Lockheed Martin Corporation
2008 Annual Report

LOCKHEED

Financial Strength

Overall, 2008 was an excellent year for Lockheed Martin as sales reached a record $42.7 billion, and we grew our earnings per share for the seventh consecutive year at a double-digit rate, from $7.10 in 2007 to $7.86 in 2008. The fourth quarter of the year represented the 24th consecutive quarter of positive cash from operations. We repurchased $2.9 billion of stock, reduced more than $600 million in long-term debt, and paid dividends totaling $737 million during 2008. It was the sixth

146,000 dedicated and supremely talented individuals, we work to strengthen the national defense; safeguard the homeland; and provide critical systems and services for the civilian agencies of the federal government.

As a company entrusted with these missions, Lockheed Martin is more than a leading systems integrator and aerospace company – it is a national asset. We view Lockheed Martin as a critical resource, not only because of this enterprise's service to the national security of the United States and its allies, but also in the contributions this company makes to the economy in terms of jobs and job creation.

Remaining competitive and able to shape the game in a changing industry requires that our management team encourages innovation at every level. Lockheed Martin's entrepreneurial edge has been a key differentiator in this industry. In 2008, our Advanced Development Programs, the famed Skunk Works, was recognized for its 65 years of service in peacetime and in war with the National Medal of Technology and Innovation presented by the president of the United States.

Global Security At The Leading Edge

Lockheed Martin's technology edge is the result of our efforts to conduct research in areas that can bring new products and advancements to the market. Some of the breathtaking achievements we saw in 2008 are ensuring Lockheed Martin can and will build for future growth.

In October, Lockheed Martin established its Center for Cyber Security Innovation (CCSI), which will deliver our cyber security solutions across the company to benefit our customers long-term. Lockheed Martin's cyber security experts apply real-time protection for customer networks across a diverse set of defense, intelligence, and civilian agencies.

Missile defense remains an important priority for the United States and its allies. In February, our Aegis ballistic missile defense system destroyed an errant satellite, preventing an uncontrolled and unpredictable re-entry into Earth's atmosphere.

On the surface of Mars, the Lockheed Martin-built Phoenix Lander has broadened our understanding of this mysterious planet. We continue to partner with NASA, at the forefront of interplanetary science, as the designer and builder of the next space vehicle that will investigate current and past climate change on Mars.

Our F-35 Lightning II combat aircraft continued to meet important milestones in 2008, and we are confident our first production deliveries to the U.S. Air Force will be achieved in 2010. Among the achievements of the F-35 last year were successful aerial re-fueling trials, the first flight of the short-takeoff/vertical landing (STOVL) variant, and the first supersonic flight. The Norwegian and Dutch ministries of defense also selected the F-35 as their next-generation fighter aircraft.

A Culture of Responsibility

These accomplishments reflect our progress in creating an environment that breaks down the barriers that inhibit teamwork, enabling us to offer the most effective solutions for our customers.

We are creating a corporate culture that puts a premium on talent development. Hiring and retaining highly-skilled employees is critical to our ability to compete in the years ahead. In February 2009, we opened our new Center for Leadership Excellence on the campus of our Bethesda headquarters. This state-of-the-art conference and training facility will provide our employees opportunities for professional advancement, as well as a venue for meeting with our customers and shareholders.

The men and women of Lockheed Martin are tireless in their dedication to excellence on the job and in their communities. In 2008, the people of Lockheed Martin volunteered more than 1.2 million hours to important causes such as bike-a-thons for medical research, help for the homeless, and USO stuffing parties that provide care packages to our troops overseas. We salute the employees of Lockheed Martin who are deployed in the defense of freedom; their sacrifice ensures that the light of liberty will not be dimmed.

We foster a culture that puts the proper not TjT(*merrhg3 evstv) TjlM is

Corporate Directory

(As of February 26, 2009)

Board of Directors

E. C. “Pete” Aldridge Jr.
Former Under Secretary
of Defense

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

David B. Burritt
Vice President and
Chief Financial Officer
Caterpillar Inc.

James O. Ellis Jr.
President and
Chief Executive Officer
Institute of Nuclear Power
Ie Of

Executive Officers

U S a

SECURITIES AND EXCHANGE COMMISSION

Wa , D.C. 20549

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

For the fiscal year ended December 31, 2008

Commission file number 1-11437

LOCKHEED MARTIN CORPORATION

(Exact name of registrant as specified in its charter)

Ma a	**52-1893632**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6801 R D , B a, Ma a 20817-1877 (301/897-6000)
(Address and telephone number of principal executive offices)

S a S 12( ) A :

T Ea C a	**Na a a**
Common Stock, $1 par value	New York Stock Exchange, Inc.

