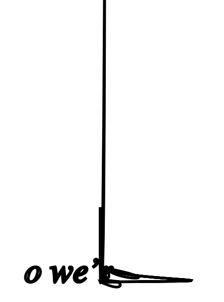
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2007 FINANCIAL HIGHLIGHTS[a]

([illegible])	2007	2006	2005
Net sales	**$41,862**	$39,620	$37,213
Operating profit from business segments	**4,691**	4,031	3,421
Consolidated operating profit	**4,527**	3,770	2,853
Net earnings	**3,033**	2,529	1,825
Earnings per diluted share	**7.10**	5.80	4.10
Average diluted common shares outstanding	**427.1**	436.4	445.7
Net cash provided by operating activities	**$ 4,241**	$ 3,783	$ 3,194
Cash dividends per common share	**1.47**	1.25	1.05
Cash, cash equivalents and short-term investments	**2,981**	2,293	2,673
Total assets	**28,926**	28,231	27,744
Total debt	**4,407**	4,439	4,986
Stockholders' equity	**9,805**	6,884	7,867
Common shares outstanding at year-end	**409**	421	432
Debt-to-total-capital ratio	**31%**	39%	39%
Return on invested capital[b]	**21.4%**	19.2%	14.5%

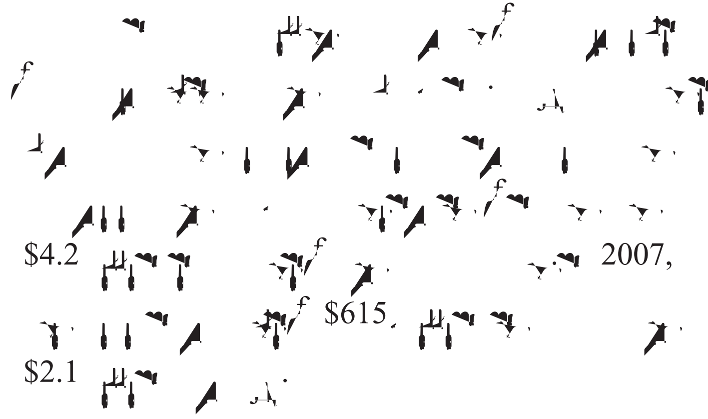
NOTES:

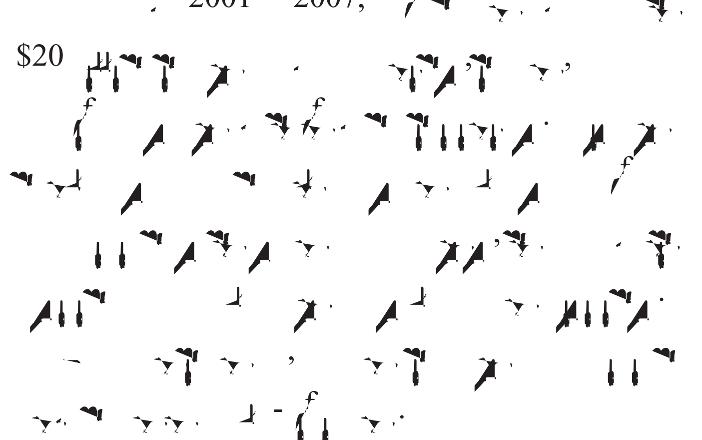
(a) *[illegible] 2007 A[illegible] R[illegible] F[illegible] 10-K.*

(b) *[illegible] 10-K.*

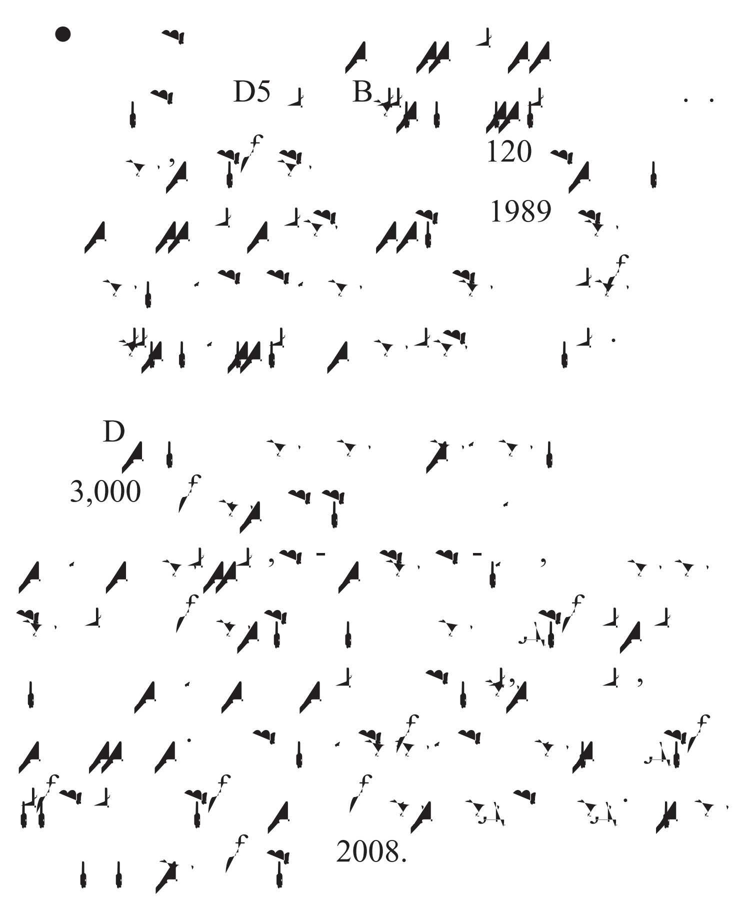
(Photograph – From left to right: Ralph D. Heath, *Executive Vice President, Aeronautics*; Joanne M. Maguire, *Executive Vice President, Space Systems*; Robert J. Stevens, *Chairman, President and Chief Executive Off Chairman, President and Chief Executive Of*

A Strong Financial Year





Disciplined Growth



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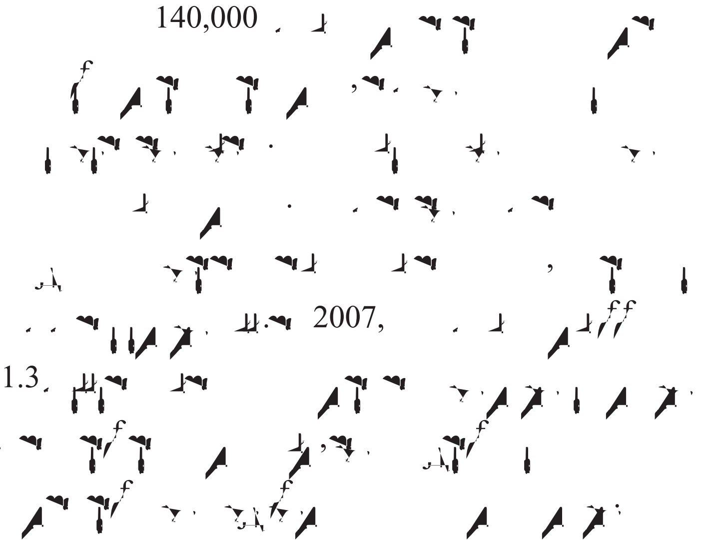
Our People: Talented and Dedicated



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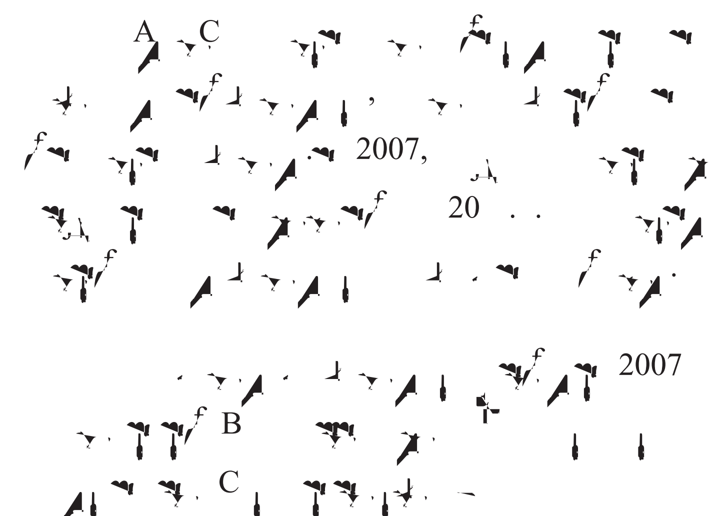

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2007 B C

Corporate Directory

(As of February 28, 2008)

Board of D

E. C. "Pete" Aldridge, Jr.
Former Under Secretary of Defense

Nolan D. Archibald
Chairman, President and
Chief Executive Officer
The Black & Decker Corporation

Marcus C. Bennett
Retired Executive Vice President
and Chief Financial Officer
Lockheed Martin Corporation

James O. Ellis, Jr.
President and Chief Executive Officer
Institute of Nuclear Power Operations

Gwendolyn S. King
President
Podium Prose
(A Washington, D.C. – based
Speaker's Bureau)

James M. Loy
Senior Counselor
The Cohen Group

Douglas H. McCorkindale
Retired Chairman
Gannett Co., Inc.

Eugene F. Murphy
Former Vice Chairman and
Executive Officer
General Electric Company

Joseph W. Ralston
Vice Chairman
The Cohen Group

Frank Savage
Chief Executive Officer
Savage Holdings LLC

James M. Schneider
Chairman
Frontier Bancshares, Inc.

Anne Stevens
Chairman, President and
Chief Executive Officer
Carpenter Technology Corporation

Robert J. Stevens
Chairman, President and
Chief Executive Officer
Lockheed Martin Corporation

James R. Ukropina
Chief Executive Officer
Directions, LLC
(A Management and Consulting Firm)

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2007

Commission file number 1-11437

LOCKHEED MARTIN CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-1893632**
(State or other jurisdiction of incorporation or organization)jsda,Decemb9d	

LOCKHEED MARTIN CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2007

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PART I

ITEM 1. BUSINESS

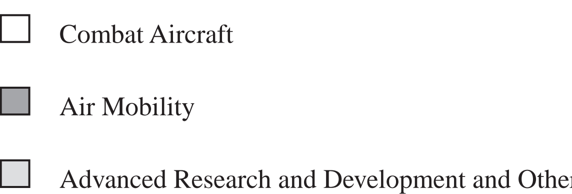
General

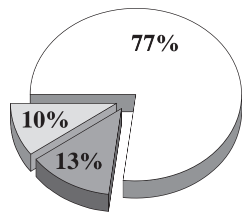
Lockheed Martin Corporation principally researches, designs, develops, manufactures, integrates, operates and sustains advanced technology systems and products, and provides a broad range of management, engineering, technical, scientific, logistic and information services. We serve both domestic and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. We were formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. We are a Maryland corporation.

In 2007, 84% of our net sales were made to the U.S. Government, either as a prime contractor or as a subcontractor. Our U.S. Government sales were made to both Department of Defense (DoD) and non-DoD agencies. Sales to foreign governments (including foreign military sales funded, in whole or in part, by the U.S. Government) amounted to 13% of net sales in 2007, while 3% of our net sales were made to commercial and other customers.

F-22 air dominance and multi-mission stealth fighter; the F-16 international multi-role fighter; the C-130J tactical transport aircraft; the C-5 strategic airlifter modernization; and support for the F-117 stealth fighter, P-3 maritime patrol aircraft, S-3 multi-mission aircraft and U-2 high-altitude reconnaissance aircraft. We also produce major components for Japan's F-2 fighter and are a co-developer of the T-50 advanced jet trainer. Our Skunk Works® advanced development organization provides next generation innovative system solutions using rapid prototyping and advanced technologies.

In 2007, Aeronautics' net sales of $12.3 billion represented 29% of our total net sales. The major lines of business and the percentage that each contributed to Aeronautics' 2007 net sales are:





The segment is dependent on the U.S. military and international governments as customers. In 2007, U.S. Government customers accounted for approximately 78% of the segment's net sales.

Combat Aircraft

Our Combat Aircraft business designs, develops, produces and provides systems support for fighter aircraft. Our major fighter aircraft programs include:

- The F-35 Lightning II Joint Strike Fighter – stealth multi-role international coalition fighter;
- The F-22 Raptor – air dominance and multi-mission stealth fighter; and

The F-35 is planned to replace the F-16 and A-10 for the U.S. Air Force, the F/A-18A/C for the U.S. Navy, the AV-8B and F/A-18A/C/D for the U.S. Marine Corps, and the Harrier GR.7 and Sea Harrier short takeoff and vertical landing attack aircraft for the United Kingdom Royal Air Force and Royal Navy.

Aeronautics was awarded the SDD contract for the F-35 in the fourth quarter of 2001. Calendar-year 2007 marked the sixth full year of performance on the planned 12-year development contract. Testing of airworthiness and systems evaluation using the first F-35 CTOL aircraft continued in 2007, and component production has begun on all of the remaining SDD flight test aircraft (all variants) and both CTOL production aircraft in Low Rate Initial Production Lot 1. The first STOVL test airplane moved from the factory to the flight line in December 2007 and, after extensive ground testing, is expected to fly mid-year 2008. The first flight of the CV aircraft is planned to occur in the 2009 timeframe.

Given the size of the F-35 program, we anticipate that there will be a number of studies related to the program schedule and production quantities over time as part of the normal DoD, Congressional and international partners' oversight and budgeting processes.

F-22

A M b

In Air Mobility, we design, develop, produce and provide full system support and sustainment of tactical and strategic

Global Sustainment

As part of each of our businesses, we provide a full range of logistics support, sustaining engineering, upgrade modifications and services for our full line of aircraft, including the F-35 Lightning II, the F-22 Raptor, the F-16 Fighting Falcon, the C-130 Hercules and the C-5 Galaxy airlifters, the P-3 Orion, the S-3 Viking, the F-117 Nighthawk and the U-2 Dragon Lady.

For the F-35 Lightning II SDD program, we have developed an Autonomic Logistics and Global Sustainment solution, focused on performance-based logistics, to provide an affordable total air system life-cycle sustainment solution for the aircraft's multiple variants and worldwide customer base.

We will continue through mid-year 2008 to provide the U.S. Air Force with contractor-led support for the F-117 Nighthawk fleet through our Total System Sustainment Partnership. At that time, after a distinguished legacy that includes 26 years of operational service and over 250,000 flight hours accomplished, the F-117 fleet is planned to be retired. As winner of the first DoD performance-based logistics award for systems-level support, we are growing that heritage with a program for the sustainment of the F-22 called the Follow-On Agile Sustainment for the Raptor or FASTeR. Beginning in early 2008, we will be responsible for integrating and accomplishing all sustainment activities for the F-22 as the Product Support Integrator in partnership with the U.S. Air Force System Support Manager.

Under the Falcon 2020 program, we provide international F-16 operators with avionics and structural upgrade kits to enable those customers to keep their fleets viable for the future.

We have developed an extensive service life extension program, including the planned production of new wings, for the existing fleet of P-3 aircraft. The Royal Norwegian Air Force will be the first service life extension program customer, having signed a contract to upgrade its P-3 fleet in February 2007. We believe there are additional opportunities to implement this program with a number of domestic and international P-3 operators. We continue our nearly decade-long support effort for the U.S. Navy's fleet of S-3 Viking aircraft through the S-3 Prime Vendor Support contract, which will continue until the Navy's planned retirement of the fleet in 2009.

With regard to the C-130, we continue as a key member of a team, including Rolls Royce and Marshall Aerospace, that was awarded the Hercules Integrated Operational Support (HIOS) contract for the long-term support of the United Kingdom's fleet of C-130 aircraft. In addition, we signed a partnering agreement in 2007 to provide long-term support for the Italian C-130J fleet for a period of three years. We also offer center wing box modifications and avionics upgrades to customers who fly legacy versions of the Super Hercules in addition to the support and partnerships provided to sustain our newest tactical aircraft.

The U-2 has been the backbone of our nation's airborne intelligence collection operations for several decades, and continues to provide unmatched operational capabilities in support of Operation Enduring Freedom. As a result of the Reconnaissance Avionics Maintainability Program upgrade, which includes state of the art cockpit displays and controls along with other sensor modifications, the U-2 is expected to continue to provide leading-edge intelligence collection capabilities for years to come.

