecommunications

The charges recorded in the fourth quarter of 2001 also included unusual charges, net of state income tax benefits, of approximately $132 million related to commitments to and impairment in the values of investments in satellite joint ventures, primarily ACeS and Americom Asia-Pacific, LLC. In addition, approximately $43 million was recorded for severance and facilities costs, and impairment of certain fixed assets, associated with the business units that have been realigned. On a combined basis, these unusual charges reduced net earnings for 2001 by $117 million ($0.27 per diluted share).

Note 3—Prior Year Acquisitions and Other Divestiture Activities

Business Combination

In August 2000, the Corporation completed the second phase of a two-phase transaction to acquire COMSAT Corporation (COMSAT). The total amount recorded related to the second phase of the transaction was approximately $1.3 billion based on the Corporation's issuance of approximately 27.5 million shares of its common stock at a price of $49 per share. This price per share represented the average of the price of Lockheed Martin's common stock a few days before and after the announcement of the transaction in September 1998.

The total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately $2.6 billion, net of $76 million in cash balances acquired. The COMSAT transaction was accounted for using the purchase method of accounting, under which the purchase price was allocated to assets acquired and liabilities assumed based on their fair values. Included in these allocations were adjustments totaling approximately $2.1 billion to record investments in equity securities (i.e., Intelsat, Inmarsat and New Skies) at fair value and goodwill.

Divestiture Activities

In November 2000, the Corporation sold its Aerospace Electronics Systems (AES) businesses for $1.67 billion in cash (the AES Transaction). The Corporation recorded an unusual loss of $598 million related to the AES Transaction which is included in other income and expenses. The loss reduced net earnings for 2000 by $878 million ($2.18 per diluted share).

In September 2000, the Corporation sold Lockheed Martin Control Systems (Control Systems) for $510 million in cash. This transaction resulted in the recognition of an unusual gain, net of state income taxes, of $302 million which is reflected in other income and expenses. The gain increased net
es. The losss common sto081(AES)19ntrol Swith1.4 TD 0.0397 Tw2(.)-il

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

[illegible]	2002	2001	2000
NET EARNINGS (LOSS):			
Earnings (loss) from continuing operations	**$ 533**	$ 43	$ (477)
Discontinued operations:			
Results of operations from discontinued businesses	**(33)**	(62)	(42)
Charges related to discontinued businesses, net of IMS gain	**—**	(1,027)	—
Net earnings (loss) for basic and diluted computations	**$ 500**	$(1,046)	$ (519)
AVERAGE COMMON SHARES OUTSTANDING:			
Average number of common shares outstanding for basic computations	**445.1**	427.4	400.8
Dilutive stock options—based on the treasury stock method	**6.9**	5.1	—[a]
Average number of common shares outstanding for diluted computations	**452.0**	432.5	400.8[a]
EARNINGS (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	**$ 1.20**	$ 0.10	$ (1.19)
Discontinued operations:			
Results of operations from discontinued businesses	**(0.07)**	(0.15)	(0.10)
Charges related to discontinued businesses, net of IMS gain	**—**	(2.40)	—
	$ 1.13	$ (2.45)	$ (1.29)
Diluted:			
Continuing operations	**$ 1.18**	$ 0.10	$ (1.19)
Discontinued operations:			
Results of operations from discontinued businesses	**(0.07)**	(0.14)	(0.10)
Charges related to discontinued businesses, net of IMS gain	**—**	(2.38)	—
	$ 1.11	$ (2.42)	$ (1.29)

(a) [illegible] 2000, [illegible] 2.3 [illegible]

NOTE 5—RECEIVABLES

[illegible]	2002	2001
U.S. Government:		
Amounts billed	**$ 1,048**	$ 1,107
Unbilled costs and accrued profits	**2,116**	2,423
Less customer advances and progress payments	**(422)**	(551)
Commercial and foreign governments:		
Amounts billed	**483**	583
Unbilled costs and accrued profits	**474**	502
Less customer advances	**(44)**	(15)
	$ 3,655	$ 4,049

Less than 10% of the December 31, 2002 unbilled costs and accrued profits are not expected to be recovered within 1 year.