S a S 12( ) A : N

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (check one).
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at

LOCKHEED MARTIN CORPORATION

FORM 10-K
F F a Y a E D 31, 2008

CONTENTS

Pa I		Pa
Item 1	Business	4
Item 1A	Risk Factors	18
Item 1B	Unresolved Staff Comments	24
Item 2	Properties	25
Item 3	Legal Proceedings	25
Item 4	Submission of Matters to a Vote of Security Holders	26
Item 4(a)	Executive Officers of the Registrant	26
Pa II		
Item 5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6	Selected Financial Data	31
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
	Financial Section Roadmap	33
	Industry Considerations	34
	Critical Accounting Policies	38
	Results of Operations	44
	Discussion of Business Segments	45
	Liquidity and Cash Flows	51
	Capital Structure and Resources	53
	Contractual Commitments and Off-Balance Sheet Arrangements	55
	Acquisition and Divestiture Activities	57
	Quantitative and Qualitative Disclosure of Market Risk	58
	Recent Accounting Pronouncements	59
	Controls and Procedures	59
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	59
Item 8	Financial Statements and Supplementary Data	60
	Management's Report on the Financial Statements and Internal Control Over Financial Reporting	60

LOCKHEED MARTIN CORPORATION

FORM 10-K
F F a Y a E D 31, 2008

CONTENTS ( )

Pa II ( )		Pa
	5. Receivables	77
	6. Inventories	78
	7. Property, Plant and Equipment	78
	8. Income Taxes	78
	9. Debt	81
	10. Postretirement Benefit Plans	82
	11. Stockholders' Equity	87
	12. Stock-Based Compensation	88
	13. Legal Proceedings, Commitments and Contingencies	90
	14. Acquisitions and Divestitures	92
	15. Fair Value Measurements	94
	16. Leases	95
	17. Summary of Quarterly Information (Unaudited)	96
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	96
Item 9A	Controls and Procedures	96
Item 9B	Other Information	96

Pa III

In 2008, net sales of $11.6 billion at Electronic Systems represented 27% of our total net sales. Electronic Systems has three principal lines of business, and the percentage each contributed to its 2008 net sales is:

☐ Maritime Systems & Sensors

As part of our adjacent market strategy, MS2 pursued and was awarded the Fleet Automotive Support Initiative-Global contract by the Defense Logistics Agency to provide parts support for all of the U.S. military's land vehicles.

The U.S. Navy accepted delivery of the Littoral Combat Ship *Freedom* (LCS-1) in September 2008 following successful completion of builder's and acceptance trials, and commissioned the ship in Milwaukee, Wisconsin in November. The *USS Freedom* is the first in a new class of ships designed to provide the added flexibility of interchangeable modular mission packages and the ability to operate in coastal waters. Operational restrictions within the Great Lakes prevented the testing of the ship's weapons systems which are scheduled to be demonstrated in follow-on acceptance trials on the open sea in Spring 2009.

MS2 also completed two acquisitions during 2008. We acquired our former co-owner's interest in RLM Holdings Pty Ltd, headquartered in Adelaide, Australia in August 2008. We now own 100% of that business. The company specializes in systems engineering, software development, system integration, testing, and support of large, complex, leading-edge systems. In September 2008, we completed our acquisition of Aculight Corporation, based in Bothell, Washington. Aculight is focused on providing laser-based solutions for national defense and aerospace customers. The company has expertise in countermeasures, laser radar, high-power directed energy and other applications.

Missiles & Fire Control

Missiles & Fire Control develops and produces land-based, air and theater missile-defense systems, tactical battlefield missiles, electro-optical systems, fire-control and sensor systems, and precision-guided weapons and munitions. We also provide sustainment and logistic services in support of fire control and tactical missile programs.

The PAC-3 missile is an advanced defensive missile designed to intercept incoming airborne threats. During 2008, we delivered a total of 141 missiles, including the first FMS PAC-3 test missile and ground support equipment for Germany. A fourth quarter award was received for 172 missiles, which includes 108 U.S. missiles and 64 missiles for FMS customers.