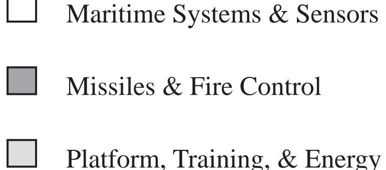
Through our Sustainment Services organization, we offer "nose-to-tail" aircraft maintenance, modifications and state-of-the-art upgrades, and provide the full range of depot services in addition to a full range of supply chain services. Under our Integrated Prime Vendor contract with the Defense Logistics Agency, we provide parts to the U.S. Air Force's three Air Logistics Center depots.

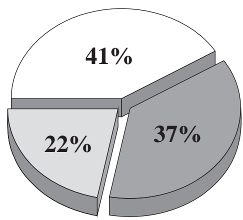
Through Kelly Aviation Center, L.P., a joint venture with GE-Aviation and Rolls-Royce, we provide engine maintenance, repair and overhaul and new engine assembly and testing for military and commercial customers.

Competition

We are a major worldwide competitor in combat aircraft, air mobility and military aircraft research and development. Military aircraft are subject to a wide variety of U.S. Government controls (*e.g.*, export restrictions, market access, technology transfer, industrial cooperation and contracting practices). Although a variety of criteria determine the results of different competitions, price is a major factor, as are past performance and customer confidence. Other critical factors are technical capabilities, release of technology, prior purchase experience, financing and total cost of ownership.

In 2007, Electronic Systems’ net sales of $11.1 billion represented 27% of our total net sales. Electronic Systems’ three major lines of business and the percentage that each contributed to 2007 net sales are:





The segment is dependent on both military and civilian agencies of the U.S. Government as well as international governments as customers. In 2007, U.S. Government customers accounted for approximately 74% of the segment’s total net sales.

Ma me S em & Se

Maritime Systems & Sensors (MS2) provides ship systems integration services, including command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) capability across shore-based command centers; surface ship and submarine combat systems, sea-based missile defense systems; sensors; tactical avionics; port traffic management systems; missile launching systems; aerostat surveillance systems; and supply chain management programs and systems.

The AEGIS weapon system is a fleet defense system and a sea-based element of the U.S. missile defense system. It is a radar and missile launching system, integrated with its own command and control system, designed to defend against advanced air, surface and subsurface threats. The AEGIS program encompasses activities in development, production, ship integration and test and lifetime support for ships of the U.S. Navy and international customers. We test and integrate these weapon systems for the U.S. Navy’s Ticonderoga class cruiser and Arleigh Burke class destroyer, along with the Kongo class destroyer for Japan, the F100 and F105 class frigates for Spain, the Fridtjof Nansen class frigate for Norway, the KDX class destroyer for Korea and the Hobart class air warfare destroyer for Australia. Since program inception in 1978, MS2 has received contracts for 111 AEGIS weapons systems, including 27 for the Ticonderoga class cruiser, 62 for the Arleigh Burke class destroyer and 22 international systems. During 2007, our production workscope included four international systems and three domestic systems.

In 2007, the DoD’s Missile Defense Agency (MDA) awarded MS2 a contract for continued development and evolution of the AEGIS Ballistic Missile Defense System (BMDS). There are 18 ships planned with BMDS technology and long-range surveillance and tracking capability. During the year, we performed a number of successful ballistic missile intercept tests. The latest test achieved an unprecedented result in which the BMDS successfully intercepted and destroyed two non-separating ballistic missile targets nearly simultaneously.

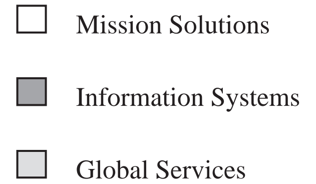
In early 2007, we were awarded a program to manage the logistics and warehousing for all tires used on U.S. Air Force

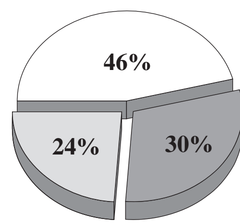
which includes test vehicles and pilot production aircraft. Flight tests continue on the test aircraft at Naval Air Station Patuxent River, Maryland. We have stopped work on Increment 2 at our customer's request and are working with the U.S. Navy as it evaluates requirements and funding profiles for the next phase of the program.

In 2007, we were awarded a multi-year contract by the U.S. Navy to produce and integrate mission systems for the new MH-60R multi-mission helicopter over the next five years. Designed primarily for anti-submarine and anti-surface warfare, the MH-60R will replace the Navy's current fleet of SH-60B and SH-60F Seahawk helicopters.

Our tactical wheeled vehicle team delivered four Lightweight Prime Mover (LWPM) vehicles to the U.S. Marine Corps

In 2007, IS&GS had net sales of $10.2 billion, which represented 24% of our total net sales. IS&GS' three major lines of business and the percentage that each contributed to its 2007 net sales are:





The segment is heavily dependent on both DoD and non-DoD agencies of the U.S. Government as customers. In 2007, U.S. Government customers accounted for approximately 94% of the segment's total net sales.

M S

Mission Solutions combines our expertise with the requirements of Intelligence, Defense and Civil agency customers with significant research and development and engineering competencies to provide solutions that produce an operational effect or business outcome. Mission Solutions provides systems that gather, process, assimilate, fuse and distribute data from ground, air, and space assets. We are also responsible for complex systems integration support that provides real-time situational awareness information to the DoD. Key programs include a classified customer portfolio; transformational communications systems such as the Transformational Communications MILSATCOM Mission Operations Segment

In addition to these contract milestones, IS&GS was awarded a contract in 2007 to support the Jet Propulsion Laboratory in its desktop infrastructure integration. IS&GS was also awarded the Information Technology Network Operations Virtual Alliance (IT NOVA) IDIQ contract with the Department of Homeland Security.

Global Services

In Global Services, we support mission services, global security and stability operations and provide facility services. In this arena, the key competencies are the people we provide to support the mission and our agility in responding to dynamic staffing requirements. Significant programs include mission planning and launch services for Orion and other National Aeronautics and Space Administration (NASA) programs, as well as military space efforts; in-transit visibility and other asset management and logistics programs; and infrastructure and operational support contracts.

Through our Pacific Architects and Engineers, Inc. (PAE) subsidiary, Global Services provides entire support infrastructures and staffing for overseas bases. This includes base camp construction, logistics, democratization services and management of embassies, air terminals, base camps and other facilities. These operations are increasingly global in nature as we are deployed with our customers and our services support their mission. Customers include the U.S. Department of State and international agencies such as the North Atlantic Treaty Organization (NATO) and the United Nations. The Global Services unit also includes Savi Technology, Inc., a subsidiary of ours, which provides radio frequency identification (RFID) solutions for both our government and commercial customers.

Competition

The range of products and services at IS&GS results in competition with other large aerospace, defense and information technology companies, as well as with numerous smaller competitors. The principal factors of competition include technical and management capability, the ability to develop and implement complex, integrated system architectures, price and past performance. Program requirements frequently result in the formation of teams such that companies teamed on one program are competitors for another, especially in our Mission Systems line of business. On some outsourcing procurements, which are more prevalent in our Information Systems line of business, we may also compete with a government-led bidding entity.

Space Systems

Space Systems is engaged in the design, research, development, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. The Satellite product line includes both government and commercial satellites. Strategic & Defensive Missile Systems includes missile defense technologies and systems and fleet ballistic missiles. Space Transportation Systems includes the next generation human space flight system known as the Orion

The segment is heavily dependent on both military and civilian agencies of the U.S. Government as customers. In 2007, U.S. Government customers accounted for approximately 94% of the segment's net sales.

Satellites

Our Satellites business designs, develops, manufactures and integrates advanced technology satellite systems for government and commercial applications. We are responsible for various classified systems and services in support of vital national security systems.

The Space-Based Infrared System (SBIRS) program is providing the nation with enhanced worldwide missile detection

Strategic & Defensive Missile Systems

Our Strategic & Defensive Missile Systems business has been the sole supplier of strategic fleet ballistic missiles to the U.S. Navy since the program's inception in 1955. The Trident II D5 is the latest generation of submarine launched ballistic missiles, following the highly successful Polaris, Poseidon C3, and Trident I C4 programs. The Trident II D5 began initial production in 1988 and has achieved a mission-success track record of 120 consecutive successful test launches. The Trident II D5 is the only intercontinental ballistic missile in production in the United States.

We are integrally involved with several missile defense programs. Under the Targets and Countermeasures Program, we manage the overall missile defense targets hardware and software portfolio for the MDA, providing realistic test environments for the system being developed by the MDA to defend against all classes of ballistic missiles. We are the prime contractor for the MDA's Multiple Kill Vehicles (MKV) payload system. In the event of an enemy launch, a single interceptor equipped with the MKV payload system is designed to destroy the enemy lethal reentry vehicle along with any countermeasures deployed to confuse the missile defense system. We are part of the industry team that is developing the Airborne Laser to detect, track and destroy hostile ballistic missiles in the vulnerable boost phase of flight. We provide the beam control fire control system, which is designed to accurately point and focus the high-energy laser beam. In 2007, the beam control fire control system successfully completed a series of flight tests.

Space Transportation Systems

Our Space Transportation Systems business provides human space flight systems.

We lead an industry team supporting NASA in the design, test, build, integration and operational capability of the Orion Crew Exploration Vehicle. Orion is an advanced crew capsule design utilizing state-of-the-art technology, and is planned to succeed the Space Shuttle in transporting a new generation of human explorers to and from the International Space Station, the Moon and eventually Mars and beyond.

We also manufacture the NASA Space Shuttle external tank. The tank is the only major non-reusable element of the Space Shuttle. One tank is used for each launch. Our existing contract for the external tanks will continue through the final Space Shuttle flight, currently scheduled for 2010.

Our Space Transportation Systems business also includes a 50% ownership interest in two joint ventures. United Space Alliance, LLC (USA) is responsible for the day-to-day operation and management of the Space Shuttle fleet for NASA. USA also performs the modification, testing and checkout operations required to prepare Space Shuttles for launch. United Launch Alliance, LLC (ULA) performs the engineering, production, test and launch operations associated with U.S. Government launches of the Atlas and Delta families of launch vehicles. We continue to market commercial Atlas launch services.

Competition

U.S. Government purchases of satellite systems, strategic missiles and space transportation systems are characterized by major competitions governed by DoD or NASA procurement regulations. While the evaluation criteria for selection vary from competition to competition, they are generally characterized by the customer's best value determination, which includes several important elements, such as price, technical capability, schedule and past performance. We compete worldwide for sales of satellites and commercial launch services against several competitors.

Based on current projected DoD, NASA and other government spending profiles and budget priorities, we believe we are well-positioned to compete for government satellites, strategic and defensive missile systems and space transportation systems programs. Future competitions for government systems include initiatives for transformational communications, global positioning, and planetary exploration and science.

Commercial demand for geo-stationary telecommunications satellites has been flat and manufacturing remains in an overcapacity situation. This has created significant price and competitive pressures. For further discussion of competitive factors in the sales of commercial satellites, see Management's Discussion & Analysis – "U.S. Government – Non-Department of Defense Business" beginning on page 34 of this Form 10-K.

Patents

We routinely apply for, and own a substantial number of, U.S. and foreign patents related to the products and services our business segments provide. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. The U.S. Government has licenses in our patents that are developed in performance of

government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes. Unpatented research, development and engineering skills also make an important contribution to our business. While our intellectual property rights in the aggregate are important to the operation of our business segments, we do not believe that any existing patent, license or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole.

Raw Materials and Seasonality

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

Aluminum and titanium are important raw materials used in certain of our Aeronautics and Space Systems programs. Long-term agreements have helped enable a continued supply of aluminum and titanium. Carbon fiber is an important ingredient in the composite material that is used in our Aeronautics programs, such as the F-22 and F-35. Nicalon fiber also is a key material used on the F-22 aircraft. One type of carbon fiber and the nicalon fiber that we use are currently only available from single-source suppliers. Aluminum lithium, which we use to produce the Space Shuttle's external tank and for F-16 structural components, also is currently only available from limited sources. We have been advised by some suppliers that pricing and the timing of availability of materials in some commodities markets can fluctuate widely. These fluctuations may negatively affect price and the availability of certain materials, including titanium. While we do not anticipate material problems regarding the supply of our raw materials and believe that we have taken appropriate measures to mitigate these variations, if key materials become unavailable or if pricing fluctuates widely in the future, it could result in delay to one or more of our programs, increased costs or reduced award fees.

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

Government Contracts and Regulation

Our businesses are heavily regulated in most of our fields of endeavor. We deal with numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, NASA, the U.S. Postal Service, the Social Security Administration, and the Departments of Defense, Energy, Justice, Health and Human Services, Homeland Security, State and Transportation. Similar government authorities exist with respect to our international efforts.

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

- require certification and disclosure of all cost or pricing data in connection with certain contract negotiations;
- impose specific and unique cost accounting practices that may differ from Generally Accepted Accounting Principles and therefore require reconciliation;
- impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts; and
- restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data.

U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Long-term government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods become unavailable. Congress usually appropriates funds on a fiscal-year basis even though contract performance may extend over many years. Consequently, at the outset of a program, the contract is usually partially funded, and Congress annually determines if additional funds are to be appropriated to the contract.

The U.S. Government, and other governments, may terminate any of our government contracts and, in general, subcontracts, at their convenience, as well as for default based on performance.

A portion of our business is classified by the U.S. Government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements. The business risks associated with classified programs, as a general matter, do not differ materially from those of our other government programs and products.

Backlog

At December 31, 2007, our total negotiated backlog was $76.7 billion compared with $75.9 billion at the end of 2006. Of our total 2007 year-end backlog, approximately $48.5 billion, or 63%, is not expected to be filled within one year.

These amounts include both funded backlog (unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer – Congress, in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not been appropriated). We do not include unexercised options or potential indefinite-delivery/ indefinite-quantity (IDIQ) orders in our backlog. If any of our contracts are terminated by the U.S. Government, our backlog would be reduced by the expected value of the remaining terms of such contracts. Funded backlog was $42.3 billion at December 31, 2007. The backlog for each of our business segments is provided as part of Management's Discussion and Analysis – "Discussion of Business Segments" beginning on page 44 of this Form 10-K.

Research and Development

We conducth(has)]TJrevelopmentactivitiesunder customer-funded contracts and with our own independent

Government could provide indemnification under applicable law, but elects not to do so. While we maintain insurance for some business risks, it is not possible to obtain coverage to protect against all operational risks and liabilities. We generally seek, and in certain cases have obtained, limitation of such potential liabilities related to the sale and use of our homeland security products and services through qualification by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002. SAFETY Act qualification is less useful in mitigating potential liability for international applications of our homeland security products and services. Where we are unable to secure indemnification or qualification under the SAFETY Act or choose not to do so, we may nevertheless elect to provide the product or service when we think the related risks are manageable or when emergency conditions relative to national security make qualification impracticable. Our assumptions or judgment may prove to be inaccurate.

Substantial claims resulting from an accident, failure of our product or service, other incident or liability arising from our products and services in excess of any indemnity and our insurance coverage (or for which indemnity or insurance is not available or was not obtained) could harm our financial condition, cash flows and operating results. Any accident, failure,

sales and cost at completion is complicated and subject to many variables. For example, assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for

Some international customers require contractors to comply with industrial cooperation regulations and enter into industrial participation agreements, sometimes referred to as offset agreements. Offset agreements may require in-country purchases, manufacturing and financial support projects as a condition to obtaining orders or other arrangements. Offset agreements generally extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements. See “Contractual Commitments and Off-Balance Sheet Arrangements” in Management’s Discussion and Analysis beginning on page 54 of this Form 10-K.

Most of the laws governing environmental matters include criminal provisions. If we were convicted of a violation of the Federal Clean Air Act or the Clean Water Act, our facility or facilities involved in the violation would be placed by EPA on the "Excluded Parties List" maintained by the General Services Administration. The listing would continue until the EPA concluded that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract awarded to us during any period of listing by the EPA.