NOTE 6—INVENTORIES

[illegible]	2002	2001
Work in process, primarily related to long-term contracts and programs in progress	**$ 5,627**	$ 4,279
Work in process, commercial launch vehicles	**594**	1,205
Less customer advances and progress payments	**(4,272)**	(2,931)
	1,949	2,553
Other inventories	**301**	587
	$ 2,250	$ 3,140

During 2002, approximately $130 million of unamortized deferred costs related to commercial launch vehicles were reclassified to property, plant and equipment. The deferred costs related to the Atlas Space Operations Center, the vehicle integration facility and certain related ground equipment for the Atlas V program. The reclassification was made in connection with the completion of the facilities and the initial operational status of the program. The assets are being depreciated ov

2001, respectively, to provide launch services. The decrease was partially due to an unusual charge, net of state income tax benefits, of $173 million in 2002 which included amounts related to the Corporation's assessment of the probability of termination of certain launches under contract, as well as amounts related to advances for launches not under contract. The portion of the charge related to advances for launches not under contract was recorded due to an agreement which provides for reduced future payments from Lockheed Martin to Khrunichev for launches, contingent on the receipt of new orders as well as a minimum number of actual launches each year, in lieu of the requirement to provide launch services. The agreement was reached in light of the continuing overcapacity in the launch vehicle market. The charge reduced 2002 net earnings by $112 million ($0.25 per diluted share). In addition, commercial launch vehicle inventories included amounts advanced to RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of $61 million and $58 million at December 31, 2002 and 2001, respectively, for the development and purchase, subject to certain conditions, of RD-180 booster engines used for Atlas launch vehicles.

Work in process inventories at December 31, 2002 and 2001 related to other long-term contracts and programs in

in the launch vehicle market. The charge reduced 2002

In the first quarter of 2001, the Cor

In September 2001, the Corporation redeemed approximately $117 million of 7% debentures ($175 million at face value) due in 2011 which were originally sold at approximately 54% of their principal amount. The debentures were redeemed at face value, resulting in an unusual loss, net of state income tax benefits, of $55 million which was included in other income and expenses. The loss reduced net earnings by $36 million ($0.08 per diluted share).

In July 2001, COMSAT, a wholly-owned subsidiary of the Corporation, redeemed $200 million in principal amount of the 8.125% Cumulative Monthly Income Preferred Securities (MIPS) previously issued by a wholly-owned subsidiary of COMSAT. The MIPS were redeemed at par value of $25 per share plus accrued and unpaid dividends to the redemption date. The redemption did not result in an unusual gain or loss on the early repayment of debt.

Also in 2001, the Corporation repaid approximately $1.26 billion of notes outstanding which had been issued to a wholly-owned subsidiary of General Electric Company. The notes would have been due November 17, 2002. The early repayment of the notes did not result in an unusual gain or loss on the early repayment of debt.

In December 2000, the Corporation purchased approximately $1.9 billion in principal amount of debt securities included in tender offers for six issues of notes and debentures. The repurchase of the debt securities resulted in a loss, net of income tax benefits, of $156 million which was included in other income and expenses. The loss reduced net earnings by $95 million ($0.24 per diluted share).

The Corporation has entered into interest rate swaps to swap fixed interest rates on approximately $920 million of its long-term debt for variable interest rates based on LIBOR. At December 31, 2002, the fair values of interest rate swap agreements outstanding, as well as the amounts of gains and losses recorded during the year, were not material.

The registered holders of $300 million of 40 year debentures issued in 1996 may elect, between March 1 and April 1, 2008, to have their debentures repaid by the Corporation on May 1, 2008.

A leveraged employee stock ownership plan (ESOP) incorporated into the Corporation's salaried savings plan borrowed $500 million through a private placement of notes in 1989. These notes are being repaid in quarterly installments over terms ending in 2004. The ESOP note agreement stipulates that, in the event that the ratings assigned to the Corporation's long-term senior unsecured debt are below investment grade, holders of the notes may require the Corporation to purchase the notes and pay accrued interest. These notes are obligations of the ESOP but are guaranteed by the Corporation and included as debt in the Corporation's consolidated balance sheet.

At December 31, 2002, the Corporation had in place a $1.5 billion revolving credit facility; no borrowings were outstanding. This credit facility will expire in November 2006. Borrowings under the credit facility would be unsecured and bear interest at rates based, at the Corporation's option, on the Eurodollar rate or a bank Base Rate (as defined). Each bank's obligation to make loans under the credit facility is subject to, among other things, the Corporation's compliance with various representations, warranties and covenants, including covenants limiting the ability of the Corporation and certain of its subsidiaries to encumber assets and a covenant not to exceed a maximum leverage ratio. In October 2002, the Corporation terminated its $1.0 billion 1-year credit facility.

The Corporation's long-term debt maturities for the five years following December 31, 2002 are: $1,365 million in 2003; $141 million in 2004; $15 million in 2005; $783 million in 2006; $33 million in 2007; and $5,220 million thereafter.