The Arrowhead fire control system provides modernized targeting and piloting capabilities for Apache helicopter crews to the U.S. Army and international customers, continuing our over 20-year legacy of providing pilot night-vision sensors and targeting capabilities for the Apache. More than 1,000 sensor systems have been delivered to the U.S. Army and foreign military customers since 1983. The Arrowhead kits will replace certain legacy hardware on the U.S. Army and other international customers' Apache helicopters to provide a modernized sensor for safer flight in day, night and bad weather missions and improved weapons targeting capability. The initial Arrowhead production contract was awarded in 2003 and we delivered our 500th Arrowhead system in 2008. We received awards in 2008 for Arrowhead Lot 5 from the U.S. Army and for international production which authorized 110 additional Arrowhead kits through November 2010. The U.S. Army also awarded us a contract for modernization of the day sensor assembly and legacy obsolescence replacement.

We lead an industry team to provide the new fleet of “Marine One” helicopters for the President of the United States. VH-71 is the Presidential Helicopter replacement program, and is planned to provide a command and control capability to enable the President to perform the full duties of the office while airborne. We are currently performing on Increment One, which includes test vehicles and pilot production aircraft. Flight tests continue on two test and one production aircraft at Naval Air Station Patuxent River, Maryland. Integration / second phase production work continues on two test and one production aircraft at our facility in Owego, New York. Work on Increment Two has remained stopped on all but a limited number of tasks at our customer’s request since December 21, 2007 as efforts with the U.S. Navy have been focused on identifying cost drivers, evaluating requirements, and analyzing funding profiles for the next phase of the program. As had been anticipated, the Secretary of the Navy notified Congress on January 28, 2009 that there is a Nunn-McCurdy breach, which occurs when projected program costs exceed certain defined thresholds. This notification initiates the process to achieve recertification for continuance of the VH-71 program.

In 2008, net sales of $11.6 billion at IS&GS represented 27% of our total net sales. IS&GS has three principal lines of business, and the percentage that each contributed to its 2008 net sales is:

F-35

The F-35 Lightning II is designed to be a superior, stealth multi-role aircraft offering profound improvements in lethality, survivability, affordability, and supportability over all existing international multi-role aircraft. The United States and its international partners (the United Kingdom, Italy, the Netherlands, Turkey, Canada, Australia, Denmark, and Norway) are working under a memorandum of understanding that provides a long-term business framework for partner aircraft production, sustainment, and future upgrades.

Since 2001, Aeronautics has been designing, testing and building the F-35 family of aircraft and sustainment systems to meet the joint and coalition requirements of our customers. The F-35's multiple-variant designs include:

- The F-35A, a conventional takeoff and landing variant (CTOL);
- The F-35B, a short takeoff and vertical landing variant (STOVL); and
- The F-35C, a carrier-based variant (CV).

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 STOVL attack aircraft for the United Kingdom Royal Air Force and Royal Navy.

Calendar-year 2008 marked the seventh full year of performance on the F-35 development contract. Testing of airworthiness and systems evaluation using the first CTOL aircraft continued in 2008 with its first deployment to Edwards Air Force Base, California in October and its transition from subsonic to supersonic flight in November. The first STOVL aircraft achieved first flight and entered the flight test program in June 2008 and is planned to fly in the STOVL mode in 2009. The first flight of the CV aircraft also is planned to occur in 2009. Production continues on the remaining development contract flight test aircraft (all variants) and both CTOL and STOVL production aircraft in Low Rate Initial Production (LRIP) Lots 1 and 2. In late 2008, the U.S. Congress approved full funding for the third LRIP lot which will include seven CTOL, seven STOVL, and an expected three international test airplanes (for the United Kingdom and the Netherlands) for a total of 17 aircraft. Advanced procurement funding for the fourth LRIP production lot of 30 U.S. airplanes was also approved, including funding for the CV configuration.

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

In production since 1997, the F-22 Raptor has unmatched capabilities compared with any other fighter aircraft. The capabilities include enhanced maneuverability, stealth, supercruise speed (speed in excess of Mach 1.5 without afterburner) and advanced integrated avionics that enable pilots to attack critical air and surface targets to gain and maintain air superiority against air-to-air and ground-to-air threats. The program is in full-rate production. Through 2008, a total of 133 F-22s have been delivered to the U.S. Air Force, including 23 Raptors delivered during 2008. At December 31, 2008, there were 62 F-22s in backlog. In November 2008, we were awarded a Lot 10 advance procurement contract for four F-22 aircraft with an option for an additional 16 aircraft.