We have incurred and will likely continue to incur liabilities under various federal and state statutes for the cleanup of pollutants previously released into the environment. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. Among the variables management must assess in evaluating costs associated with these cases and remediation sites generally are changing cost estimates, continually evolving governmental environmental standards and cost allowability issues. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent estimable, see "Environmental Matters" in Management's Discussion and Analysis beginning on page 39 and Note 14 – Legal Proceedings, Commitments and Contingencies on page 89 of this Form 10-K.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.

Our business operates in many locations under government jurisdictions that impose income taxes. Changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain revenues or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In addition, audits by income tax authorities could result in unanticipated increases in our income tax expense.

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

Our business may be adversely affected by the outcome of legal proceedings and other contingencies (including environmental remediation costs) that cannot be predicted with certainty. As required by GAAP in the U.S., we estimate material loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements. For a description of our current legal proceedings, see Item 3 – Legal Proceedings beginning on page 25 and Note 14 – Legal Proceedings, Commitments and Contingencies beginning on page 87 of this Form 10-K.

In order to be successful, we must attract and retain key employees.

Our business has a continuing need to attract large numbers of skilled personnel, including personnel holding security clearances, to support the growth of the enterprise and to replace individuals who have terminated employment due to retirement or for other reasons. To the extent that the demand for qualified personnel exceeds supply, as has been the case in recent years, we could experience higher labor, recruiting or training costs in order to attract and retain such employees, or could experience difficulties in performing under our contracts if our needs for such employees were unmet.

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

Our forward-looking statements and projections may prove to be inaccurate.

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

In addition, general economic conditions and trends, including interest rates, government budgets and inflation, can and do affect our businesses. For a discussion identifying additional risk factors and important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the preceding discussion of Risk Factors beginning on page 18, Government Contracts and Regulation beginning on page 16, Management's Discussion and Analysis beginning on page 32, and Note 1 – Significant Accounting Policies beginning on page 66 of this Form 10-K. Other factors, in addition to those described, may affect our forward-looking statements or actual results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2007, we operated in 553 locations (including offices, manufacturing plants, warehouses, service centers, laboratories and other facilities) throughout the United States and internationally. Of these, we owned 47 locations aggregating approximately 29 million square feet and leased space at 506 locations aggregating approximately 26 million square feet. We also manage or occupy various government-owned facilities. The U.S. Government also furnishes equipment that we use in some of our businesses.

At December 31, 2007, our business segments occupied facilities at the following major locations that housed in excess of 500,000 square feet of floor space:

- **Aeronautics**

to the extent estimable, see Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Environmental Matters" beginning on page 39, and Note 14 – Legal Proceedings, Commitments and Contingencies beginning on page 89 of this Form 10-K.

Like many other industrial companies in recent years, we are a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into our premises and certain historical products. We have never mined or produced asbestos and no longer incorporate it in any currently manufactured products. We have been successful in having a substantial number of these claims dismissed without payment. The remaining resolved claims have settled for amounts that are not material individually or in the aggregate. A substantial majority of the asbestos-related claims have been covered by insurance or other forms of indemnity. Based on the information currently available, we do not believe that resolution of these asbestos-related matters will have a material adverse effect upon the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

ITEM 4(a). EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are listed below, as well as information concerning their age at December 31, 2007, positions and offices held with the Corporation, and principal occupation and business experience over the past five years. There were no family relationships among any of our executive officers and directors. All officers serve at the pleasure of the Board of Directors.

Robert J. Stevens (56), Chairman, President and Chief Executive Officer

Mr. Stevens has served as Chairman of the Board since April 2005, Chief Executive Officer since August 2004 and President since October 2000. He previously served as Chief Operating Officer from October 2000 to August 2004.

James B. Comey (47), Senior Vice President and General Counsel

Mr. Comey has served as Senior Vice President and General Counsel since October 2005. He previously served as Deputy Attorney General of the United States to oversee all operations of the Department of Justice from 2003 to 2005 and U.S. Attorney for the Southern District of New York from 2002 to 2003.

Linda R. Gooden (54), Executive Vice President – Information Systems & Global Services

Ms. Gooden has served as Executive Vice President – Information Systems & Global Services since February 2007. She previously served as Executive Vice President – Information Technology & Global Services from January 2007 to February 2007, Deputy Executive Vice President – Information & Technology Services from October 2006 to December 2006, and President, Lockheed Martin Information Technology from September 1997 to December 2006.

Ralph D. Heath (59), Executive Vice President – Aeronautics

Mr. Heath has served as Executive Vice President – Aeronautics since January 2005. He previously served as Executive Vice President and General Manager of the F-22 Program from November 2002 to December 2004.

Christopher E. Kubasik (46), Executive Vice President – Electronic Systems

Mr. Kubasik has served as Executive Vice President – Electronic Systems since September 2007. He previously served as Chief Financial Officer from October 2001 to August 2007.

Joanne M. Maguire (53), Executive Vice President – Space Systems

Ms. Maguire has served as Executive Vice President – Space Systems since July 2006. She previously served as Vice President and Deputy of Lockheed Martin Space Systems Company from July 2003 to June 2006 and Vice President, Special Programs for Lockheed Martin Space Systems Company from March 2003 to July 2003. From January 2000 to March 2003, Ms. Maguire served as Sector Deputy and Vice President of Business Development for TRW Space & Electronics, an operating sector of TRW, Inc.

PART II

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

At January 31, 2008, we had 40,026 holders of record of our common stock, par value $1 per share. Our common stock is traded on the New York Stock Exchange, Inc. under the symbol LMT. Information concerning the stock prices as reported on the NYSE composite transaction tape and dividends paid during the past two years is as follows:

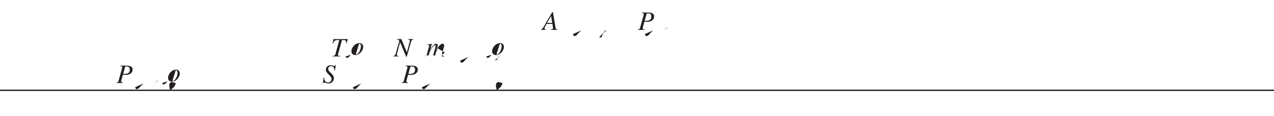
Common Stock – Dividends Paid and Market Prices

	D P		*M P (H -Lo)*	
Q	***2007***	*2006*	***2007***	*2006*
First [a]	**$0.00**	$0.30	**$103.50 – $91.08**	$77.78 – $62.52
Second [a]	**0.70**	0.30	**100.10 – 93.06**	77.95 – 69.87
Third	**0.35**	0.30	**108.75 – 88.86**	86.45 – 72.01
Fourth	**0.42**	0.35	**113.74 – 103.33**	93.24 – 82.70
Year	**$1.47**	$1.25	**$113.74 – $88.86**	$93.24 – $62.52

(a)

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2007.



(c) Includes the effects of items not considered in the assessment of the operating performance of our business segments which increased Operating profit by $230 million, $150 million after tax ($0.34 per share). Also includes expenses of $16 million, $11 million after tax ($0.03 per share) for a debt exchange, and a reduction in Income tax expense of $62 million ($0.14 per share) resulting from a tax

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

Financial Section Roadmap

The financial section of our Form 10-K includes management's discussion and analysis, our consolidated financial statements, the notes to those financial statements and a five 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 alert you as to some of the more important activities and events that occurred this year.

Our Business

We principally research, design, develop, manufacture, integrate, operate and sustain advanced technology systems and products, and provide a broad range of management, engineering, technical, scientific, logistic and information services. We mainly serve customers in domestic and international defense, civil agencies, and homeland security. Our sales to agencies of the U.S. Government, including those to the Department of Defense (DoD), represented 84% of our sales in 2007. Of the remaining 16% of sales, approximately 13% related to sales to international customers (including foreign military sales funded, in whole or in part, by the U.S. Government), with the remainder attributable to commercial and other customers. In 2006 and 2005, sales to agencies of the U.S. Government represented 84% and 85% of our total sales. Our main areas of

Highlights

The financial section of our Form 10-K describes our ongoing operations, including discussions about particular lines of

budget proposal also assumes Congress will approve the full $183.8 billion in supplemental funding requested for fiscal year 2008, of which only $86.8 billion had been approved at the time of the budget submission. Total funding requested for the

The Administration's budget proposal for fiscal year 2009 seeks to limit overall growth in the civil agency budgets to one percent per year or less. Despite this limitation on total non-defense discretionary spending in the President's proposal, our key programs are well supported in the budgets of the various agencies with which we do business.

The fiscal year 2009 budget submission for NASA is $17.6 billion, $500 million higher than the fiscal year 2008 level, and our key programs are well supported in the request. The next-generation human space flight crew transportation system, known as the Crew Expeditionary Vehicle (CEV) or Orion, is a key element of NASA's Vision for Space Exploration and will succeed the Space Shuttle in transporting a new generation of human explorers to and from space. Orion is supported at a level of $1.1 billion in the budget proposal for NASA.

Though we have continued to receive new orders from the U.S. military in 2007 for satellites to support missile defense, battlefield communications and other defense initiatives, the environment for our commercial satellites business continues to be very competitive due mainly to low demand for new satellites as a result of excess capacity in the telecommunications industry. We are managing our commercial satellite business with an expectation of receiving fewer orders due to market constraints.

The Department of Homeland Security fiscal year 2009 budget request of $37.6 billion is an increase of 7.7% over fiscal year 2008 enacted level. Within the budget, the Coast Guard Deepwater system is funded at $990.4 million. Despite overall decreases in the total budgets for the Departments of Transportation and Justice, the Transportation Workers Identity Card (TWIC) program, the Federal Aviation Administration's Automated Flight Services Station Network, and the Federal Bureau of Investigation's Sentinel program are well supported in their respective agency budgets. Other key programs are well supported in the civil agency budgets.

We have continued to expand our capabilities in critical intelligence, knowledge management and e-Government solutions for our customers, including the Social Security Administration and the EPA, as well for the DoD. We also provide program management, business strategy and consulting, complex systems development and maintenance, complete life-cycle software support, information assurance and enterprise solutions. The expected growth in business process outsourcing has been enabled by rule changes for public/private competitions. In addition, recent trends continue to indicate an increase in demand by federal and civil government agencies for upgrading and investing in new information technology systems and solutions. As a result, we continue to focus our resources in support of infrastructure modernization that allows for interoperability and communication across agencies.

In addition, the continuing strong emphasis on homeland security may increase demand for our capabilities in areas such as air traffic management, ports, waterways and cargo security, biohazard detection systems for postal equipment, employee identification and credential verification systems, information systems security, and other global security systems solutions. In addition, we may see an increase in demand from the Department of State and the United Nations for mission services, global security and stability operations, and facility services.

Similar to the risks inherent in our defense business, funding for our civil agency business is contingent on approval in annual appropriations acts for each of the agencies with which we have business. Major programs may be funded over several annual government budget cycles, with the risk of future reductions or elimination in the Administration's budget review or in the annual Congressional appropriations process.

In the civil government business, some risks are unique to particular programs. For example, although indemnification by the U.S. Government to cover potential claims or liabilities resulting from a failure of technologies developed and deployed may be available in some instances for our defense businesses, U.S. Government indemnification may not be available for homeland security purposes. In addition, there are some instances where the U.S. Government could provide indemnification under applicable law, but elects not to do so. While we maintain insurance for some business risks, it is not possible to obtain coverage to protect against all operational risks and liabilities. We generally seek, and in certain cases have obtained, limitation of such potential liabilities related to the sale and use of our homeland security products and services through qualification by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002. SAFETY Act qualification is less useful in mitigating potential liability for international applications of our homeland security products and services. Where we are unable to secure indemnification or qualification under the SAFETY Act or choose not to do so, we may nevertheless elect to provide the product or service when we think the related risks are manageable or when emergency conditions relative to national security make qualification impracticable.

Other Business Considerations

We have continued the expansion of our business with foreign governments primarily through Aeronautics, Electronic Systems and with IS&GS' acquisition of PAE in 2006. Our international sales are comprised of "foreign military sales" through the U.S. Government and direct commercial contracts. In Aeronautics, the U.S. Government and eight foreign government partners are working together on the design, testing and production of the F-35 Lightning II. The F-16 Fighting Falcon has been selected by 24 countries, with 52 follow-on buys from 14 customers. The C-130J Super Hercules air mobility aircraft is currently in service in four foreign countries, and is expanding its international footprint with recent orders from Canada and Norway. With regard to the AEGIS weapon system, our Electronic Systems segment performs activities in the development, production, ship integration and test, and lifetime support for ships of international customers (e.g., Japan, Korea and Spain). Electronic Systems also produces the PAC-3 missile, an advanced defensive missile designed to intercept incoming airborne threats, for international customers including Japan, Germany and the Netherlands. The acquisition of PAE has increased our presence in certain less developed countries by providing base camp construction, logistics, democratization and management services, among others, generally through our contracts with such customers as the United Nations and the U.S. Department of State.

As a government contractor, we are subject to U.S. Government oversight. The government may ask about and investigate our business practices and audit our compliance with applicable rules and regulations. Depending on the results of those audits and investigations, the government could make claims against us. Under government procurement regulations and practices, an indictment of a government contractor could result in that contractor being fined and suspended from being able to bid on, or be awarded, new government contracts for a period of time. A conviction could result in debarment for a specific period of time. Similar government oversight exists in most other countries where we conduct business. Although we cannot predict the outcome of these types of investigations and inquiries with certainty, based on current facts, we do not believe that any of the claims, audits or investigations pending against us are reasonably likely to have a material adverse effect on our business or our results of operations, cash flows or financial position.

In years in which an appropriations bill has not been signed into law before September 30 (the end of the U.S. Government's fiscal year), Congress typically passes a continuing resolution that authorizes U.S. Government agencies to continue to operate, generally at the same funding levels from the prior year, but does not authorize new spending initiatives. During periods covered by continuing resolutions (or until the regular appropriation bills are passed), we may experience delays in procurement of products and services due to lack of funding, and those delays may affect our revenue and profit during the period.

We are exposed to risks associated with U.S. Government contracting, including technological uncertainties,

pension accounting rules by 2010 to better align the recovery of pension contributions on U.S. Government contracts with the new accelerated funding requirements. The new funding requirements for large U.S. defense contractors will be delayed until the earlier of 2011 or the year in which the changes to the CAS rules are effective.

Critical Accounting Policies

Contract Accounting / Revenue Recognition

Approximately 84% of our sales are derived from long-term contracts for design, development and production activities, with the remainder attributable to contracts to provide other services that are not associated with design, development or

Products and services provided under long-term design, development and production contracts represent approximately 84% of our sales for 2007. Therefore, the amounts we record in our financial statements using contract accounting methods and cost accounting standards are material. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if our underlying circumstances were to change. For example, if underlying assumptions were to change such that our estimated profit rate at completion for all design, development and production contracts was higher or lower by one percentage point, our Net earnings would increase or decrease by approximately $225 million. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods.

Acc Se ce C ac

unrecognized actuarial losses and prior service costs were netted against the plans' funded status on our Balance Sheet in accordance with FAS 87. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation (PBO) of the plan.

FAS 87 requires that the amounts we record, including the expense or income for the plans, be computed using actuarial valuations. These valuations include many assumptions, including assumptions we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The key year-end assumptions used to estimate pension expense or income for the following calendar year are the discount rate, the expected long-term rate of return on plan assets and the rates of increase in future compensation levels, with the more subjective of these being the discount rate and the expected long-term rate of return on plan assets. We use judgment in reassessing these assumptions each year because we have to consider current market conditions and, in the case of the expected long-term rate of return on plan assets, past investment experience, judgments about future market trends, changes in interest rates and equity market performance. We also have to consider factors like the timing and amounts of expected contributions to the plans and benefit payments to plan participants.

The discount rate we select impacts both the calculation of the PBO at the end of the year as well as the calculation of net postretirement benefit plan cost in the subsequent year. We evaluate several data points in order to arrive at an appropriate discount rate. These items include quoted rates from long-term bond indices and changes in long-term bond rates over the past year. At the close of 2007, the annualized Merrill Lynch index for long-term AA corporate bonds (15+ years) was 6.37%.