Certain of the Corporation's other financing agreements contain restrictive covenants relating to debt, limitations on encumbrances and sale and lease-back transactions, and provisions which relate to certain changes in control.

The estimated fair values of the Corporation's long-term debt instruments at December 31, 2002, aggregated approximately $9.0 billion, compared with a carrying amount of approximately $7.6 billion. The fair values were estimated based on quoted market prices for those instruments that are publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for similar issues, or on current rates offered to the Corporation for debt with similar remaining maturities. Unless otherwise indicated elsewhere in the notes to the financial statements, the carrying values of the Corporation's other financial instruments approximate their fair values.

In June 2000, the Corporation paid $207 million to settle its share of obligations of Globalstar, L.P. (Globalstar) under a revolving credit agreement on which Lockheed Martin was a partial guarantor. At the same time, Loral Space, under a separate indemnification agreement between the Corporation and Loral Space, paid Lockheed Martin $57 million. In light of the uncertainty of the Corporation recovering the amounts paid on Globalstar's behalf from Globalstar, the Corporation recorded an unusual charge in the second quarter of 2000, net of state income tax benefits, of approximately $141 million in other income and expenses. The charge reduced net earnings for 2000 by $91 million ($0.23 per diluted share).

Interest payments were $586 million in 2002, $707 million in 2001 and $947 million in 2000.

Note 10—Income Taxes

The provision for federal and foreign income taxes attributable to continuing operations consisted of the following components:

(In millions)	2002	2001	2000
Federal income taxes:			
Current	**$ 469**	$ 170	$728
Deferred	**(463)**	(118)	(96)
Total federal income taxes	**6**	52	632
Foreign income taxes	**38**	38	31
Total income taxes provided	**$ 44**	$ 90	$663

Net provisions for state income taxes are included in general and administrative expenses, which are primarily allocable to government contracts. The net state income tax benefit was $7 million for 2002 and $8 million for 2001, and net state income tax expense was $100 million for 2000.

A reconciliation of income tax expense computed using the U.S. federal statutory income tax rate to actual income tax expense is as follows:

(In millions)	2002	2001	2000
Income tax expense at the statutory federal rate	**$202**	$ 47	$ 65
Increase (reduction) in tax expense from:			
R&D tax credit settlement	**(90)**	—	—
Revisions to prior years' estimated liabilities	**(62)**	(20)	13
Divestitures	**—**	—	505
Non-deductible amortization	**—**	62	77
Other, net	**(6)**	1	3
Actual income tax expense	**$ 44**	$ 90	$663

The primary components of the Corporation's federal deferred income tax assets and liabilities at December 31 were as follows:

(In millions)	2002	2001
Deferred tax assets related to:		
Accumulated post-retirement benefit obligations	**$ 535**	$ 534
Contract accounting methods	**493**	459
Basis differences of impaired investments	**407**	370
Accrued compensation and benefits	**344**	286
Pensions[a]	**110**	—
Other	**470**	95

Approximately 19.6 million, 27.1 million and 27.9 million outstanding options were exercisable by employees at December 31, 2002, 2001 and 2000, respectively.

Information regarding options outstanding at December 31, 2002 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	2,969	$18.36	5.7
$20.00–$29.99	3,200	25.99	4.1
$30.00–$39.99	10,606	36.01	6.5
$40.00–$50.00	3,453	45.58	4.1
Greater than $50.00	10,406	51.00	7.7
Total	30,634	39.42	6.3
Options exercisable:			
Less than $20.00	2,959	$18.36	5.7
$20.00–$29.99	2,486	25.77	3.2
$30.00–$39.99	7,253	36.45	5.8
$40.00–$50.00	3,443	45.57	4.1
Greater than $50.00	3,483	52.06	5.0
Total	19,624	36.74	5.0

All stock options granted in 2002, 2001 and 2000 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 if the Corporation had accounted for its employee stock options under the fair value method is included in Note 1. 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 2002, 2001 and 2000, respectively: risk-free interest rates of 4.24%, 4.95% and 6.61%; dividend yields of 1.0%, 0.6% and 0.8%; volatility factors related to the expected market price of the Corporation's common stock of .376, .366 and .342; and a weighted average expected option life of five years. The weighted average fair value of each option granted during 2002, 2001 and 2000 was $18.23, $13.32 and $7.62, respectively.

NOTE 13—POST-RETIREMENT BENEFIT 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 were $232 million in 2002, $226 million in 2001 and $221 million in 2000.