In June 2008, we began delivering F-22s to the fourth operational unit, the 8th Fighter Squadron at Holloman Air Force Base (AFB), New Mexico, and to the U.S. Air Force Weapons School at Nellis AFB, Nevada. Also in 2008, the Raptor completed its deployment to the Royal International Air Tattoo and Farnborough Air shows, its first international air show deployments. The Raptor also participated in its second "Red Flag" exercise, a large-scale force-on-force exercise designed to prepare joint forces to respond to crises around the world, and again demonstrated unique air dominance capabilities essential to ensuring the success of U.S. and coalition forces for decades to come. In 2008, the F-22 surpassed more than 50,000 accumulated flight hours while establishing new standards for capability and maturity.

Both the F-35 and F-22 are complementary 5TH Generation fighters, combining stealth, supersonic speed, high maneuverability, sensor fusion and other attributes to achieve a level of capability and survivability unmatched by earlier generation combat aircraft. This allows them to survive in high threat environments characterized by the proliferation of multiple-fired surface to air missiles and advanced air-to-air weapons. While both aircraft provide significant capability advances over the legacy 4TH Generation aircraft, each is designed for unique mission capabilities. The requirements for

Advanced Research and Development and Other

We are involved in advanced development programs incorporating innovative design and rapid prototype applications. Our Advanced Development Programs (ADP) organization, known as the Skunk Works, is focused on future systems including next generation capabilities for both long-range strike and air mobility. We continue to explore technology advancement and insertion in existing aircraft, such as the F-35, F-22, F-16 and C-130. We also are involved in numerous network enabled activities that allow separate systems to work together to increase effectiveness and continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design and development.

We have made unmanned air systems one focus of our ADP efforts, and are developing the operational concepts and enabling technologies to provide these assets to the DoD in a cost effective manner. In 2008, the Skunk Works was presented a 2007 National Medal of Technology and Innovation award by President George W. Bush for its inventiveness and contributions to the aerospace industry throughout its 65-year history.

Global Sustainment

The Global Sustainment enterprise objective is to ensure mission success throughout the life-cycle of Lockheed Martin aircraft. We provide a full range of logistics support, sustaining engineering, aviation upgrades, modifications, and maintenance, repair and overhaul (MRO) for all of our lines of aircraft, including the F-35, the F-22, the F-16, the C-130, the C-5, the P-3 Orion maritime patrol aircraft and the U-2 Dragon Lady high-altitude reconnaissance aircraft. As the original equipment manufacturer for numerous platforms, we are focused on expanding our global sustainment services, an increasingly important portion of the Aeronautics business.

We have developed the Autonomic Logistics and Global Sustainment (ALGS) solution for the F-35 Lightning II 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.

Our support of the F-22 continues to receive accolades from our DoD customer, winning the Contractor-Military Collaboration of the Year award for F-22 Sustainment at the Defense Logistics 2008 Conference in December and the 2008 Performance-Based Logistics (PBL) System Level award from the Under Secretary of Defense for Acquisition, Technology and Logistics, at the Aerospace Industries Association Fall Product Support Conference in September. Under the Follow-on Agile Sustainment for the Raptor (FASTeR) program, the DoD approved a plan for Lockheed Martin to perform as the product support integrator under a sole source 10-year performance based sustainment acquisition. The contract was awarded in February 2008; the 2009 FASTeR contract option was exercised by the U.S. Air Force in December 2008.

Under the Falcon 2020 program, we provide U.S. and international F-16 operators with avionics and structural upgrade kits to enable those customers to keep their fleets viable for the future. We also provide engineering services, technical publications, maintenance, supply chain support, and field support including support of military operations in Iraq and Afghanistan.

In Air Mobility, we continue as a key member of the C-130 Hercules team, which includes Rolls Royce and Marshall Aerospace, and which was awarded the Hercules Integrated Operational Support (HIOS) contract for the long-term support of the United Kingdom’s fleet of C-130 aircraft. We continue our partnering agreement, signed in 2007, for the long-term support of Italy’s C-130J fleet. We also offer center wing box modifications and avionics upgrades to customers who fly legacy versions of the Hercules in addition to the support and partnerships provided to sustain our newest tactical aircraft.