We also calculate the approximate average yields on securities that were selected to match our projected pension-related cash flows. Our pension-related cash flows are put into actuarial models that included data for corporate bonds rated AA or better. The available universe of bonds are adjusted to reflect call provisions, outstanding issue amount, and bonds that are considered "outliers." As of December 31, 2007, the actuarial models calculated rates ranging from 6.35% to 6.57%. The data we collect provides important inputs into our determination of an appropriate discount rate. After reviewing all of the above data, we determined that the most appropriate discount rate for calculating our benefit obligations as of December 31, 2007 would be 6.375%, compared to 5.875% used at the end of 2006.

The discount rate assumption we select at the end of each year is based on our best estimates and judgment. A reasonably possible change of plus or minus 25 basis points in the 6.375% discount rate assumption at December 31, 2007, with all other assumptions held constant, would decrease or increase the amount of the projected benefit obligation we recorded at the end of 2007 by approximately $900 million, resulting in an after-tax increase or decrease in Stockholders' equity at the end of the year of approximately $580 million. If the 5.875% discount rate at December 31, 2006 that was used to compute 2007 pension expense had been 25 basis points higher or lower, with all other assumptions held constant, the amount of expense recorded would have been lower or higher by approximately $90 million.

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested, or to be invested, to provide for the benefits included in the plan obligation. This assumption is based on several factors including historical market index returns, the anticipated long-term allocation of plan assets, the historical return data for the trust funds, plan expenses and the potential to outperform market index returns. The actual return in any specific year likely will differ from the assumption, but the average expected return over a long-term future horizon should be approximated by the assumption; therefore, changes in this assumption are less frequent than changes in the discount rate. Any variance in a given year should not, by itself, suggest that the assumption should be changed. Patterns of variances should be reviewed over time and then combined with expectations for the future.

Environmental Matters

We are a party to various agreements, proceedings and potential proceedings for environmental cleanup issues, including matters at various sites where

agreements exist, but do not quantify the extent and timing of our obligation. Environmental cleanup activities usually cover several years, which makes estimating the costs more judgmental due to, for example, changing remediation technologies. To determine the costs related to cleanup sites, we have to assess the extent of contamination, the appropriate technology to be used to accomplish the remediation, and evolving regulatory environmental standards. We consider these factors in our estimates of the timing and amount of any future costs that may be required for remediation actions, which generally results in the calculation of a range of estimates for a particular environmental site. We record a liability for the amount within the range which we determine to be our best estimate of the cost of remediation or, in cases where no amount within the range is

Our Goodwill at December 31, 2007 amounted to $9.4 billion. We completed our assessment of Goodwill as of October 1, 2007 and determined that no impairment existed at that date. Changes in estimates and assumptions we make in conducting our Goodwill assessment could affect the estimated fair value of one or more of our reporting units and could result in a Goodwill impairment charge in a future period. However, a 10% decrease in the estimated fair value of any of our reporting units at October 1, 2007 would not have resulted in a Goodwill impairment charge.

Stock-Based Compensation

We account for our stock-based compensation under the provisions of FAS 123(R), *S -B P m*. We recognize compensation cost related to all share-based payments, including restricted stock units (RSUs) and stock options. Compensation cost for RSUs is based on the market value of our common stock on the date of the award. We estimate the fair value for stock options at the date of grant using the Black-Scholes option pricing model. Our stock options do not include market or performance conditions. We generally recognize the compensation cost for RSUs and stock options ratably over a three-year vesting period.

The Black-Scholes option pricing model requires us to make estimates and assumptions in determining certain inputs to the model, including a volatility factor for our stock, an expected life of the option and a risk-free interest rate. We estimate volatility based on the historical volatility of our daily stock price over the past five years, which is commensurate with the expected life of the options. We base the average expected life on the contractual term of the stock option, historical trends in employee exercise activity and post-vesting employment termination trends. We analyzed the option exercise patterns of our employees and determined there are no significant differences between employee groups. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. We also are required to estimate forfeitures at the date of grant which we base on historical experience. If any of our estimates or assumptions used in the Black-Scholes model were to change significantly, stock-based compensation expense could differ materially in the future from the amount recorded in 2007. Compensation cost recognized in 2007 totaled $149 million.

Acquisition and Divestiture Activities

- STASYS Limited, a U.K.-based technology and consulting firm specializing in network communications and defense interoperability (included in our IS&GS segment);
- INSYS Group Limited, a U.K.-based diversified supplier of military communications systems, weapons systems and advanced analysis services (included in our Electronic Systems segment); and
- Coherent Technologies, Inc., a supplier of high-performance, laser-based remote sensing systems (included in the Space Systems segment).

as Equity in net earnings (losses) of equity investees in Other income (expense), net. Our investment in ULA totaled $402 million and $197 million at December 31, 2007 and 2006. ULA did not have a material impact on our consolidated results of operations, financial position or cash flows in 2007.

Results of Operations

Our Operating profit for 2007 was $4.5 billion, an increase of 20% compared to 2006. Our Operating profit for 2006 was $3.8 billion, an increase of 32% compared to 2005. Operating profit increased across all business segments in both comparative periods and was also favorably impacted by lower Unallocated Corporate costs, primarily due to a decline in the FAS/CAS pension adjustment.

Interest expense for 2007 was $352 million, $9 million lower than 2006. This decrease was mainly driven by lower interest expense associated with the September 2006 debt exchange. Interest expense for 2006 was $361 million, $9 million lower than in 2005. This decrease in interest expense primarily was due to reductions in our debt outstanding.

Other non-operating income (expense), net totaled $193 million in 2007, an increase of 5% from 2006, and was $183 million in 2006, an increase of 38% from 2005. The increase in 2007 was mainly due to the $16 million of debt exchange expenses recorded in 2006, as there were no comparable charges in 2007. The increase in 2006 over 2005 primarily was

as a leading systems integrator. Some of its more significant programs, including the Terminal High Altitude Area Defense (THAAD) system, the VH-71 Presidential helicopter, the AEGIS weapon system and the Arrowhead fire control system for the Apache helicopter, demonstrate the diverse products and services Electronic Systems provides.

The following segment discussions also include information relating to negotiated backlog for each segment. Total negotiated backlog was approximately $76.7 billion and $75.9 billion at December 31, 2007 and 2006. This amount included both funded backlog (unfilled firm orders for which funding has been both authorized and appropriated by the customer – Congress in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not yet been appropriated). Negotiated backlog does not include unexercised options or task orders to be issued under indefinite-delivery/ indefinite-quantity (IDIQ) contracts. Funded backlog was approximately $42.3 billion at December 31, 2007.

The Aeronautics segment generally includes fewer programs that have much larger sales and operating results than programs included in the other segments. Therefore, due to the large number of comparatively smaller programs in the

Air Mobility sales declined by $535 million primarily due to C-130J deliveries (12 in 2006 compared to 15 in 2005) and lower volume on the C-5 program. Combat Aircraft sales increased by $292 million mainly due to higher F-35 and F-22 volume, partially offset by reduced volume on F-16 programs. Other Aeronautics programs sales increased by $83 million primarily due to higher volume in sustainment services activities.

Operating profit for the segment increased 21% in 2007 compared to 2006. Operating profit increases in Combat Aircraft more than offset decreases in Other Aeronautics programs and Air Mobility. Combat Aircraft operating profit increased $326 million mainly due to improved performance on F-22 and F-16 programs. Air Mobility and Other Aeronautics programs declined $77 million due to lower operating profit in support and sustainment activities.

Operating profit for the segment increased 20% in 2006 compared to 2005. Operating profit increased in both Combat Aircraft and Air Mobility. Combat Aircraft increased $114 million, mainly due to higher volume on the F-35 and F-22 programs, and improved performance on F-16 programs. The improvement for the year was also attributable in part to the fact that in 2005, operating profit included a reduction in earnings on the F-35 program. Air Mobility operating profit increased $84 million, mainly due to improved performance on C-130J sustainment activities in 2006.

Backlog decreased in 2007 as compared to 2006 primarily as a result of sales volume on the F-35 program. This decrease was offset partially by increased orders on the F-22 and C-130J programs.

Electronic Systems

Electronic Systems' operating results included the following:

(I m .o)	***2007***	*2006*	*2005*
Net sales	**$11,143**	$10,519	$ 9,811
Operating profit	**1,410**	1,264	1,078
Backlog at year-end	**21,200**	19,700	18,600

Net sales for Electronic Systems increased by 6% in 2007 compared to 2006. Sales increased in Missiles & Fire Control (M&FC), Maritime Systems & Sensors (MS2), and Platform, Training & Energy (PT&E). M&FC sales increased $258 million mainly due to higher volume in fire control systems and air defense programs, which more than offset declines in tactical missile programs. MS2 sales grew $254 million due to volume increases in undersea and radar systems activities that were offset partially by decreases in surface systems activities. PT&E sales increased $113 million, primarily due to higher volume in platform integration activities, which more than offset declines in distribution technology activities.

Net sales for Electronic Systems increased by 7% in 2006 compared to 2005. Higher volume in platform integration activities led to increased sales of $329 million at PT&E. MS2 sales increased $267 million primarily due to surface systems activities. Air defense programs contributed to increased sales of $118 million at M&FC.

Operating profit for the segment increased by 12% in 2007 compared to 2006, representing an increase in all three lines of business during the year. Operating profit increased $70 million at PT&E primarily due to higher volume and improved performance on platform integration activities. MS2 operating profit increased $32 million due to higher volume on undersea and tactical systems activities that more than offset lower volume on surface systems activities. At M&FC, operating profit increased $32 million due to higher volume in fire control systems and improved performance in tactical missile programs, which partially were offset by performance on certain international air defense programs in 2006.

Operating profit for the segment increased by 17% in 2006 compared to 2005. Operating profit increased by $74 million at MS2 mainly due to higher volume on surface systems and undersea programs. PT&E operating profit increased $61 million mainly due to improved performance on distribution technology activities. Higher volume on air defense programs contributed to a $52 million increase in operating profit at M&FC.

The increase in backlog during 2007 over 2006 resulted primarily from increased orders for certain tactical missile programs and fire control systems at M&FC and platform integration programs at PT&E.

Information Systems & Global Services

Information Systems & Global Services' operating results included the following:

(In millions)	***2007***	*2006*	*2005*
Net sales	**$10,213**	$ 8,990	$8,233
Operating profit	**949**	804	720
Backlog at year-end	**11,800**	10,500	9,200

Net sales for IS&GS increased by 14% in 2007 compared to 2006. During the year, sales increased in Global Services, Information Systems, and Mission Solutions. Global Services sales increased $609 million due to higher volume and growth in mission services activities including the impact of the acquisition of PAE in September 2006. Information Systems sales increased $401 million due to growth in information technology and the acquisition of MSD in February 2007. Higher volume in mission and combat support activities accounted for the majority of the $216 million sales increase at Mission Solutions.

Net sales for IS&GS increased by 9% in 2006 compared to 2005. During the year, sales increases in Global Services and Mission Solutions more than offset declines in Information Systems. Global Services sales increased $761 million primarily due to higher volume in mission services activities and the acquisition of PAE. Information Systems sales decreased $143 million primarily due to lower volume in information technology activities. At Mission Solutions, sales increased $140 million due to higher volume in global security solutions activities that more than offset declines in mission and combat support solutions.

Operating profit for the segment increased by 18% in 2007 compared to 2006. During the year, operating profit increased in all three lines of business. Mission Solutions operating profit increased $90 million due to higher volume in mission and combat support solutions and aviation solutions activities. Global Services operating profit growth of $35

on both government and commercial satellite programs. There were five commercial satellite deliveries in 2006 compared to no deliveries in 2005. Higher volume in both strategic missile programs accounted for the $114 million sales increase at S&DMS. In Space Transportation, sales declined $102 million primarily due to lower volume in government space transportation activities on the Titan and External Tank programs. Increased sales on the Atlas Evolved Expendable Launch Vehicle Launch capabilities (ELC) contract partially offset the lower government space transportation sales.

Operating profit for the segment increased 15% in 2007 compared to 2006. During the year, operating profit growth in Satellites and S&DMS more than offset declines at Space Transportation. Satellites' operating profit increased $90 million due to improved performance in commercial and government satellite activities. Increased operating profit of $33 million at S&DMS was due to higher volume and improved performance on strategic missile programs. In Space Transportation, the decline of $18 million in 2007 operating profit from 2006 was mainly due to a charge recognized by ULA in the third quarter of 2007 for an asset impairment on Delta II medium lift launch vehicles. The decline also reflects benefits recognized in 2006 from risk reduction activities, including the definitization of the ELC contract, and other performance improvements on the Atlas program, with no similar items recognized in the comparable period in 2007.

Operating profit for the segment increased 23% in 2006 compared to 2005. Operating profit increased in Satellites, Space Transportation and S&DMS. The $69 million growth in Satellites operating profit was primarily driven by the volume and performance on government satellite programs and commercial satellite deliveries. In Space Transportation the $44 million growth in operating profit was attributable to improved performance on the Atlas program resulting from risk reduction activities, including the first quarter definitization of the ELC contract. In S&DMS, the $26 million increase was attributable to higher volume on strategic missile programs.

Under the agreement to sell our ownership interests in LKEI and ILS in the fourth quarter of 2006, we continued to be responsible to refund customer advances to certain customers if launch services are not provided and ILS does not refund the advance. We expect to recognize the $67 million deferred net gain on the transaction when our responsibility to refund the advances expires, which we generally believe will be in 2008 based on the expected Proton launch schedule, which is subject to change. Our ability to realize the deferred net gain is dependent upon Khrunichev State Research and Production Space Center (Khrunichev) providing the contracted launch services or, in the event the launch services are not provided, ILS' ability to refund the advance.

Our Balance Sheet at December 31, 2007 included current assets relating to LKEI and ILS totaling $132 million and current liabilities totaling $189 million, both of which will be reduced as the launch services are provided. The assets primarily relate to advances we have made to Khrunichev, the manufacturer of the launch vehicles and provider of the launch services, for future launches, and the liabilities relate primarily to advances we have received from customers for future launches. Any potential earnings impact resulting from our inability to realize the assets related to LKEI and ILS would be partially mitigated by our not recognizing the $67 million deferred net gain on the transaction.

The decrease in backlog during 2007 as compared to 2006 was mainly due to sales volume related to government and commercial satellite programs, which more than offset increased orders on strategic missile programs.

Unallocated Corporate Income (Expense), Net

The following table shows the components of Unallocated Corporate income (expense), net.

(I m .o)	***2007***	*2006*	*2005*
FAS/CAS pension adjustment	**$ (58)**	$(275)	$(626)

The following table shows the CAS funding that is included as expense in the segments' operating results, the related FAS expense, and the resulting FAS/CAS pension adjustment:

(In millions)	***2007***	*2006*	*2005*
FAS 87 expense	**$(687)**	$(938)	$(1,124)
Less: CAS expense and funding	**(629)**	(663)	(498)
FAS/CAS pension adjustment – expense	**$ (58)**	$(275)	$ (626)

The FAS 87 expense decreased in 2007 due to an increase in the discount rate and other factors such as the effects of the actual return on plan assets. FAS 87 expense decreased in 2006 primarily due to the reduction in the rate of future compensation increases as well as the growth in plan assets in 2006, including contributions we made to the pension trust.

CAS are a major factor in determining our pension funding requirements and govern the extent to which our pension costs are allocable to and recoverable under contracts with the U.S. Government. The total funding requirement for pension plans under CAS in 2007 was $629 million, which was recorded in our segment results of operations. That amount was funded through discretionary prepayments we made to the plans in 2006. For 2008, we expect our funding requirements and expense under CAS to decrease. Also in 2008, funding in addition to the amount calculated under CAS will likely be required under Internal Revenue Code (IRC) rules. Any additional amounts computed under the IRC rules are considered to be prepayments under the CAS rules, and are recorded on our Balance Sheet and recovered in future periods. In 2007, 2006 and 2005, we made discretionary prepayments of $335 million, $594 million and $980 million to the pension trust. Prepayments reduce the amount of future cash funding that will be required under the CAS and IRC rules and, as a result, we expect to have no required cash contributions to the pension trust in 2008.