The Lockheed Martin Corporation Salaried Savings Plan includes an ESOP which purchased 34.8 million shares of the Corporation's common stock in 1989 with the proceeds from a $500 million note issue which is guaranteed by the Corporation. The Corporation's match consisted of shares of its common stock, which was partially fulfilled with stock released from the ESOP at approximately 2.4 million shares per year based upon the debt repayment schedule through the year 2004. Compensation cost recognized relative to the ESOP shares was $134 million, $90 million and $59 million in 2002, 2001 and 2000, respectively. The remainder of the Corporation's match to the Salaried Savings Plan was fulfilled through purchases of common stock from terminating participants or in the open market, or through newly issued shares from the Corporation. Interest incurred on the ESOP debt totaled $10 million, $13 million and $17 million in 2002, 2001 and 2000, respectively. Dividends received by the ESOP with respect to unallocated shares held are used for debt service. The ESOP held approximately 45.8 million issued shares of the Corporation's common stock at December 31, 2002, of which approximately 42.3 million were allocated and 3.5 million were unallocated. The fair value of the unallocated ESOP shares at December 31, 2002 was approximately $200 million. 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 2002, 2001 and 2000, the weighted average unallocated ESOP shares excluded in calculating earnings per share totaled approximately 4.4 million, 6.7 million and 9.0 million common shares, respectively.

Certain plans for hourly employees include non-leveraged ESOPs where the match is made, generally at the election of the participant, in the Corporation's common stock. The Corporation's match to these plans was made through cash contributions to the ESOP trusts which were used, if so elected, to purchase common stock from terminating participants and in the open market for allocation to participant accounts. These ESOP trusts held approximately 3.5 million issued and outstanding shares of common stock at December 31, 2002.

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 2002, 2001 and 2000 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	Retiree Medical and Life

Water Quality Control Board (the Regional Board) in connection with the Corporation's former Lockheed Propulsion Company facilities in Redlands, California. Under the orders, the Corporation is investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. The Regional Board has approved the Corporation's plan to maintain public water supplies with respect to chlorinated solvents during this investigation, and the Corporation continues to negotiate with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation is also coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct preliminary studies of the potential health effects of perchlorate exposure in connection with several sites across the country, including the Redlands site. The results of these studies are intended to assist state and federal regulators in setting appropriate action levels for perchlorates in groundwater. In January 2002, the State of California reduced its provisional standard for perchlorate concentration in water from 18 parts per billion (ppb) to 4 ppb, a move that neither industry nor the Air Force believes is supported by the current studies.

Although this provisional standard does not create any legally enforceable requirements for the Corporation at this time, the Corporation has developed a preliminary remediation plan that would meet the provisional standard if it were to become final. Because this plan entails a long lead-time for implementation, the Corporation has elected to begin implementing this plan and recognize the increased costs that are associated with the plan. The consolidated balance sheet at December 31, 2002 includes a liability of approximately $185 million representing the Corporation's estimate of the remaining expenditures necessary to implement the remediation and other work at the site over the next 30 years. This amount represents an approximate $100 million increase in the liability since December 31, 2001. As at other sites, the Corporation is pursuing claims against other potentially responsible parties (PRPs), including the U.S. Government, for contribution to site clean-up costs.

The Corporation has been conducting remediation activities to address soil and groundwater contamination by chlorinated solvents at its former operations in Great Neck, New York which it acquired as part of its acquisition of Loral Corporation in 1996. This work is being done pursuant to a series of orders and agreements with the New York State Department of Environmental Conservation beginning with a 1991 administrative order entered by Unisys Tactical Defense Systems, a predecessor company at the site. Until the third quarter of 2002, all of the remediation work associated with this site had been performed on the site itself. In the third quarter, the Corporation entered into negotiations with the state of New York to implement an off-site interim remedial measure intended to address an off-site plume of groundwater contamination that was found to be moving more rapidly than originally anticipated. This has led to an increase of approximately $50 million in the projected future costs for the site. Total projected future costs are now estimated to be approximately $70 million through 2025. This amount is included in the consolidated balance sheet at December 31, 2002. As at other sites, the Corporation is pursuing claims against other PRPs, including the U.S. Government, for contribution to site clean-up costs.

Since 1990, the Corporation has been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with the Corporation's former operations in Burbank and Glendale, California. Among other things, these consent decrees and orders obligate the Corporation to construct and fund the operations of soil and groundwater treatment facilities in Burbank and Glendale, California through 2018 and 2012, respectively; however, responsibility for the long-term operation of these facilities was assumed by the respective localities in 2001. The Corporation has been successful in limiting its financial responsibility for these activities to date to its pro rata share as a result of litigation and settlements with other PRPs. In addition, under an agreement reached with the U.S.
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contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably determined at this time. In addition to the amounts with respect to the Redlands, Burbank, Glendale and Great Neck sites described above, a liability of approximately $130 million for the other properties (including current operating facilities and certain facilities operated in prior years) in which an estimate of financial exposure can be determined has been recorded.