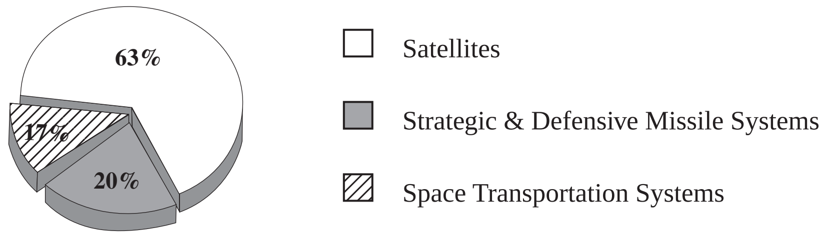
The U-2 has been the backbone of our nation’s airborne intelligence collection operations for several decades, and continues to provide unmatched operational capabilities in support of Operation Enduring Freedom. As a result of the Reconnaissance Avionics Maintainability Program upgrade, which includes 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 at the Donaldson Center in Greenville, South Carolina, we offer “nose-to-tail” aircraft maintenance, modifications and state-of-the-art upgrades, field team support and a full range of depot services and support to myriad customers worldwide. In mid-2008, we established a global supply chain service capability in Johnstown, Pennsylvania, a one-stop supply chain services provider supporting U.S. military, international government, and commercial customers with operational field sites and a knowledgeable, experienced staff. 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. Our Kelly Aviation Center, L.P. joint venture with Rolls-Royce provides 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, 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.

In 2008, net sales of $8 billion at Space Systems represented approximately 19% of our total net sales. Space Systems has three principal lines of business, and the percentage that each contributed to its 2008 net sales is:



In 2008, U.S. Government customers accounted for approximately 96% of the segment's net sales.

Satellites

Our Satellites business designs, develops, manufactures, and integrates advanced technology satellite systems for

We also continued to conduct risk reduction and system trade studies supporting the U.S. Air Force's Transformational Satellite program. The program represents the next step toward transitioning the DoD wideband and protected communications satellite architecture into a single network comprised of multiple satellite, ground, and user segment systems programs. Future competitions for government systems include initiatives for transformational communications, planetary exploration, and science.

Patents

We routinely apply for, and own a substantial number of U.S. and foreign patents related to the products and services

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.

Backlog

At December 31, 2008, our total negotiated backlog was $80.9 billion compared with $76.7 billion at the end of 2007.

ITEM 1A. RISK FACTORS

An investment in our common stock or debt securities involves risks and uncertainties. While we attempt to identify, manage and mitigate risks to our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. You should consider the following factors carefully, in addition to the other information contained in this Form 10-K, before deciding to purchase our securities.

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some instances, impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of our contracts, or debarment from bidding on contracts.

In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. Government may terminate any of our government contracts and, in general, subcontracts, at its convenience, as well as for default based on performance. Upon termination for convenience of a fixed-price type contract, we normally are entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process and an allowance for profit on the contract or adjustment for loss if completion of performance would have resulted in a loss. Upon termination for convenience of a cost reimbursement contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. Such allowable costs would include our cost to terminate agreements with our suppliers and subcontractors. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination and is determined by negotiation.

A termination arising out of our default could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, on those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our services as a subcontractor.

In addition, our U.S. Government contracts typically span one or more base years and multiple option years. The U.S. Government generally has the right to not exercise option periods and may not exercise an option period if the agency is not satisfied with our performance on the contract.

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U.S. Government agencies, including the Defense Contract Audit Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. The U.S. Government also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, accounting, and information systems. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

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Elements of our business provide products and services where insurance or indemnification may not be available, including:

- Designing, developing, integrating, producing, sustaining and supporting products using:
  - advanced and unproven technologies,
  - explosive or other inherently dangerous components,
  - systems such as spacecraft, satellites, intelligence systems and homeland security applications that operate in extreme, high demand or high risk conditions;
- Designing, developing, integrating, producing, sustaining and supporting products to collect, archive, retrieve, fuse, distribute and analyze various types of information;
- Deploying employees in countries with unstable or competing governments, in areas subject to peacekeeping or humanitarian missions, in areas of armed conflict, at military installations, or accompanying armed forces in the field; and
- Training others to operate or repair advanced technology products or provide security or other homeland security-related services.

Failure of these products and services could result in extensive loss of life or property damage. Sometimes these products and services are controversial and our role in providing them could subject us to criticism or harm our reputation. Certain products and services may raise questions with respect to issues of civil liberties, intellectual property, trespass, conversion and similar concepts. The legal obligations of those working with developing technologies and the resulting products and services may raise issues of first impression and the legal decisions that do deal with these questions may differ from jurisdiction to jurisdiction on a global basis.

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, but 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 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 and may not be available to mitigate potential liability for products and services sold internationally. Where we are unable to secure indemnification or qualification under the SAFETY Act or regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, assumptions have to be made regarding the future impacts of efficiency initiatives and cost reduction efforts. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award and incentive fees are also used in estimating sales and profit rates based on actual and anticipated awards.