Certain items are excluded from segment results as part of senior management's evaluation of segment operating performance consistent with the management approach permitted by FAS 131, *Disclosures about Segments of an Enterprise and Related Information*. For example, gains and losses related to the disposition of businesses or investments managed by Corporate, as well as certain other Corporate activities, are not considered by management in evaluating the operating performance of business segments. Therefore, for purposes of segment reporting, the following items were included in Unallocated Corporate income (expense), net for 2007, 2006 and 2005:

(In millions, except per share data)	*Operating Profit (Loss)*	*Net Earnings (Loss)*	*Earnings (Loss) Per Share*
Year ended December 31, 2007			
Gain on sale of interest in Comsat International	**$ 25**	**$ 16**	**$ 0.04**
Gain on sale of land in California	**25**	**16**	**0.04**
Earnings from reversal of legal reserves due to settlement	**21**	**14**	**0.03**
	$ 71	**$ 46**	**$ 0.11**
Year ended December 31, 2006			
Gain on sale of interest in Inmarsat	$127	$ 83	$ 0.19
Gains on sale of land	51	33	0.08
Earnings from expiration of AES transaction indemnification	29	19	0.04
Gain on sale of Space Imaging's assets	23	15	0.03
	$230	$150	$ 0.34
Year ended December 31, 2005			
Gains related to Inmarsat transactions	$126	$ 82	$ 0.18
Gain on sale of interest in Intelsat	47	31	0.07
Gain on sale of interest in NeuStar	30	19	0.04
Impairment charge related to a satellite	(30)	(19)	(0.04)
	$173	$113	$ 0.25

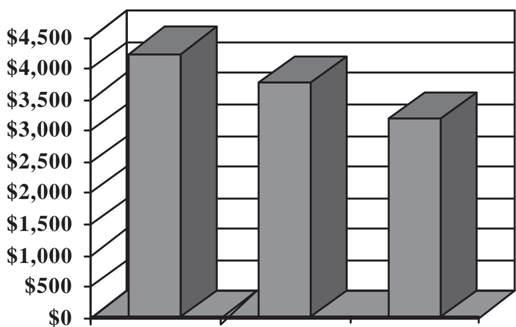
The change in the "Other, net" component of Unallocated Corporate income (expense), net from 2006 to 2007 and from 2005 to 2006 primarily was due to lower expense associated with a number of corporate activities.

Liquidity and Cash Flows

We have a balanced cash deployment and disciplined growth strategy to enhance shareholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have invested in our business (, ., capital expenditures, independent research and development), made selective acquisitions of businesses, repurchased shares, increased our dividends and opportunistically reduced and refinanced our debt. The following provides an overview of our execution of this strategy.

Net Cash Provided by Operating Activities

(I m o)



Financing Activities

S [illegible] – Cash received from the issuance of our common stock during the years ended December 31, 2007, 2006 and 2005 totaled $350 million, $627 million and $406 million. Those activities resulted in the issuance of 7.1 million shares, 13.6 million shares and 9.7 million shares during the respective periods.

During 2007, 2006 and 2005, we used cash of $2,127 million, $2,115 million and $1,310 million for common share repurchase activity (see Note 10). Our share repurchase program authorizes the repurchase of up to 128 million shares of our common stock from time-to-time at management's discretion, including 20 million of additional shares our Board authorized for repurchase in 2007. As of December 31, 2007, we had repurchased a total of 95.3 million shares under the program, and there remained approximately 32.7 million shares that may be repurchased in the future.

The payment of dividends on our common shares is one of the key components of our balanced cash deployment strategy. Shareholders were paid cash dividends of $615 million in 2007, $538 million in 2006 and $462 million in 2005. We have increased our quarterly dividend rate in each of the last three years. We declared quarterly dividends: in 2007 of $0.35 per share during each of the first three quarters and $0.42 per share for the last quarter; in 2006 of $0.30 per share during each of the first three quarters and $0.35 per share for the last quarter; and in 2005 of $0.25 per share during each of the first three quarters and $0.30 per share for the last quarter.

I [illegible] Cash provided from operations has been our principal source of funds to reduce our Long-term debt. In 2007, we repaid $32 million of Long-term debt based on scheduled maturities. During 2006, we paid $353 million to complete an exchange of debt and $210 million related to scheduled debt repayments. In 2005, we used $145 million of cash for the early retirement and scheduled repayment of Long-term debt.

Capital Structure and Resources

At December 31, 2007, we held Cash and cash equivalents of approximately $2.6 billion and Short-term investments of $333 million. Our Long-term debt, net of unamortized discounts, amounted to $4.4 billion. Our Long-term debt is mainly in the form of publicly issued notes and debentures. We have $1.0 billion of convertible debentures that have a floating interest rate based on LIBOR; however, at December 31, 2007, we had an agreement in place to swap variable interest rates on the debentures for a fixed interest rate. With this swap agreement, our entire Long-term debt portfolio effectively bears interest at fixed rates.

In the fourth quarter of 2007, the price of our common stock exceeded 130% of the $73.25 conversion price on our $1.0 billion of convertible debentures for the specified period of time, and therefore holders of the debentures may elect to convert them during the quarter ending March 31, 2008 (see Note 7). The right to convert the debentures based on our stock price is re-evaluated each quarter. We have irrevocably agreed to pay only cash in lieu of common stock for the accreted principal amount of the debentures relative to our conversion obligations, but have retained the right to satisfy the conversion obligations in excess of the accreted principal amount in cash or common stock. The conversion obligation in excess of the accreted principal amount at December 31, 2007 totaled approximately $437 million. If that amount had been settled in shares on that date, we would have been required to issue 4.2 million shares of our common stock. We have the right to redeem any or all of the debentures at any time after August 15, 2008.

We also have outstanding $300 million of 40-year debentures issued in 1996 that bear interest of 7.20%, the registered holders of which may elect, between March 1 and April 1, 2008, to have their debentures repaid on May 1, 2008. We have continued to classify these debentures and the $1.0 billion of convertible debentures discussed above as long-term based on our ability and intent to maintain the debt outstanding for at least one year. Our ability to do so is demonstrated by our $1.5 billion revolving credit facility which expires in June 2012 (see discussion below). There were no borrowings outstanding under the credit facility on December 31, 2007.

In August 2006, we issued $1.1 billion of new 6.15% Notes due 2036 (the New Notes). The New Notes were issued in exchange for certain other of our then outstanding debt securities, and cash consideration of $343 million. Holders also received a cash payment representing accrued and unpaid interest on the previous notes. The cash consideration of $343 million, which is included in the Statement of Cash Flows in financing activities, is being amortized over the life of the New Notes as a discount using the effective interest method and recorded in interest expense. The New Notes are included on our Balance Sheet net of the unamortized discount under the caption Long-term debt, net. The expenses associated with the exchange, net of state income tax benefits, totaled $16 million and were recorded in Other non-operating income (expense), net. They reduced Net earnings in 2006 by $11 million ($0.03 per share).

Our Stockholders' equity amounted to $9.8 billion at December 31, 2007, an increase of $2.9 billion from December 31, 2006. The increase was due primarily to Net earnings of $3.0 billion, the remeasurement and recognition of prior period amounts related to our postretirement benefit plans under FAS 158 (see Note 12), which increased Other comprehensive income by $1.7 billion, and employee stock activity of $889 million. These increases were partially offset by the repurchase of 21.6 million common shares for $2.1 billion and payment of $615 million of dividends during the year. As we repurchase our common shares, we reduce Common stock for the $1 of par value of the shares repurchased, with the remainder of the purchase price over par value recorded as a reduction of Additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, Additional paid-in capital was reduced to zero, with the remainder of the excess of purchase price over par value of $471 million recorded as a reduction of Retained earnings.

Through our debt repayment activities, our Long-term debt balance has declined $3.2 billion over the last five years

and bear interest at rates based, at our 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, our compliance with various representations, warranties and covenants, including covenants limiting our ability and the ability of certain of our subsidiaries to encumber our assets, and a covenant not to exceed a maximum leverage ratio.

We have agreements in place with banking institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding at December 31, 2007. If we were to issue commercial paper, the borrowings would be supported by the $1.5 billion credit facility.

We have an effective shelf registration statement on file with the Securities and Exchange Commission to provide for the issuance of up to $1 billion in debt securities. If we were to issue debt under this shelf registration, we would expect to use the net proceeds for general corporate purposes. These purposes may include repayment of debt, working capital needs, capital expenditures, acquisitions and any other general corporate purpose.

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 reviews changes in financial, market and economic conditions to manage the types, amounts and maturities of our indebtedness. We may at times refinance existing indebtedness, vary our mix of variable-rate and fixed-rate debt, or seek alternative financing sources for our cash and operational needs.

Cash and cash equivalents, Short-term investments, cash flow from operations and other available financing resources are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements, as well as acquisition and other discretionary investment needs, projected over the next three years.

Contractual Commitments and Off-Balance Sheet Arrangements

At December 31, 2007, we had contractual commitments to repay debt, make payments under operating leases, settle obligations related to agreements to purchase goods and services, and settle tax and other liabilities. Capital lease obligations were negligible. Payments due under these obligations and commitments are as follows:

	P m D B P o				
(I m o)	*T o*	*L T 1*	*1-3*	*3-5*	*A 5*
Long-term debt[a]	$ 4,749	$ 104	$ 243	$ 2	$4,400
Interest payments[b]	4,945	308	512	492	3,633
Other liabilities	1,694	197	523	202	772
Operating lease obligations	1,104	295	419	268	122
Purchase obligations:					
Operating activities	26,051	15,309	9,432	1,017	293
Capital expenditures	256	242	11	1	2
Total contractual cash obligations	$38,799	$16,455	$11,140	$1,982	$9,222

(a) The total amount of Long-term debt excludes unamortized discounts of $342 million (see Note 7).

(b) Interest payments include amounts for debt outstanding through maturity except for our $1 billion of convertible debentures, for which

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contracts are recognized in the current period. At December 31, 2007, the fair value of forward exchange contracts outstanding and the amounts of gains and losses recorded during the year then ended were not material.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into agreements with those deemed to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our

We performed an evaluation of the effectiveness of our disclosure controls and procedures, including internal control over financial reporting, as of December 31, 2007. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, and under the supervision of the CEO and CFO. Based on our evaluation, we concluded that our disclosure controls and procedures were effective as of December 31, 2007.

During 2007, we also performed a separate evaluation of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, including performing self-assessment and monitoring procedures. Based on those

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on the Financial Statements and Internal Control Over Financial Reporting

The management of Lockheed Martin is responsible for the consolidated financial statements and all related financial information contained in this Annual Report on Form 10-K. 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. Management believes the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows of the Corporation. The consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein.

The management of Lockheed Martin is also responsible for establishing and maintaining an adequate system of internal control over financial reporting of the Corporation (as defined by the Securities Exchange Act of 1934). This system is designed to provide reasonable assurance, based on an appropriate cost-benefit relationship, that assets are safeguarded and transactions are properly executed and recorded. An environment that provides for an appropriate level of control consciousness is maintained through a comprehensive program of management testing to identify and correct deficiencies, examinations by internal auditors, and audits by the Defense Contract Audit Agency for compliance with federal government rules and regulations applicable to contracts with the U.S. Government.

Management conducted an evaluation of the effectiveness of the Corporation's system of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Corporation's system of internal control over financial reporting was effective as of December 31, 2007. Ernst & Young LLP also assessed the effectiveness of the Corporation's internal control over financial reporting for the year ended December 31, 2007, as stated in their report included herein.

Essential to the Corporation's internal control system is management's dedication to the highest standards of integrity, ethics and social responsibility. To support these standards, management has issued *S* [illegible] *S* [illegible], our Code of Ethics and Business Conduct (the Code). The Code provides for a telephone help line that employees can use to confidentially or anonymously communicate to the Corporation's ethics office complaints or concerns about accounting, internal control or auditing matters. These matters are forwarded directly to the Audit Committee of the Corporation's Board of Directors.

The Audit Committee, which is composed of five directors who are not members of management, has oversight responsibility for the Corporation's financial reporting process and the audits of the consolidated financial statements and internal control over financial reporting. Both the independent auditors and the internal auditors meet periodically with members of the Audit Committee, with or without management representatives present. The Audit Committee recommended, and the Board of Directors approved, that the audited consolidated financial statements be included in the Corporation's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

ROBERT J. STEVENS
Chairman, President and Chief Executive Officer

BRUCE L. TANNER
Executive Vice President and Chief Financial Officer

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2007 and 2006, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

Lockheed Martin Corporation
Consolidated Statement of Earnings

	2007	2006	2005
Net sales			

Lockheed Martin Corporation
Consolidated Balance Sheet

(In millions)	*December 31,* **2007**	*2006*
Assets		
Current assets		
Cash and cash equivalents	**$ 2,648**	$ 1,912
Short-term investments	**333**	381
Receivables	**4,925**	4,595
Inventories	**1,718**	1,657
Deferred income taxes	**756**	900
Other current assets	**560**	719
Total current assets	**10,940**	10,164
Property, plant and equipment, net	**4,320**	4,056
Goodwill	**9,387**	9,250
Purchased intangibles, net	**463**	605
Prepaid pension asset	**313**	235
Deferred income taxes	**760**	1,487
Other assets	**2,743**	2,434
	$28,926	$28,231
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 2,163**	$ 2,221
Customer advances and amounts in excess of costs incurred	**4,254**	3,856
Salaries, benefits and payroll taxes	**1,544**	1,584
Current maturities of long-term debt	**104**	34
Other current liabilities	**1,806**	1,858
Total current liabilities	**9,871**	9,553
Long-term debt, net	**4,303**	4,405
Accrued pension liabilities	**1,192**	3,025
Other postretirement benefit liabilities	**928**	1,496
Other liabilities	**2,827**	2,868
Stockholders' equity		
Common stock, $1 par value per share	**409**	421
Additional paid-in capital	**—**	755
Retained earnings	**11,247**	9,269
Accumulated other comprehensive loss	**(1,851)**	(3,561)
Total stockholders' equity	**9,805**	6,884
	$28,926	$28,231

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
Consolidated Statement of Cash Flows

(I m .o)	*D m 31,* **2007**	*2006*	*2005*
Operating Activities			
Net earnings	**$ 3,033**	$ 2,529	$ 1,825
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization of property, plant and equipment	**666**	600	555
Amortization of purchased intangibles	**153**	164	150
Stock-based compensation	**149**	111	—
Excess tax benefits on stock-based compensation	**(124)**	(129)	—
Deferred income taxes	**110**	75	24
Changes in operating assets and liabilities:			
Receivables	**(324)**	94	(390)
Inventories	**(57)**	(530)	(39)
Accounts payable	**(66)**	217	239
Customer advances and amounts in excess of costs incurred	**394**	475	296
Oth51Tf3N6s			

Lockheed Martin Corporation
Consolidated Statement of Stockholders' Equity

(I[illegible])	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Other	Total Stockholders' Equity	Com[illegible] I[illegible] (Lo[illegible])
Balance at December 31, 2004	$438	$ 2,223	$ 5,915	$(1,532)	$(23)	$ 7,021	
Net earnings	—	—	1,825	—	—	1,825	$1,825
Common stock dividends declared ($1.05 per share)	—	—	(462)	—	—	(462)	—
Repurchases of common stock	(20)	(1,202)	—	—	—	(1,222)	—
Stock-based awards and ESOP activity	14	703	—	—	9	726	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	(105)	—	(105)	(105)
Net unrealized gain from available-for-sale investments	—	—	—	97	—	97	97
Other	—	—	—	(13)	—	(13)	(13)
Balance at December 31, 2005	432	1,724	7,278	(1,553)	(14)	7,867	$1,804
Net earnings	—	—	2,529	—	—	2,529	$2,529
Common stock dividends declared ($1.25 per share)	—	—	(538)	—	—	(538)	—
Repurchases of common stock	(28)	(2,076)	—	—	—	(2,104)	—
Stock-based awards and ESOP activity	17	1,107	—	—	14	1,138	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	1,186	—	1,186	1,186
Reclassification adjustment related to available-for-sale investments	—	—	—	(92)	—	(92)	(92)
Other	—	—	—	(33)	—	(33)	(33)
Adjustment for adoption of FAS 158	—	—	—	(3,069)	—	(3,069)	—
Balance at December 31, 2006	421	755	9,269	(3,561)	—	6,884	$3,590
Net earnings	**—**	**—**	**3,033**	**—**	**—**	**3,033**	**$3,033**
Common stock dividends declared ($1.47 per share)	**—**	**—**	**(615)**	**—**	**—**	**(615)**	**—**
Repurchases of common stock	**(22)**	**(1,634)**	**(471)**	**—**	**—**	**(2,127)**	**—**
Stock-based awards and ESOP activity	**10**	**879**	**—**	**—**	**—**	**889**	**—**
Adoption of FIN 48	**—**	**—**	**31**	**—**	**—**	**31**	**—**

Lockheed Martin Corporation
Notes to Consolidated Financial Statements
December 31, 2007

Note 1 – Significant Accounting Policies

Organization – Lockheed Martin Corporation is engaged in the research, design, development, manufacture,

Receivables – Receivables include amounts billed and currently due from customers, and unbilled costs and accrued profits primarily related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. As we recognize those revenues, we reflect appropriate amounts of Customer advances, performance-based payments and progress payments as an offset to the related receivables balance.