Under agreements reached with the U.S. Government in 1990 and 2000, certain groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other PRPs, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the expenditures are being reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation.

At December 31, 2002 and December 31, 2001, the

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The Corporation continues to operate in four principal business segments: Systems Integration, Space Systems, Aeronautics and Technology Services. The changes include the following:

- The Corporate and Other segment has been eliminated;
- The operating profit or loss (earnings or loss from continuing operations before interest and taxes) from the operations of the four principal business segments is reconciled to the reported consolidated results utilizing the following items:
  - — Unallocated Corporate income (expense), net—this caption includes—
    - Unusual items—The effects of unusual items that are not considered part of management's evaluation of the segment's operating results (e.g., sales of surplus real estate, impairment charges, divestitures and other portfolio shaping activities) are excluded from the business segment results;
    - The difference between pension costs calculated and funded in accordance with Cost Accounting Standards (CAS), which are reported in the business segment results, and pension expense or income determined in accordance with FAS 87 as reported in Note 13 (FAS/CAS adjustment). This amount was previously allocated to the business segments (see further discussion below);
    - The costs of the Corporation's common stock-based compensation plans. This amount was also allocated to the business segments previously;
    - Corporate costs not allocated to the business segments and other miscellaneous Corporate activities, including interest income and earnings and losses from the Corporation's equity investments.
  - — Impact of adoption of FAS 142—As a result of the Corporation's adoption of FAS 142 (see Note 1), goodwill is no longer being amortized and the estimated remaining useful life of the contract intangible asset related to the F-16 program was extended. In connection with the adoption of the new standard, goodwill amortization expense and the impact of the change in the estimated remaining useful life of the F-16 intangible asset for all periods prior to January 1, 2002 are excluded from business segment results.

With respect to pension costs and funding, FAS 87 determines pension expense or income for financial reporting purposes under Generally Accepted Accounting Principles (GAAP), not necessarily the funding requirements of pension plans, which are determined by other factors. A major factor for determining pension funding requirements for the Corporation is the CAS, which governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of the Corporation's products and services on U.S. Government contracts, and therefore is recognized in net sales of the applicable segment. Previously, business segment results included pension income or expense as determined in accordance with FAS 87. The results of operations of the Corporation's segments will now only include pension expense as determined and funded in accordance with CAS rules.

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.

Following is a brief description of the activities of the principal business segments:

- [illegible] Engaged in the design, development, integration and production of high performance 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; radars; platform integration services; command, control, communications, computers and intelligence (C4I) systems for naval, airborne and ground applications; homeland security systems; surveillance and reconnaissance systems; air traffic control systems; simulation and training systems; and postal automation systems.
- [illegible] Engaged in the design, development, engineering and production of commercial and military space systems, including those systems that perform intelligence, surveillance and reconnaissance functions. Major lines of business include government satellites and defensive systems, commercial satellites, ground systems and supporting

services, launch services, and strategic missiles. In addition, the segment has investments in joint ventures that are principally engaged in businesses which complement and enhance other activities of the segment.

- [illegible] Engaged in design, research and development, systems integration, production and support of advanced military aircraft and related technologies. Its customers include the military services of the United States and allied countries throughout the world. Major products and programs include the F-16 multi-role fighter, F/A-22 air dominance and strike fighter, F-35 Joint Strike Fighter, Japanese F-2 combat aircraft, Korean T-50 advanced trainer, C-130 and C-130J tactical airlift aircraft, C-5 strategic airlift aircraft, and support for the F-117 stealth fighter and special mission and reconnaissance aircraft (e.g., Big Safari modifications, and the P-3 Orion, S-3 Viking and U-2).
- [illegible] Engaged in a wide array of information management, engineering, scientific and logistic services to federal agencies and other customers. Major product lines include complete1(a[as in8c complie6A9(isoftw)49.9(VoT]TJ T* 0;0101 Tc Po4f 0 TD5(military a11[(systems inte4.9(55(gmentr71 [illegible]