Because judgments and estimates are required, materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. For additional information on accounting policies and internal controls we have in place for recognizing sales and profits, see our discussion under Management's Discussion and Analysis – "Critical Accounting Policies – Contract Accounting / Revenue Recognition" beginning on page 38 and "Controls and Procedures" beginning on page 59, and "Sales and earnings" in Note 1 – Significant Accounting Policies on page 68 of this Form 10-K.

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Changes to GAAP arise from new and revised standards, interpretations and other guidance issued by the Financial Accounting Standards Board, the SEC, and others. In addition, the U.S. Government may issue new or revised Cost Accounting Standards or Cost Principles. The effects of such changes may include prescribing an accounting method where none had been previously specified, prescribing a single acceptable method of accounting from among several acceptable methods that currently exist, or revoking the acceptability of a current method and replacing it with an entirely different method, among others. Changes may result in unanticipated effects on our results of operations or other financial measures.

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Our earnings may be positively or negatively impacted by the amount of expense we record for our employee benefit plans. This is particularly true with expense for our pension plans. GAAP requires that we calculate expense for the plans using actuarial valuations. These valuations are based on assumptions that 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 for the following year are the discount rate, the expected long-term rate of return on plan assets, and the rate of increase in future compensation levels. In 2008, negative asset returns significantly and negatively affected our future benefit plan expense and requirements to fund the plans. Our benefit plan expense also may be affected by legislation and other government regulatory actions. For a discussion regarding how our financial statements may be affected by benefit plan accounting policies, see Management's Discussion and Analysis – "Critical Accounting Policies – Postretirement Benefit Plans" beginning on page 39 and Note 10 – Postretirement Benefit Plans beginning on page 82 of this Form 10-K.

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Our international business may pose greater risks than our domestic business due to the potential for greater volatility in foreign economic and political environments. In return, these greater risks are often accompanied by the potential to earn higher profits than from our domestic business. Our international business also is highly sensitive to changes in foreign national priorities and government budgets which may be further impacted by global economic conditions. Sales of military products are affected by defense budgets (both in the U.S. and abroad) and U.S. foreign policy.

Sales of our products and services internationally are subject to U.S. and local government regulations and procurement policies and practices including regulations relating to import-export control. Violations of export control rules could result in suspension of our ability to export items from one or more business units or the entire corporation. Depending on the scope of the suspension, this could have a material effect on our ability to perform certain international contracts. There also are U.S. and international regulations relating to investments, exchange controls and repatriation of earnings, as well as currency, political and economic risks. We also frequently team with international subcontractors and suppliers, who are exposed to similar risks.

In international sales, we face substantial competition from both domestic manufacturers and foreign manufacturers whose governments sometimes provide research and development assistance, marketing subsidies and other assistance for their products.

Some international customers require contractors to comply with industrial cooperation regulations and enter into industrial cooperation 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 55 of this Form 10-K.

I a a a a , a a a , a a , a a .

In pursuing our business strategy, we routinely conduct discussions, evaluate targets and enter into agreements regarding possible investments, acquisitions, joint ventures and divestitures. As part of our business strategy, we seek to identify acquisition opportunities that will expand or complement our existing products and services, or customer base, at attractive valuations. We often compete with others for the same opportunities. To be successful, we must conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete and close complex transactions and manage post-closing matters (*e.g.*, integrate acquired companies and employees, realize anticipated operating synergies and improve margins) efficiently and effectively. Investment, acquisition, joint venture and divestiture transactions often require

Most of the laws governing environmental matters include criminal provisions. If we were to be convicted of a violation of the Federal Clean Air Act or the Clean Water Act, the facility or facilities involved in the violation could be placed by the

In addition, general economic conditions and trends, including interest rates, government budgets and inflation, can and

ITEM 2. PROPERTIES

At December 31, 2008, we operated in 584 locations (including offices, manufacturing plants, warehouses, service centers, laboratories and other facilities) throughout the United States and internationally. Of these, we owned 45 locations aggregating approximately 29 million square feet and leased space at 539 locations aggregating approximately 27 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, 2008, our business segments occupied facilities at the following major locations that housed in excess of 500,000 square feet of floor space:

- **E S**—Camden, Arkansas; Orlando, Florida; Baltimore, Maryland; Eagan, Minnesota; Moorestown/Mt. Laurel, New Jersey; Albuquerque, New Mexico; Owego and Syracuse, New York; Akron, Ohio; Grand Prairie, Texas; and Manassas, Virginia.
- **I a S & G a S**—Goodyear, Arizona; San Jose and Sunnyvale, California; Colorado Springs and Denver, Colorado; Gaithersburg and Rockville, Maryland and other locations within the Washington, D.C. metropolitan area; Valley Forge, Pennsylvania; and Houston, Texas.
- **A a**—Palmdale, California; Marietta, Georgia; Greenville, South Carolina; and Fort Worth and San Antonio, Texas.
- **S a S**—Sunnyvale, California; Denver, Colorado; and New Orleans, Louisiana.
- **C a a**—Bethesda, Maryland.