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

Property, plant and equipment – We include Property, plant and equipment on our Balance Sheet principally at cost. We provide for depreciation and amortization on plant and equipment generally using accelerated methods during the first half of the estimated useful lives of the assets, and the straight-line method thereafter. The estimated useful lives of our plant and equipment generally range from 10 to 40 years for buildings and five to 15 years for machinery and equipment.

Goodwill – We evaluate Goodwill for potential impairment on an annual basis by comparing the fair value of a reporting unit, using a discounted cash flow methodology, to its carrying value including Goodwill recorded by the reporting unit. We generally define reporting units at the business segment level or one level below the business segment. If the carrying value exceeds the fair value, we measure impairment by comparing the derived fair value of Goodwill to its carrying value, and any impairment determined is recorded in the current period.

Purchased intangibles, net – We amortize intangible assets acquired as part of business combinations over their estimated useful lives unless their useful lives are determined to be indefinite. For certain business combinations, the amounts we record related to Purchased intangibles are determined from independent valuations. Our Purchased intangibles primarily relate to contracts and programs acquired and customer relationships which are amortized over periods of 15 years or less, and trade names which have indefinite lives. We included Purchased intangibles on our consolidated Balance Sheet net of accumulated amortization of $2,105 million and $1,952 million at December 31, 2007 and 2006. Less than 10% of the unamortized balance of Purchased intangibles at December 31, 2007 is composed of intangibles with indefinite lives. Amortization expense related to these intangible assets was $153 million, $164 million, and $150 million for the years ended December 31, 2007, 2006 and 2005, and we estimate amortization expense will be $116 million in 2008, $95 million in 2009, $90 million in 2010, $80 million in 2011 and $25 million in 2012.

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

Environmental matters – We record a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is generally based on our best estimate of the costs to be incurred for remediation at a particular site within a range of estimates for that site. We do not discount liabilities unless the amount and timing of future cash payments are fixed or reliably determinable. We expect to include a substantial portion of environmental costs in Net sales and Cost of sales pursuant to U.S. Government agreement or regulation. At the time a liability is recorded for future environmental costs, we record an asset for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government. We include the portion of those costs expected to be allocated to commercial business or that is determined to be unallowable for pricing under U.S. Government contracts in Cost of sales at the time the liability is established.

Sales and earnings – We record sales and anticipated profits under long-term fixed-price design, development and production contracts on a percentage of completion basis, generally using units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenue. We include estimated contract profits in earnings in proportion to recorded sales. We record sales under certain long-term fixed-price development and production contracts which, among other factors, provide for the delivery of minimal quantities or require a substantial level of development effort in relation to total contract value, upon achievement of performance milestones or using the cost-to-cost method of accounting where sales

Accumulated other comprehensive income (loss) in the Statement of Stockholders' Equity. 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 in the current period. We make such determinations by considering, among other factors, the length of time the fair value of the investment has been less than the carrying value, future business prospects for the investee, and information regarding market and industry trends for the investee's business, if available. Investments not accounted for under one of these methods are generally accounted for under the cost method of accounting.

Derivative financial instruments – We sometimes use derivative financial instruments to manage our exposure to fluctuations in interest rates and foreign exchange rates. We do not hold or issue derivative financial instruments for trading

for postretirement benefit plans included on the Statement of Stockholders' Equity totaled $1,706 million (net of $938 million in income taxes) in 2007, $1,186 million (net of $712 million in income taxes) in 2006 and $(105) million (net of $60 million in tax benefits) in 2005, In 2006, Comprehensive income also included a reclassification adjustment of $(92) million (net of $54 million in tax benefits) related to available-for-sale investments. The remaining components included amounts for activities related to hedging and foreign currency translation.

The Accumulated other comprehensive loss of $1,851 million at December 31, 2007 included $1,806 million related to our postretirement benefit plans that were recorded in accordance with FAS 158, *Em o ' A o g D B P o O P o m P m m o FASB S m N o 87, 88, 106 132(R)* (see Note 12). The Accumulated other comprehensive loss of $3,561 million at December 31, 2006 included $3,512 million pertaining to our postretirement benefit plans, primarily from the adoption of FAS 158 which resulted in an adjustment to the ending balance of Accumulated other comprehensive loss of $(3,069) million (net of $1,696 million in tax benefits). The remaining accumulated balance in both years primarily was composed of accumulated balances related to hedging and foreign currency translation activities.

Recent accounting pronouncements – We adopted Financial Accounting Standards Board (FASB) Interpretation Number (FIN) 48, *A o g U I om T*, effective January 1, 2007 (see Note 8). FIN 48 clarifies and sets forth consistent rules for accounting for uncertain income tax positions in accordance with FAS 109, *A o g I om T*. The cumulative effect of applying the provisions of this interpretation was a $31 million noncash increase to our opening balance of Retained earnings in 2007.

Effective December 31, 2006, we adopted FAS 158, which requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize the funded status of their postretirement benefit plans on the Balance Sheet, measure the fair value of plan assets and benefit obligations as of the Balance Sheet date, and provide additional disclosures (see Note 12). The effect of adopting the statement on our financial condition at December 31, 2006 has been reflected in these financial statements. FAS 158 did not have an effect on prior years. The statement's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable to us since we already use a measurement date of December 31 for our plans.

In December 2007, the FASB issued FAS 141(R), *B Com o*, which will become effective January 1, 2009. The new standard will replace existing guidance and significantly change accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post acquisition restructuring costs in our results of operations as incurred. FAS 141(R) will be effective for businesses acquired after the effective date.

In September 2006, the FASB issued FAS 157, *F V M m*, which is effective January 1, 2008 with the exception of leases and certain nonfinancial assets and liabilities. FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The new standard generally is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. We currently do not expect that the adoption of FAS 157 will have a material impact on our results of operations, financial position or cash flows.

In February 2007, the FASB issued FAS 159, *T F V O o g F A F L I Am m o FASB S m N o 115*, which also becomes effective January 1, 2008. Under FAS 159, a

aggregating $120 million, none of which will be amortized for tax purposes, and $12 million of other intangible assets, primarily relating to the value of contracts we acquired. The acquisitions were not material to our consolidated results of operations for the year ended December 31, 2007.

In 2006 and 2005, we completed acquisitions of the following businesses.

Year ended December 31, 2006 –

- Pacific Architects and Engineers, Inc. (PAE), a provider of services to support military readiness, peacekeeping missions, nation-building activities, and disaster relief services;
- Savi Technology, Inc., a developer of active radio frequency identification solutions;
- Aspen Systems Corporation, an information management company that delivers a range of business process and technology solutions;
- ISX Corporation, a provider of military decision systems and other information technology solutions; and
- HMT Vehicles, a military vehicle design company.

The aggregate cash paid for the 2006 acquisitions was $1.0 billion. The total amount paid for acquisitions, including amounts paid in 2006 related to acquisitions completed in 2005, was $1.1 billion. Purchase accounting adjustments in 2006 included recording combined Goodwill of $867 million, of which approximately $80 million will be amortized for tax purposes, and $209 million of other intangible assets, primarily relating to the value of contracts we acquired. The other intangible assets are expected to be amortized over a period of seven years. These acquisitions were not material to our consolidated results of operations for the year ended December 31, 2006.

Year ended December 31, 2005 –

- The SYTEX Group, Inc., a provider of information technology solutions and technical support services;
- STASYS Limited, a U.K.-based technology and consulting firm specializing in network communications and defense interoperability;
- INSYS Group Limited, a U.K.-based diversified supplier of military communications systems, weapons systems and advanced analysis services; and
- Coherent Technologies, Inc., a supplier of high-performance, laser-based remote sensing systems.

The aggregate cash paid for the 2005 acquisitions, as well as for amounts paid in 2005 related to acquisitions completed in prior periods, was $564 million. Purchase accounting adjustments included recording Goodwill aggregating $559 million, of which $360 million is being amortized for tax purposes. These acquisitions were not material to our consolidated results of operations for the year ended December 31, 2005.

Divestitures

B [illegible]

In the second quarter of 2007, we sold our remaining 20% interest in Comsat International for $26 million in cash. The transaction resulted in a gain, net of state income taxes, of $25 million which we recorded in Other income (expenses), net, and an increase in Net earnings of $16 million ($0.04 per share).

In October 2006, we sold our ownership interests in Lockheed Khrunichev Energia International, Inc. (LKEI) and

We deferred recognition of a net gain of $67 million that otherwise would have been recognized on the sale of our interests in LKEI and ILS, and have continued to include the related assets and liabilities on our Balance Sheet. We expect to

alternatives on individual launch missions. The joint venture is a limited liability company in which we and Boeing each owns 50%. We are accounting for our investment in ULA under the equity method of accounting. The net book value of the assets we contributed and the liabilities that ULA assumed from us was initially determined to be $190 million as of the date of closing. This amount was subject to adjustment pending final review of the amounts we and Boeing contributed and the liabilities assumed by ULA. We accounted for the transfer at net book value, with no gain or loss recognized.

In July 2007, we reached agreement with Boeing with respect to resolution of the final working capital and the value of the launch vehicle support contracts that we each contributed to form ULA. After receiving all regulatory approvals required under the original agreements, we made additional contributions totaling $177 million to ULA in August 2007 in respect of the working capital adjustment, which was recorded as an increase in our investment in ULA. ULA also conformed the accounting policies of the contributed businesses. The adoption of conformed accounting policies affected the book value of the assets and liabilities that each of us contributed and resulted in adjustments to ULA's balance sheet as of December 1, 2006. After the agreement was implemented and the adjustments were recorded, our 50% ownership share of ULA's net assets exceeded the book value of our investment by approximately $395 million, which we are recognizing ratably over 10 years. This amount and our share of ULA's net earnings are reported as Equity in net earnings (losses) of equity investees in Other income (expense), net on the Statement of Earnings and in the Operating profit of the Space Systems business segment for segment reporting purposes (see Note 15) since its activities are closely aligned with the operations of Space Systems. Our investment in ULA totaled $402 million and $197 million at December 31, 2007 and 2006. ULA did not have a material impact on our results of operations, financial position or cash flows during the year ended December 31, 2007.

In connection with the formation of ULA, we and Boeing each committed to provide up to $25 million in additional capital contributions and $200 million in other financial support to ULA, as required. As of December 31, 2006, we had provided a total of $3 million of additional funding to ULA (see Note 14). We did not provide further funding to ULA during 2007.

Note 3 – Earnings Per Share

We compute basic and diluted per share amounts based on Net earnings for the periods presented. We use the weighted average number of common shares outstanding during the period to calculate basic earnings per share. Our calculation of diluted per share amounts includes the dilutive effects of stock options and restricted stock based on the treasury stock method in the weighted average number of common shares.

We have $1.0 billion of floating rate convertible debentures issued and outstanding that also can potentially have a dilutive effect on our earnings per share calculations. The debentures are convertible by holders into shares of our common stock on a contingent basis per the terms of the indenture agreement. The debentures are not convertible unless the price of our common stock is greater than or equal to 130% of the applicable conversion price for a specified period during the previous quarter, or unless certain other events occur. The conversion price was $73.25 per share at December 31, 2007, and is expected to change over time as described in the indenture agreement. The price of our common stock exceeded 130% of the conversion price for the specified period of time during the fourth quarter of 2007, and therefore holders of the debentures may elect to convert them during the first quarter of 2008.

We have irrevocably agreed to pay only cash in lieu of common stock for the accreted principal amount of the debentures relative to our conversion obligations, but have retained the right to satisfy the conversion obligations in excess of the accreted principal amount in cash or common stock. Though we have retained that right, FAS 128, *E P S*, requires an assumption that shares will be used to pay the conversion obligations in excess of the accreted principal amount, and requires that those shares be included in our calculation of weighted average common shares outstanding for the diluted earnings per share computation without regard to the convertibility by the bondholders. The number of shares included in the computation at December 31, 2007 and 2006 did not have a material impact on earnings per share. No such shares were included in the computation in 2005, as the conversion obligations were not in excess of the accreted principal amount.

Unless otherwise noted, we present all per share amounts cited in these financial statements on a "per diluted share" basis.

The calculations of basic and diluted earnings per share are as follows:

(I [illegible])	***2007***	*2006*	*2005*
Net earnings for basic and diluted computations	**$3,033**	$2,529	$1,825
Weighted average common shares outstanding			
Average number of common shares outstanding for basic computations	**416.0**	428.1	440.3
Dilutive stock options, restricted stock and convertible securities	**11.1**	8.3	5.4
Average number of common shares outstanding for diluted computations	**427.1**	436.4	445.7
Earnings per common share			
Basic	**$ 7.29**	$ 5.91	$ 4.15
Diluted	**$ 7.10**	$ 5.80	$ 4.10

Note 4 – Receivables

(I [illegible])	***2007***	*2006*
U.S. Government		
Amounts billed	**$1,718**	$1,671
Unbilled costs and accrued profits	**2,329**	2,284
Less customer advances and progress payments	**(428)**	(579)
	3,619	3,376
Foreign governments and commercial		
Amounts billed	**333**	410
Unbilled costs and accrued profits	**1,144**	862
Less customer advances	**(171)**	(53)
	1,306	1,219
	$4,925	$4,595

Note 6 – Property, Plant and Equipment

(In millions)	***2007***	*2006*
Land	**$ 112**	$ 121
Buildings	**4,574**	4,258
Machinery and equipment	**5,619**	5,250
	10,305	9,629
Less accumulated depreciation and amortization	**(5,985)**	(5,573)
	$ 4,320	$ 4,056

During the year ended December 31, 2007, we wrote off $232 million of cost and accumulated depreciation related to certain plant and equipment that had been fully depreciated or amortized.

Note 7 – Debt

Our Long-term debt is primarily in the form of publicly issued notes and debentures, as follows:

(In millions)	***Interest Rate***	***2007***	*2006*
Medium Term Notes due 2006-2007	7.70 – 8.66	**$ —**	$ 32
Notes due 06/15/2008	7.70	**103**	103
Notes due 12/01/2009	8.20	**241**	241
Debentures due 04/15/2013	7.375	**150**	150
Debentures due 05/01/2016	7.65	**600**	600
Debentures due 09/15/2023	7.0	**200**	200
Notes due 06/15/2024	8.375	**167**	167

declaration date of the distribution; and the credit rating assigned to the debentures by either Moody’s or Standard & Poor’s is lower than Ba1 or BB+.

Note 8 – Income Taxes

Our provision for federal and foreign income taxes consisted of the following components:

(In millions)	***2007***	*2006*	*2005*
Federal income taxes			
Current	**$1,199**	$ 979	$742
Deferred	**107**	73	24
Total federal income taxes	**1,306**	1,052	766
Foreign income taxes			
Current	**26**	9	25
Deferred	**3**	2	—
Total foreign income taxes	**29**	11	25
Total income taxes provided	**$1,335**	$1,063	$791

State income taxes are included in our operations as general and administrative costs and, under U.S. Government regulations, are allowable in establishing prices for the products and services we sell to the U.S. Government. Therefore, a substantial portion of state income taxes is included in our Net sales and Cost of sales. As a result, the impact of certain transactions on our Operating profit and other matters disclosed in these financial statements is disclosed net of state income taxes. Our total net state income tax expense was $199 million for 2007, $113 million for 2006, and $92 million for 2005.