Selected Financial Data by Business Segment *(continued)*

	2002	2001	2000
Amortization of intangible assets other than goodwill			
Systems Integration	**$ 49**	$ 50	$ 52
Space Systems	**19**	18	18
Aeronautics	**50**	51	51
Technology Services	**7**	5	5
Total business segments	**125**	124	126
Other	**—**	30	30
	$ 125	$ 154	$ 156
Equity in earnings (losses) of equity investees			
Systems Integration	**$ 1**	$ (3)	$ (16)
Space Systems	**39**	51	40
Aeronautics	**—**	—	—
Technology Services	**10**	10	7
Total business segments	**50**	58	31
Other	**43**	10	17
	$ 93	$ 68	$ 48
Expenditures for property, plant and equipment(b)			
Systems Integration	**$ 208**	$ 190	$ 185
Space Systems	**173**	144	126
Aeronautics	**205**	142	89
Technology Services	**44**	30	15
Total business segments	**630**	506	415
Other	**22**	39	27
	$ 652	$ 545	$ 442
Assets(c)			
Systems Integration	**$ 9,597**	$ 9,612	$ 9,758
Space Systems	**4,313**	5,208	6,005
Aeronautics	**2,835**	3,017	3,173
Technology Services	**1,634**	1,911	1,588
Total business segments	**18,379**	19,748	20,524
Assets held for sale	**210**	638	2,332
Other(d)	**7,169**	7,268	7,570
	$25,758	$27,654	$30,426

	2002	2001	2000
Goodwill			
Systems Integration	**$ 5,775**	$ 5,775	$ 5,941
Space Systems	**1,064**	1,064	1,052
Aeronautics	**—**	—	—
Technology Services	**541**	532	434
Total business segments	**7,380**	7,371	7,427
Other	**—**	—	52
	$ 7,380	$ 7,371	$ 7,479
Customer advances and amounts in excess of costs incurred			
Systems Integration	**$ 836**	$ 797	$ 899
Space Systems	**1,275**	1,784	2,087
Aeronautics	**2,408**	2,406	1,636
Technology Services	**19**	15	60
Total business segments	**4,538**	5,002	4,682
Other	**4**	—	15
	$ 4,542	$ 5,002	$ 4,697

(a) [illegible]

	2002	2001	2000
Unusual items	**$(1,112)**	$(973)	$(685)
FAS/CAS pension income	**243**	360	309
Other	**7**	11	66
	$ (862)	$(602)	$(310)

[illegible] 2, 3, 6, [illegible]

(b) [illegible] $10 [illegible] $4 [illegible] $5 [illegible] 2002, 2001 [illegible] 2000, [illegible]

(c) [illegible]

(d) [illegible] 2001 [illegible] 2000, [illegible]

Net Sales by Customer Category

	2002	2001	2000
U.S. GOVERNMENT			
Systems Integration	**$ 7,741**	$ 6,952	$ 6,855
Space Systems	**6,276**	5,956	5,932
Aeronautics	**4,483**	3,437	2,784
Technology Services	**2,735**	2,269	2,120
	$21,235	$18,614	$17,691
FOREIGN GOVERNMENTS [a][b]			
Systems Integration	**$ 1,583**	$ 1,790	$ 2,231
Space Systems	**60**	94	79
Aeronautics	**1,971**	1,899	2,061
Technology Services	**76**	104	117
	$ 3,690	$ 3,887	$ 4,488
COMMERCIAL[b]			
Systems Integration	**$ 279**	$ 272	$ 561
Space Systems	**1,048**	786	1,328
Aeronautics	**17**	19	40
Technology Services	**293**	390	413
Total business segments	**1,637**	1,467	2,342
Other	**16**	22	20
	$ 1,653	$ 1,489	$ 2,362

(a) [illegible]

(b) [illegible] $4.3 [illegible] $4.1 [illegible] $5.2 [illegible] 2002, 2001 [illegible] 2000, [illegible]

NOTE 17—SUMMARY OF QUARTERLY INFORMATION (UNAUDITED)

	2002 Quarters			
	First	Second[a]	Third	Fourth[b]
Net sales	$5,966	$6,290	$6,542	$7,780
Earnings from operations	438	483	553	475
Earnings (loss) from continuing operations	224	351	300	(342)
Net earnings (loss)	218	339	290	(347)
Diluted earnings (loss) per share from continuing operations	0.50	0.78	0.66	(0.76)
Diluted earnings (loss) per share	0.49	0.75	0.64	(0.77)

	2001 Quarters			
	First[d]	Second	Third[e]	Fourth[f]
Net sales	$4,747	$5,688	$6,221	$7,334
Earnings from operations	350	399	438	356
Earnings (loss) from continuing operations	126	150	(87)	(146)
Net earnings (loss)	105	144	213	(1,508)
Diluted earnings (loss) per share from continuing operations	0.30	0.34	(0.20)	(0.34)
Diluted earnings (loss) per share[c]	0.25	0.33	0.50	(3.49)