The following is a summary of our floor space by business segment at December 31, 2008:

(Square feet in millions)	*Leased*	*Owned*	*Government Owned*	*Total*
Electronic Systems	10.7	10.2	6.3	27.2
Information Systems & Global Services	9.6	2.8	—	12.4
Aeronautics	3.5	5.0	15.2	23.7
Space Systems	1.8	8.6	4.7	15.1
Corporate activities	.9	2.8	—	3.7
Total	26.5	29.4	26.2	82.1

A portion of our activity is related to engineering and research and development, which is not susceptible to productive capacity analysis. In the area of manufacturing, most of the operations are of a job-order nature, rather than an assembly line process, and productive equipment has multiple uses for multiple products. Management believes that all of our major physical facilities are in good condition and are adequate for their intended use.

ITEM 3. LEGAL PROCEEDINGS

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. In the opinion of management and in-house counsel, the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation as a whole. The results of legal proceedings, however, cannot be predicted with certainty. These matters include the proceedings summarized in Note 13 – Legal Proceedings, Commitments and Contingencies beginning on page 90 of this Form 10-K.

From time-to-time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with applicable regulatory requirements. U.S. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us.

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have our property subject to various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see “Critical Accounting Policies – Environmental Matters” in Management’s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 42, and in Note 13 – Legal Proceedings, Commitments and Contingencies beginning on page 90 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

Ma T. S a a (44), V P a C

Mr. Stanislav has served as Vice President and Controller since March 2005. He previously served as Vice President and Controller for Aeronautics from June 2002 to March 2005.

B L. Ta (49), E V P a C F a a O

Mr. Tanner has served as Executive Vice President and Chief Financial Officer since September 2007. He previously served as Vice President of Finance and Business Operations for Aeronautics from April 2006 to August 2007, and Vice President of Finance and Business Operations for Electronic Systems from May 2002 to March 2006.

PART II

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

At January 31, 2009, we had 38,956 holders of record of our common stock, par value $1 per share. Our common stock is traded on the New York Stock Exchange, Inc. (NYSE) 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 Per Share and Market Prices

	Dividends Paid Per Share		*Market Prices (High-Low)*	
Quarter	***2008***	*2007*	***2008***	*2007*
First	**$0.42**	$0.00[(a)]	**$110.25 $90.44**	$103.50 – $91.08
Second	**0.42**	0.70[(a)]	**110.60 98.44**	100.10 – 93.06

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2008.

Period	*Total Number of*

(c) The maximum number of shares of stock that may be subject to stock options, SARs, restricted stock, and stock units granted or issued under the IPA Plan in any calendar year is 1.6% of the Corporation's outstanding shares of stock on December 31 of the calendar year immediately preceding the date of grant of the award, calculated in a manner consistent with the method used for calculating outstanding shares for reporting in the Annual Report.

(d) Employees may defer Management Incentive Compensation Plan ("MICP") and Long-Term Incentive Performance ("LTIP") amounts earned and payable to them to the Deferred Management Incentive Compensation Plan ("DMICP"). At the election of the employee, deferred amounts are credited as stock units at the closing price of our stock on the date the deferral is effective. Amounts equal to our dividend are credited as stock units at the time we pay a dividend. Following termination of employment, a number of shares of stock equal to the number of stock units credited to the employee's DMICP account are distributed to the employee. There is no discount or value transfer on the stock distributed. As a result, the phantom stock units also were not considered in calculating the total weighted average exercise price in the table.

ITEM 6. SELECTED FINANCIAL DATA

Consolidated Financial Data - Five Year Summary

(In millions, except per share data and ratios)	**2008** [a]	2007 [b]	2006 [c]	2005 [d]	2004 [e]
OPERATING RESULTS					
Net Sales	**$42,731**	$41,862	$39,620	$37,213	$ 35,526
Cost of Sales	**38,082**	37,628	36,186	34,676	33,558
	4,649				

($0.14 per share) resulting from the closure of Internal Revenue Service examinations for the 2003 and 2004 tax years and claims we filed for additional extraterritorial income tax benefits for years prior to 2005. On a combined basis, these items increased net earnings by $105 million after tax ($0.25 per share).