Our reconciliation of Income tax expense computed using the U.S. federal statutory income tax rate of 35% to actual income tax expense is as follows:

(In millions)	***2007***	*2006*	*2005*
Income tax expense at the U.S. federal statutory tax rate	**$1,528**	$1,257	$916
Reduction in tax expense			
Closure of IRS examination	**(59)**	—	—
U.S. production activity benefit	**(55)**	(21)	(19)
Research tax credit	**(30)**	(9)	(10)
Tax deductible dividends	**(32)**	(29)	(26)
Extraterritorial income exclusion (ETI) benefit	**—**	(63)	(66)
Refund claims for additional ETI benefits	**—**	(62)	—
Other, net	**(17)**	(10)	(4)
Actual income tax expense	**$1,335**	$1,063	$791

In 2007, we closed Internal Revenue Service (IRS) examinations which included resolution of uncertain tax positions associated with the 2003 and 2004 audit years and claims we filed for additional extraterritorial income tax benefits for years prior to 2005. As a result, we recognized additional tax benefits and reduced our Income tax expense in the first quarter of 2007 by $59 million ($0.14 per share), including related interest, which reduced our effective tax rate for 2007 by 1.4%. In 2006, we recorded a tax benefit related to claims filed with the Internal Revenue Service for additional ETI benefits for sales in previous years. Recognition of this benefit decreased Income tax expense by $62 million ($0.14 per share), and reduced our effective tax rate for 2006 by 1.7%.

Current income taxes payable of $41 million and $243 million at December 31, 2007 and 2006, are included in Other current liabilities on the consolidated Balance Sheet.

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

(In millions)	***2007***	*2006*
Deferred tax assets related to:		
Contract accounting methods	**$ 465**	$ 643
Accrued compensation and benefits	**683**	580
Accumulated postretirement benefit obligations	**400**	417
Pensions [a]	**563**	1,362
Foreign company operating losses and credits	**34**	42
Gross deferred tax assets	**2,145**	3,044
Less: valuation allowance [b]	**30**	34
Net deferred tax assets	**2,115**	3,010
Deferred tax liabilities related to:		
Purchased intangibles	**365**	358
Property, plant and equipment	**180**	199
Other	**54**	66
Deferred tax liabilities	**599**	623
Net deferred tax assets	**$1,516**	$2,387

(a) The decrease in the deferred tax balance resulted from a reduction in Accrued pension liabilities calculated in accordance with FAS 158.

(b) A valuation allowance has been provided against certain foreign company deferred tax assets arising from carryforwards of unused tax benefits.

We adopted FIN 48 effective January 1, 2007. FIN 48 clarifies and sets forth consistent rules for accounting for uncertain income tax positions in accordance with FAS 109. The cumulative effect of applying the provisions of this interpretation was a $31 million noncash increase to our opening balance of Retained earnings in 2007. We have recorded liabilities for unrecognized tax benefits related to permanent and temporary tax adjustments which, exclusive of interest, totaled $195 million at December 31, 2007 and $266 million at January 1, 2007, after the adjustment to the beginning balance of Retained earnings. The net decrease in the liability of $71 million primarily resulted from the following:

(In millions)	
Balance at January 1, 2007	**$266**
Increase (decrease) related to tax positions in prior years	
Recognition of benefits from resolution of issues with IRS	**(98)**
Unrecognized tax benefits arising from acquisition activity	**28**
Tax positions related to the current year	**81**
Decreases related to settlements with taxing authorities	**(82)**
Balance at December 31, 2007	**$195**

Approximately $150 million of the $195 million of liabilities at the end of 2007 are recorded in Other liabilities on the Balance Sheet, with the remainder recorded in Other current liabilities. At December 31, 2007, the amount of unrecognized tax benefits from permanent tax adjustments that, if recognized, would affect the effective tax rate, was $180 million. Over the next year, we do not expect a significant increase or decrease in the unrecognized tax benefits recorded as of December 31, 2007. In the ordinary course of business, we may take new tax positions that could increase or decrease unrecognized tax benefits in future periods. The amount of net interest and penalties recognized as a component of income tax expense during the years ended December 31, 2007 and 2006, as well as the amount of interest and penalties accrued at December 31, 2007, was not material.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. With few exceptions, the statute of limitations is no longer open for U.S. federal or non-U.S. income tax examinations for the years before 2003. In 2007, the IRS closed its examinations of our U.S. federal income tax returns through December 31, 2004 and all of our claims associated with additional ETI benefits for years prior to 2005. Examinations of our 2005 and 2006 tax returns commenced in 2007 and, upon filing our tax return for 2007, the 2007 tax year will be added to those examinations. These examinations are expected to be completed in 2009.

U.S. income taxes and foreign withholding taxes have not been provided on earnings of $136 million that have not been distributed by our non-U.S. companies at December 31, 2007. Our intention is to permanently reinvest these earnings, thereby indefinitely postponing their remittance. If these earnings were remitted, we estimate that the additional income taxes after foreign tax credits would be about $11 million.

Our federal and foreign income tax payments, net of refunds received, were $1,131 million in 2007, $859 million in 2006, and $599 million in 2005. Included in these amounts are tax payments and refunds related to our divestiture activities.

Note 9 – Other Income (Expense), Net

(In millions)	***2007***	*2006*	*2005*
Included in Operating profit			
Equity in net earnings (losses) of equity investees	**$203**	$130	$108
Gain on sale of Comsat International	**25**	—	—
Gain on sales of land	**25**	51	—
Earnings from reversal of legal reserves due to settlement	**21**	—	—
Gains on sales of various investment interests	**—**	127	203
Earnings from expiration of AES transaction indemnification	**—**	29	—
Gain on sale of Space Imaging's assets	**—**	23	—
Other activities, net	**19**	(24)	5
	$293	$336	$316
Included in Non-operating income (expense), net			
Interest income	**$193**	$199	$143
Debt-related expenses and charges	**—**	(16)	(10)
	$193	$183	$133

See Notes 2 and 7 for a discussion of certain of the transactions included in the table above.

Note 10 – Stockholders' Equity

At December 31, 2007, our authorized capital was composed of 1.5 billion shares of Common stock and 50 million shares of series preferred stock. Of the 412 million shares of Common stock issued and outstanding, 409 million shares were considered outstanding for Balance Sheet presentation purposes; the remaining shares were held in trusts we established to pay future benefits to eligible retirees and dependents under certain benefit plans. No preferred stock shares were issued and outstanding at December 31, 2007.

In October 2002, we announced a share repurchase program for the repurchase of our common stock from time-to-time. Under the program, we have discretion to determine the number and price of the shares to be repurchased, and the timing of any repurchases in compliance with applicable law and regulation. As of December 31, 2007, our Board of Directors has authorized a total of 128 million shares for repurchase under the program, including 20 million additional shares that were authorized in September 2007. As of December 31, 2007, we had repurchased a total of 95.3 million shares under the program, and there remained approximately 32.7 million shares that may be repurchased in the future.

During the years ended December 31, 2007, 2006 and 2005, we repurchased common shares under the program as follows:

- In 2007, we repurchased 21.6 million common shares for $2,127 million in transactions that were executed and settled during the year;
- In 2006, we repurchased 27.6 million common shares for $2,104 million in transactions that were executed and settled during the year, and paid $11 million for the settlement of 0.2 million shares purchased in 2005; and
- In 2005, we repurchased 19.5 million common shares for $1,211 million in transactions that were executed and settled during the year, and paid $99 million for the settlement of 1.8 million common shares purchased in 2004.

As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the remainder of the purchase price over par value recorded as a reduction of Additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, Additional paid-in capital was reduced to zero in 2007, with the remainder of the excess of purchase price over par value of $471 million recorded as a reduction of Retained earnings at December 31, 2007.

Note 11 – Stock-Based Compensation

Effective January 1, 2006, we adopted FAS 123(R) and the related SEC rules included in Staff Accounting Bulletin No. 107, on a modified prospective basis. During the years ended December 31, 2007 and 2006, we recorded non-cash

2007 Activity

S c O

The following table summarizes stock option activity during the year ended December 31, 2007:

	Number of Stock Options *(I o ,)*

RSU a d RSA Ac

The following table summarizes activity related to nonvested RSUs and RSAs during the year ended December 31, 2007:

	Number of RSUs / RSAs *(I o ,)*	Weighted Average Grant-Date Fair Value Per Share
Nonvested at December 31, 2006	1,787	$62.27
Granted	923	96.13
Vested	(336)	56.25
Terminated	(94)	70.33
Nonvested at December 31, 2007	2,280	76.60

S mma 2007 Ac

As of December 31, 2007, we had $136 million of unrecognized compensation cost related to nonvested stock options, RSUs and RSAs. We expect that cost to be recognized over a weighted-average period of 1.6 years. We received cash from the exercise of stock options totaling $350 million, $627 million and $406 million for the years ended December 31, 2007, 2006 and 2005. In addition, we realized tax benefits of $133 million and $137 million from stock-based compensation activities during 2007 and 2006. Consistent with FAS 123(R), we classified $124 million and $129 million of those benefits as a financing cash inflow with a corresponding operating cash outflow in the Statement of Cash Flows. The remainder is classified as cash from operations. We realized $69 million of tax benefits from stock-based compensation during the year ended December 31, 2005 and included those tax benefits in cash from operations in their entirety.

2005 Reported and Pro Forma Results

Reported and pro forma earnings per share information for the year ended December 31, 2005 are as follows. The disclosures for 2005 include $33 million ($0.08 per share) as an inception-to-date adjustment of fair value-based, pro forma compensation expense related to retirement eligible employees with outstanding and unvested stock option awards. This adjustment reflects the service period as one year rather than the original vesting period, since our stock option award agreements allow employees to retain all stock option awards held through the initial one-year vesting date prior to retirement and to continue vesting in the award as if their employment had continued.

The weighted average common shares outstanding for both the basic and fully diluted calculations are the same as those used to compute earnings per share (see Note 3).

Note 12 – Postretirement Benefit Plans

Defined contribution plans – We maintain a number of defined contribution plans with 401(k) features that cover substantially all of our employees. Under the provisions of our 401(k) plans, our employees' eligible contributions are matched by our established rates. Our matching obligations were $327 million in 2007, $303 million in 2006 and $273 million in 2005, the majority of which were funded in our common stock.

Our Salaried Savings Plan is a defined contribution plan with a 401(k) feature that includes an ESOP. Our matching contributions to the Salaried Savings Plan have been fulfilled through purchases of common stock from participant account balance reallocations or through newly issued shares. At December 31, 2007, the Salaried Savings Plan held 59.9 million issued and outstanding shares of our common stock, all of which were allocated to participant accounts.

Certain plans for hourly employees include a non-leveraged ESOP. In one such plan, the match is made, generally at the election of the participant, in either our common stock or cash which is invested at the participant's direction in one of the plan's other investment options. Contributions to these plans were made through small amounts of newly issued shares by us or cash contributed to the ESOP trust which was used by the trustee, if so elected, to purchase common stock from

The following provides a reconciliation of benefit obligations, plan assets and funded status related to our qualified defined benefit pension plans and retiree medical and life insurance plans:

	D B P o P		R M L I P	
(I m o)	**2007**	2006	**2007**	2006
Change in benefit obligations				
Benefit obligations at beginning of year	**$28,525**	$28,421	**$3,344**	$ 3,516
Service cost	**862**	896	**51**	57
Interest cost	**1,631**	1,557	**189**	191
Benefits paid	**(1,418)**	(1,372)	**(385)**	(371)
Actuarial gains	**(1,482)**	(1,034)	**(370)**	(166)
Amendments	**18**	127	**(11)**	8
Divestitures	**2**	(70)	**—**	(4)
Participants’ contributions	**—**	—	**127**	113
Benefit obligations at end of year	**$28,138**	$28,525	**$2,945**	$ 3,344
Change in plan assets				
Fair value of plan assets at beginning of year	**$25,735**	$23,432	**$1,848**	$ 1,521
Actual return on plan assets	**2,607**	3,043	**102**	226
Benefits paid	**(1,418)**	(1,372)	**(385)**	(371)
Our contributions	**335**	693	**323**	364
Participants’ contributions	**—**	—	**127**	113
Divestitures and other	**—**	(61)	**2**	(5)
Fair value of plan assets at end of year	**$27,259**	$25,735	**$2,017**	$ 1,848
Unfunded status of the plans	**$ (879)**	$ (2,790)	**$ (928)**	$(1,496)
Amounts recognized in the balance sheet				
Prepaid pension asset	**$ 313**	$ 235	**$ —**	$ —
Accrued postretirement benefit liabilities	**(1,192)**	(3,025)	**(928)**	(1,496)
Accumulated other comprehensive loss (pre-tax) related to:				
Unrecognized net actuarial losses	**1,934**	4,129	**224**	572

The following postretirement benefit plan amounts were included in Other comprehensive income, net of tax, during the year ended December 31, 2007, in accordance with FAS 158.

[illegible]	[illegible]	[illegible]
Actuarial gains (losses)		
Defined benefit pension plans	**$ 1,304**	**$ 108**
Retiree medical and life insurance plans	**211**	**14**
Nonqualified defined benefit pension plans	**12**	**15**
Foreign benefit and other plans	**5**	**—**
	1,532	**137**
Prior service (cost) credit		
Defined benefit pension plans	**(12)**	**57**
Retiree medical and life insurance plans	**7**	**(15)**
	(5)	**42**
	$ 1,527	**$ 179**

The prior service cost (credit) included in Accumulated other comprehensive loss at the end of 2007 and expected to be recognized in net pension cost during 2008 is $80 million ($52 million net of tax) for our defined benefit pension plans and $(25) million ($(16) million net of tax benefit) for our retiree medical and life insurance plans. The amounts of prior service cost for the nonqualified, foreign and other plans is not expected to be material. In addition, the amount of unrecognized actuarial losses expected to be recognized in net pension cost in 2008 is not expected to be material for any of the plans. No plan assets are expected to be returned to us during the year ended December 31, 2008.

The net pension cost as determined by FAS 87, *[illegible]*, and the net postretirement benefit cost as determined by FAS 106, *[illegible]*, related to our plans include the following components:

[illegible]	*2007*	*2006*	*2005*
Defined benefit pension plans			
Service cost	**$ 862**	$ 896	$ 852
Interest cost	**1,631**	1,557	1,535
Expected return on plan assets	**(2,063)**	(1,930)	(1,740)
Recognized net actuarial losses	**168**	335	392
Amortization of prior service cost	**89**	80	85
Total net pension expense	**$ 687**	$ 938	$ 1,124
Retiree medical and life insurance plans			
Service cost	**$ 51**	$ 57	$ 59
Interest cost	**189**	191	208
Expected return on plan assets	**(144)**	(121)	(112)
Recognized net actuarial losses	**21**	46	49
Amortization of prior service (credit) cost	**(24)**	(23)	14
Total net postretirement expense	**$ 93**	$ 150	$ 218

The actuarial assumptions used to determine the benefit obligations at December inD1.585Tc[($9)1585(3)]TJ/F61Tf6.4850TD0

The increase in the discount rate from December 31, 2006 to December 31, 2007 resulted in a decrease in the projected benefit obligations of our defined benefit pension plans at December 31, 2007 of approximately $1,792 million.

The actuarial assumptions used to determine the net expense related to our defined benefit pension and postretirement benefit plans for the years ended December 31, 2007, 2006 and 2005, as appropriate, are as follows:

	[illegible]		
	2007	*2006*	*2005*
Discount rates	**5.875%**	5.625%	5.75%
Expected long-term rates of return on assets	**8.50**	8.50	8.50
Rates of increase in future compensation levels	**5.00**	5.00	5.50

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. That assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return

LMIMCO's investment policies require that asset allocations of defined benefit pension plans be maintained within the following ranges:

[illegible]	[illegible]
U.S. equity securities	20 – 60%
Non-U.S. equity securities	10 – 40%
Debt securities	20 – 40%
Cash	

Legal Proceedings

On November 30, 2007, the Department of Justice filed a complaint in partial intervention in a lawsuit filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Northern District of Texas, United States ex rel. Becker and Spencer v. Lockheed Martin Corporation et al., alleging that we should have known that a subcontractor falsified and inflated invoices submitted to us that were passed through to the government. We dispute the allegations and are defending against them.