(a) [illegible] 2002 [illegible] $0 [illegible] ($0.20) [illegible]

(b) [illegible] 2002 [illegible] $504 [illegible] ($1.12) [illegible] $112 [illegible] ($0.25) [illegible] $106 [illegible] ($0.24) [illegible]

(c) [illegible] 2001 [illegible] 31, 2001 [illegible]

(d) [illegible] 2001 [illegible] $2 [illegible] ($0.1 [illegible] $65 [illegible] ($0.15) [illegible]

(e) [illegible] 2001 [illegible] $235 [illegible] ($0.54) [illegible] $36 [illegible] ($0.0 [illegible] $3 [illegible] $30 [illegible] ($0.1 [illegible]

(f) [illegible] 2001 [illegible] $26 [illegible] ($0.62) [illegible] $11 [illegible] ($0.2 [illegible] $1.3 [illegible] ($3.0 [illegible]

Consolidated Financial Data—Five Year Summary

	2002[a]	2001[b]	2000[c]	1999[d]	1998[e]
Operating results					
Net sales	**$26,578**	$23,990	$24,541	$24,999	$25,809
Cost of sales	**24,629**	22,447	22,881	23,346	23,492
Earnings from operations	**1,949**	1,543	1,660	1,653	2,317
Other income and expenses, net	**(791)**	(710)	(555)	344	170
	1,158	833	1,105	1,997	2,487
Interest expense	**581**	700	919	809	861
Earnings from continuing operations before income taxes and cumulative effect of change in accounting	**577**	133	186	1,188	1,626
Income tax expense	**44**	90	663	459	648
Earnings (loss) from continuing operations before cumulative effect of change in accounting	**533**	43	(477)	729	978
Discontinued operations	**(33)**	(1,089)	(42)	8	23
Cumulative effect of change in accounting	**—**	—	—	(355)	—
Net earnings (loss)	**$ 500**	$ (1,046)	$ (519)	$ 382	$ 1,001
Earnings (loss) per common share					
Basic:					
Continuing operations before cumulative effect of change in accounting	**$ 1.20**	$ 0.10	$ (1.19)	$ 1.91	$ 2.60
Discontinued operations	**(0.07)**	(2.55)	(0.10)	0.02	0.06
Cumulative effect of change in accounting	**—**	—	—	(0.93)	—
	$ 1.13	$ (2.45)	$ (1.29)	$ 1.00	$ 2.66
Diluted:					
Continuing operations before cumulative effect of change in accounting	**$ 1.18**	$ 0.10	$ (1.19)	$ 1.90	$ 2.57
Discontinued operations	**(0.07)**	(2.52)	(0.10)	0.02	0.06
Cumulative effect of change in accounting	**—**	—	—	(0.93)	—
	$ 1.11	$ (2.42)	$ (1.29)	$ 0.99	$ 2.63
Cash dividends	**$ 0.44**	$ 0.44	$ 0.44	$ 0.88	$ 0.82
Condensed balance sheet data					
Current assets	**$10,626**	$10,778	$13,339	$11,080	$10,706
Property, plant and equipment, net	**3,258**	2,991	2,941	3,361	3,489
Intangible assets related to contracts and programs acquired	**814**	939	1,073	1,259	1,418
Goodwill	**7,380**	7,371	7,479	9,152	9,521
Other assets	**3,680**	5,575	5,594	5,409	3,610
Total	**$25,758**	$27,654	$30,426	$30,261	$28,744
Short-term borrowings	**$ —**	$ —	$ 12	$ 475	$ 1,043
Current maturities of long-term debt	**1,365**	89	882	52	886
Other current liabilities	**8,456**	9,600	9,408	8,298	8,338
Long-term debt	**6,217**	7,422	9,065	11,427	8,957
Post-retirement benefit liabilities	**1,480**	1,565	1,647	1,805	1,903
Other liabilities	**2,375**	2,535	2,252	1,843	1,480
Stockholders' equity	**5,865**	6,443	7,160	6,361	6,137
Total	**$25,758**	$27,654	$30,426	$30,261	$28,744
Common shares outstanding at year-end	**455.5**	441.2	431.4	397.8	393.3

CONSOLIDATED FINANCIAL DATA—FIVE YEAR SUMMARY

NOTES TO FIVE-YEAR SUMMARY

(a) [illegible] $1,112 [illegible], $632 [illegible] ($1.40 [illegible]). [illegible] 2002, [illegible] 142 [illegible]

(b) [illegible] $ 3 [illegible], $651 [illegible] ($1.50 [illegible]). [illegible] $1 [illegible] ($2.3 [illegible]).

(c) [illegible] 2000. [illegible] $6 5 [illegible], $ 51 [illegible] ($2.36 [illegible]).

(d) [illegible] $24 [illegible], $162 [illegible] ($0.42 [illegible]). [illegible] -5 [illegible] $355 [illegible] ($0. 3 [illegible]).

(e) [illegible] $162 [illegible], $136 [illegible] ($0.36 [illegible]).

General Information

December 31, 2002

As of December 31, 2002, there were approximately 49,226 holders of record of Lockheed Martin common stock and 455,467,768 shares outstanding.

Common Stock Prices

[illegible]	High	Low	Close
2002 Quarters			
1st	**59.96**	**45.85**	**57.58**
2nd	**71.52**	**57.35**	**69.50**
3rd	**69.97**	**52.30**	**64.67**
4th	**65.55**	**48.64**	**57.75**
2001 Quarters			
1st	39.50	31.00	35.65
2nd	39.80	34.05	37.05
3rd	46.00	35.36	43.75
4th	52.98	42.40	46.67

Transfer Agent & Registrar

EquiServe Trust Company, N.A.
Shareholder Services
P.O. Box 43010
Providence, Rhode Island 02940-3010
Telephone: 1-800-519-3111
TDD for the hearing impaired: 1-800-952-9245
Internet: http://www.equiserve.com

Dividend Reinvestment Plan

Lockheed Martin Direct Invest, our direct stock purchase and dividend reinvestment plan, provides new investors and current stockholders with a convenient, cost-effective way to purchase Lockheed Martin common stock, increase holdings and manage the investment. For more information about Lockheed Martin Direct Invest, contact our transfer agent, EquiServe Trust Company, N.A. at 1-800-446-2617, or to view plan materials online and enroll electronically, access Internet site http://www.shareholder.com/lmt/shareholder.cfm#drip.

Independent Auditors

Ernst & Young LLP
8484 Westpark Drive
McLean, Virginia 22102

Common Stock

Stock symbol: LMT
Listed: New York Stock Exchange

Annual Report on Form 10-K

Stockholders may obtain, without charge, a copy of Lockheed Martin's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the year ended December 31, 2002 by writing to:

Lockheed Martin Investor Relations
6801 Rockledge Drive
Bethesda, MD 20817

For accessing the Lockheed Martin Investor Relations homepage on the Internet use the Uniform Resource Locator: http://www.lockheedmartin.com/investor

Financial results, stock quotes, earnings and dividend news as well as other Lockheed Martin announcements are available by calling the above toll-free number. The information will be read to the caller and can also be received by mail, fax or e-

FORWARD-LOOKING STATEMENTS—SAFE HARBOR PROVISIONS

December 31, 2002

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 the Securities Act of 1933 and the Securities Exchange Act of 1934. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “forecast” and similar expressions are intended to identify forward-looking statements. Numerous factors, including potentially the following factors, could affect the Corporation’s forward-looking statements and actual performance: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); the level of returns on pension and retirement plan assets; the termination of programs or contracts for convenience by customers; difficulties in developing and producing operationally advanced technology systems; launch failures and potential problems that might result, including potential loss of future or existing orders; the ability to procure insurance to cover operational and contractual risks, including launch and satellite failures, on commercially reasonable terms; the competitive environment (including continued pricing pressures associated with commercial satellites and launch services); the ability to achieve savings through cost-cutting and other financial management programs; economic business and political conditions both domestically and internationally; government import and export policies; program performance and the timing of contract payments (including the ability to perform fixed-price contracts within estimated costs, subcontractor performance, and the timing of product deliveries and customer acceptance); and the outcome of contingencies

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Lockheed Martin Applies Its Vision, Its Purpose and Its Values to Customer Priorities

OUR VISION:

To be the world's best advanced technology systems integrator.

OUR PURPOSE:

To achieve Mission Success by attaining total customer satisfaction and meeting all our commitments.

OUR VALUES:

Ethics

Excellence

"Can-Do''

Integrity

People

Teamwork

ACHIEVING RESULTS THROUGH...

Leadership and Teamwork

Commitment of Our People to Our Customers

Excellence as a Premier Systems Integrator

Innovation in Technology and Business

Alliances Worldwide

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LOCKHEED MARTIN

Lockheed Martin Corporation
6801 Rockledge Drive • Bethesda, MD 20817
www.lockheedmartin.com