On February 22, 2007, we received a subpoena issued by a grand jury in the United States District Court for the District of Columbia. The subpoena requests documents related to our participation in a competition conducted in 2004-2005 by the National Archives and Records Administration for a $3 million contract to provide Electronic Document System (eDOCS) Support Services. We are cooperating with the investigation.

On March 27, 2006, we received a subpoena issued by a grand jury in the United States District Court for the Northern District of Ohio. The subpoena requested documents related to our application for patents issued in the United States and the United Kingdom relating to a missile detection and warning technology. In August 2007, the investigation was closed, with no charges to be filed.

On February 6, 2004, we submitted a certified contract claim to the United States requesting contractual indemnity for remediation and litigation costs (past and future) related to our former facility in Redlands, California. We submitted the claim consistent with a claim sponsorship agreement with The Boeing Company (Boeing), executed in 2001, in Boeing's role as the prime contractor on the Short Range Attack Missile (SRAM) program. The contract for the SRAM program, which formed a significant portion of our work at the Redlands facility, had special contractual indemnities from the U.S. Air Force, as authorized by Public Law 85-804. On August 31, 2004, the United States denied the claim. Our appeal of that decision is pending with the Armed Services Board of Contract Appeals.

On August 28, 2003, the Department of Justice (the DoJ) filed complaints in partial intervention in two lawsuits filed under the qui tam provisions of the Civil False Claims Act in the United States District Court for the Western District of Kentucky, United States ex rel. Natural Resources Defense Council, et al v. Lockheed Martin Corporation, et al, and United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al. The DoJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing, and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. We dispute the allegations and are defending against them.

Nine lawsuits were filed against us as a result of an incident in July 2003 at our aircraft parts manufacturing facility in Meridian, Mississippi, which resulted in the deaths of seven employees and the wounding of eight others. Claims were brought against us by the estates of deceased employees, wounded employees, and employees and their relatives who claimed, among other things, tort and race discrimination causes of action. All claims have been settled or dismissed by the

liabilities totaling $189 million, both of which will be reduced as the launch services are provided. The assets relate primarily to advances we have made to Khrunichev for future launches, and the liabilities relate primarily to advances we have received from customers for future launches. Any potential earnings impact resulting from our inability to realize the assets we have recorded related to LKEI and ILS would be partially mitigated by our not recognizing the $67 million deferred net gain on the transaction.

Investment in ULA

In connection with the formation of ULA (see Note 2), both we and Boeing have each committed to providing up to $25

profit where amounts are reconciled to consolidated totals, all activities other than those pertaining to the principal business segments are included in "Corporate activities."

The FAS/CAS pension adjustment represents the difference between pension expense or income calculated for financial reporting purposes under GAAP in accordance with FAS 87, and pension costs calculated and funded in accordance with U.S. Government Cost Accounting Standards (CAS), which are reflected in our business segment results. CAS is a major factor in determining our pension funding requirements, and governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts, and therefore recognized in segment Net sales. The results of operations of our segments 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 similar to other government and commercial contracts; however, these intercompany transactions are eliminated in consolidation and for purposes of the presentation of Net sales in the related table that follows. 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:

- **Aeronautics –** Engaged in the design, research and development, systems integration, production, sustainment, support and upgrade of advanced military aircraft, air vehicles and related technologies. Customers include various government agencies and the military services of the United States and allied countries around the world. Major products and programs include design, development, production and sustainment of the F-35 stealth multi-role international coalition fighter; the F-22 air dominance and multi-mission stealth fighter; the F-16 international multi-role fighter; the C-130J tactical transport aircraft; the C-5 strategic airlifter modernization; and support for the F-117 stealth fighter, P-3 maritime patrol aircraft, S-3 multi-mission aircraft and U-2 high-altitude reconnaissance aircraft. We also produce major components for Japan's F-2 fighter and are a co-developer of the T-50 advanced jet trainer. The Skunk Works® advanced development organization provides next generation innovative system solutions using rapid prototyping and advanced technologies.

- **Electronic Systems –** Engaged in the design, research, development, integration, production and sustainment of high performance systems and subsystems for undersea, shipboard, land and airborne applications. Major product lines include: tactical missiles and weapon fire control systems; air and sea-based missile defense systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; ground combat vehicle integration; avionics, systems integration and program management for fixed and rotary-wing aircraft systems; radars; surveillance and reconnaissance systems; and simulation and training systems.

- **Information Systems & Global Services** – Engaged in providing federal services, Information Technology (IT) solutions and advanced technology expertise across a broad spectrum of applications and customers. Provides full life cycle support and highly specialized talent in the areas of software and systems engineering, including capabilities in space, air and ground systems, and also provides logistics, mission operations support, peacekeeping and nation-building services for a wide variety of U.S. defense and civil government agencies in the U.S. and abroad.

- **Space Systems –** Engaged in the design, research, development, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. Satellite product line includes both government and commercial satellites. Strategic & Defensive Missile Systems includes missile defense technologies and systems and fleet ballistic missiles. Space Transportation Systems includes the next generation human space flight system known as the Orion crew exploration vehicle, as well as the Space Shuttle's external tank and commercial launch services using the Atlas V launch vehicle. Through ownership interests in two joint ventures, Space Transportation Systems also includes Space Shuttle processing activities and expendable launch services for the U.S. Government.

Selected Financial Data by Business Segment

(I m. .o)	***2007***	*2006*	*2005*
Net sales			
Aeronautics	**$12,303**	$12,188	$12,349
Electronic Systems	**11,143**	10,519	9,811
Information Systems & Global Services	**10,213**	8,990	8,233
Space Systems	**8,203**	7,923	6,820
Total	**$41,862**	$39,620	$37,213
Operating profit [a]			
Aeronautics	**$ 1,476**	$ 1,221	$ 1,018
Electronic Systems	**1,410**	1,264	1,078
Information Systems & Global Services	**949**	804	720
Space Systems	**856**	742	605
Total business segments	**4,691**	4,031	3,421
Unallocated Corporate expense, net [b]	**(164)**	(261)	(568)
Operating profit	**$ 4,527**	$ 3,770	$ 2,853
Intersegment revenue			
Aeronautics	**$ 147**	$ 164	$ 134
Electronic Systems	**595**	579	588
Information Systems & Global Services	**1,054**	1,118	1,142
Space Systems	**150**	140	179
Total	**$ 1,946**	$ 2,001	$ 2,043
Depreciation and amortization of plant and equipment			
Aeronautics	**$ 181**	$ 154	$ 137
Electronic Systems	**227**	190	178
Information Systems & Global Services	**68**	65	55
Space Systems	**136**	132	134
Total business segments	**612**	541	504
Corporate activities	**54**	59	51
Total	**$ 666**	$ 600	$ 555
Amortization of purchased intangibles			
Aeronautics	**$ 50**	$ 50	$ 50
Electronic Systems	**27**	47	42
Information Systems & Global Services	**55**	46	39
Space Systems	**9**	9	8
Total business segments	**141**	152	139
Corporate activities	**12**	12	11
Total	**$ 153**	$ 164	$ 150
Expenditures for property, plant and equipment			
Aeronautics	**$ 235**	$ 221	$ 214
Electronic Systems	**327**	334	326
Information Systems & Global Services	**75**	74	88
Space Systems	**228**	226	192
Total business segments	**865**	855	820
Corporate activities	**75**	38	45
Total	**$ 940**	$ 893	$ 865

[c] Net earnings for the first quarter of 2007 included a gain related to the sale of certain land which increased Net earnings by $16 million ($0.04 per share), earnings from the reversal of legal reserves following the settlement of certain litigation related to a waste remediation contract which increased Net earnings by $14 million ($0.03 per share), and a reduction in Income tax expense of $59 million ($0.14 per share) resulting from the closure of certain IRS examinations.

[d] Net earnings for the second quarter of 2007 included a gain from the sale of our remaining interest in Comsat International which increased Net earnings by $16 million ($0.04 per share).

[e] Net earnings for the first quarter of 2006 included a gain related to the sale of 21 million of our Inmarsat shares which increased Net earnings by $83 million ($0.19 per share) and a gain related to the sale of our interest in Space Imaging which increased Net earnings by $15 million ($0.03 per share).

[f] Net earnings for the second quarter of 2006 included a gain related to the sale of certain land which increased Net earnings by $13 million ($0.03 per share).

[g] Net earnings for the third quarter of 2006 included a gain related to the sale of certain land which increased Net earnings by $20 million ($0.05 per share), expenses associated with the debt exchange which decreased Net earnings by $11 million ($0.03 per share), and a tax benefit related to claims filed for additional ETI tax benefits for sales in previous years which increased Net earnings by $62 million ($0.14 per share).

[h] Net earnings for the fourth quarter of 2006 included earnings from the reversal of transaction-related reserves recorded in connection with our sale of the Aerospace Electronics Systems business which increased Net earnings by $19 million ($0.04 per share).

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

See Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Controls and Procedures" beginning on page 57 of this Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors required by Item 401 of Regulation S-K is included under the caption “Election of Directors” in our definitive Proxy Statement to be filed pursuant to Regulation 14A (the 2008 Proxy Statement), and that information is incorporated by reference in this Form 10-K. Information concerning executive officers required by Item 401 of Regulation S-K is located under Part I, Item 4(a) of this Form 10-K. The information required by Item 405 of Regulation S-K concerning compliance with Section 16(a) of the Exchange Act is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2008 Proxy Statement, and that information is incorporated by reference in this Form 10-K. The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is included under the captions “Corporate Governance – Stockholder Nominees” and “Committees of the Board of Directors – Audit Committee” in our 2008 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is included in the text and tables under the caption “Executive Compensation” and “Director’s Compensation” in the 2008 Proxy Statement and that information is incorporated by reference in this Form 10-K. The information required by Items 407(e)(4) and (e)(5) of Regulation S-K is included under the captions “Compensation Committee Interlocks and Insider Participation” and “Executive Compensation – Compensation Committee Report” in our 2008 Proxy Statement, and that information is furnished by incorporation by reference in this Form 10-K.

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

The information required by this Item 12 is included under the heading “Securities Owned by Directors, Nominees and Named Executive Officers,” “Security Ownership of Certain Beneficial Owners,” and “Equity Compensation Plan Information” in the 2008 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

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

The information required by Item 404 and 407(a) of Regulation S-K concerning certain relationships and related transactions is included under the caption “Corporate Governance – Related Person Transaction Policy,” “Corporate Governance – Certain Relationships and Related Transactions of Directors, Executive Officers and 5 Percent Stockholders,” and “Corporate Governance – Director Independence” in our 2008 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is included under the caption “Ratification of Appointment of Independent Auditors – Fees Paid to Independent Auditors” in the 2008 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) List of Financial Statements filed as part of the Form 10-K.

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

	Page
Consolidated Statement of Earnings – Years ended December 31, 2007, 2006, and 2005	62
Consolidated Balance Sheet – At December 31, 2007 and 2006	63
Consolidated Statement of Cash Flows – Years ended December 31, 2007, 2006, and 2005	64
Consolidated Statement of Stockholders' Equity – Years ended December 31, 2007, 2006, and 2005	65
Notes to Consolidated Financial Statements – December 31, 2007	66

The report of our independent registered public accounting firm with respect to internal control over financial reporting and their report on the above-referenced financial statements appear on pages 60 and 61 of this Form 10-K. Their consent appears as Exhibit 23 of this Form 10-K.

(2) List of Financial Statement Schedules filed as part of this Form 10-K.

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

(3) Exhibits.

3.1 Charter of Lockheed Martin Corporation (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on April 27, 2006).

3.2 Bylaws of Lockheed Martin Corporation as amended and restated effective February 22, 2007 (incorporated by reference to Exhibit 3.2 of Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC February 26, 2007).

4.1 Indenture dated May 16, 1996, between the Corporation, Lockheed Martin Tactical Systems, Inc., and First Trust of Illinois, National Association as Trustee (incorporated by reference to Exhibit 4 to Lockheed Martin Corporation's Form 8-K filed with the SEC on May 20, 1996).

4.2 Indenture dated as of August 13, 2003, between Lockheed Martin Corporation and The Bank of New York, as Trustee, for the $1,000,000,000 aggregate principal amount outstanding of Floating Rate Convertible Senior Debentures due August 13, 2033 (incorporated by reference to Exhibit 4.4 to Lockheed Martin Corporation's Registration Statement on Form S-3 (No. 333-108333) filed with the SEC on August 28, 2003).

4.3 First Supplemental Indenture between Lockheed Martin Corporation and The Bank of New York, as Trustee, dated December 6, 2004, for the $1,000,000,000 aggregate principal amount outstanding of Floating Rate Convertible Senior Debentures due August 13, 2033 (incorporated by reference to Exhibit 99 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on December 8, 2004).

4.4 Indenture dated as of August 30, 2006 for 6.15% Notes due 2036 (incorporated by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q filed with the SEC on October 27, 2006).

See also Exhibits 3.1 and 3.2.

No other instruments defining the rights of holders of long-term debt are filed since the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of the Corporation on a consolidated basis. The Corporation agrees to furnish a copy of such instruments to the SEC upon request.

10.1 Lockheed Martin Corporation Directors Deferred Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

10.2 Lockheed Martin Corporation Directors Deferred Compensation Plan as amended and restated effective October 27, 2006 (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Current Report on

10.18 Resolutions of Board of Directors of Lockheed Martin Corporation dated June 27, 1997 amending Lockheed Martin Non-Qualified Pension Plans (incorporated by reference to Exhibit 10 (ppp) to Lockheed Martin

10.36 Form of the Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2004-2006

SIGNATURES

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

LOCKHEED MARTIN CORPORATION

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

Signature	***Title***	***Date***
/s/ Robert J. Stevens* ROBERT J. STEVENS	Chairman, President, Chief Executive Officer and Director	February 28, 2008

Exhibit 31.1

I, Robert J. Stevens, Chairman, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Lockheed Martin Corporation;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and

Exhibit 31.2

I, Bruce L. Tanner, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Lockheed Martin Corporation;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Bruce L. Tanner

BRUCE L. TANNER
Executive Vice President and Chief Financial Officer

Date: February 28, 2008

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report of Lockheed Martin Corporation (the “Corporation”) on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bruce L. Tanner, Executive Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Bruce L. Tanner

Date: February 28, 2008

A signed original of this written statement required by Section 906 h4t and7tCEbn5(by)-302(my) Repor8ation 553Tm[5idN)

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GENERAL INFORMATION

D m 31, 2007

As of December 31, 2007, there were approximately 40,000 holders of record of Lockheed Martin common stock and 411,609,150 shares outstanding.

TRANSFER AGENT & REGISTRAR
Computershare Trust Company, N.A.
Shareholder Services
P.O. Box 43078
Providence, Rhode Island 02940-3078
Telephone: 1-877-498-8861
TDD for the hearing impaired: 1-800-952-9245
Internet: http://www.computershare.com/investor

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, Computershare Trust Company, N.A. at 1-877-498-8861, 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
621 East Pratt Street
Baltimore, MD 21202

COMMON STOCK
Stock symbol: LMT
Listed: New York Stock Exchange (NYSE)

2007 FORM 10-K
Our 2007 Form 10-K is included in this Annual Report in its entirety with the exception of certain exhibits. All of the exhibits may be obtained on our Investor Relations homepage at www.lockheedmartin.com/investor by accessing our SEC filings. **In addition, stockholders may obtain a paper copy of any exhibit or a copy of the Form 10-K by writing to:**

Jerome F. Kircher III — Vice President, Investor Relations
Lockheed Martin Corporation
Investor Relations Department MP 280
6801 Rockledge Drive, Bethesda, MD 20817

The CEO/CFO certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act are included as Exhibits 31.1 and 31.2 to our 2007 Form 10-K, and are included in this Annual Report. In addition, an annual CEO certification regarding compliance with the NYSE's Corporate Governance listing standards was submitted by our Chairman, President and CEO to the NYSE on May 2, 2007.

Financial results, stock quotes, dividend news as well as other Lockheed Martin information are available by calling 1-800-568-9758. A directory of available information will be read to the caller and certain of the information can also be received by mail, fax or E-mail. You may also reach Shareholder Services for account information or Investor Relations for additional information on Lockheed Martin via the toll-free number.