(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 a charge of $16 million, $11 million after tax ($0.03 per share), in other non-operating income (expense), net for a debt exchange, and a reduction in income tax expense of $62 million ($0.14 per share) resulting from a tax benefit related to claims we filed for additional extraterritorial income exclusion tax benefits. On a combined basis, these items increased net earnings by $201 million after tax ($0.45 per share).

(d) Includes the effects of items not considered in the assessment of the operating performance of our business segments which, on a combined basis, increased operating profit by $173 million, $113 million after tax ($0.25 per share).

(e) Includes the effects of items not considered in the assessment of the operating performance of our business segments which decreased operating profit by $61 million, $54 million after tax ($0.12 per share). Also includes a charge of $154 million, $100 million after tax ($0.22 per share), in other non-operating income (expense), net for the early repayment of debt, and a reduction in income tax expense resulting from the closure of an Internal Revenue Service examination of $144 million ($0.32 per share). On a combined basis, these items reduced net earnings by $10 million after tax ($0.02 per share).

(f) In 2008, we reclassified certain amounts from other liabilities to other current liabilities. Prior year amounts have been reclassified to conform to the 2008 presentation. The amounts associated with the reclassification for the prior periods are as follows: $166 million in 2007; $142 million in 2006; $114 million in 2005; and $70 million in 2004.

(g) In 2008, we reclassified the effect of exchange rate changes on cash held in foreign currencies on our Statement of Cash Flows from cash provided by operating activities to effect of exchange rate changes on cash and cash equivalents. Prior year amounts of cash provided by operating activities in the table above have been reclassified to conform to the 2008 presentation. The amounts associated with the effect of exchange rate changes on cash and cash equivalents for prior periods increased (decreased) cash provided by operating activities as follows: $(3) million in 2007; $(18) million in 2006; $10 million in 2005; and $(3) million in 2004.

(h) We define return on invested capital (ROIC) as net earnings plus after-tax interest expense divided by average invested capital (stockholders' equity plus total debt), after adjusting stockholders' equity by adding back adjustments related to postretirement benefit plans. We believe that reporting ROIC provides investors with greater visibility into how effectively we use the capital invested in our operations. We use ROIC as one of the inputs in our evaluation of multi-year investment decisions and as a long-term performance

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 summarize some of the more important activities and events that occurred this year.

O B

Lockheed Martin is a global security company that principally is engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We provide 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. In 2008, 2007 and 2006, 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. Of the remaining 16% of net sales, approximately 13% related to sales to foreign government 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. Our main areas of focus are in defense, space, intelligence, homeland security, and government information technology.

We operate in four principal business segments: Electronic Systems, Information Systems & Global Services (IS&GS), Aeronautics, and Space Systems. As a lead systems integrator, our products and services range from electronics and information systems (including integrated net-centric solutions), to missiles, aircraft, and spacecraft. We organize our business segments based on the nature of the products and services offered.

F a a S O

The financial section includes the following:

Ma a ’ a a a , MD&A (pages 33 through 59) – provides our management’s view about industry trends, risks, uncertainties, accounting policies that we view as critical in light of our business, our results of operations (including discussion of the key performance drivers of each of our business segments), our financial position, cash flows, commitments and contingencies, important events, transactions that have occurred over the last three years, and forward-looking information, as appropriate.

R a a a a a a a a (pages 60 through 62) include the following:

- A report from management indicating our responsibility for financial reporting, the financial statements, and the system of internal control over financial reporting, including an assessment of the effectiveness of those controls;
- A report from Ernst & Young LLP, an independent registered public accounting firm, which includes their opinion on the effectiveness of our system of internal control over financial reporting; and
- A report from Ernst & Young LLP which includes their opinion on the fair presentation of our financial statements based on their audits.

F a a a (pages 63 through 66) – include our Consolidated Statements of Earnings, Cash Flows and Stockholders’ Equity for each of the last three years, and our Consolidated Balance Sheet as of the end of the last two years. Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

N a a a (pages 67 through 96) – provide insight into and are an integral part of our financial statements. The notes contain explanations of our significant accounting policies, details about certain of the captions on the financial statements, information about significant events or transactions that have occurred, discussions about legal proceedings, commitments and contingencies, and selected financial information relating to our business segments. The notes to the financial statements also are prepared in accordance with GAAP.

H

The financial section of our Form 10-K describes our ongoing operations, including discussions about particular lines of business or programs, our ability to finance our operating activities, trends and uncertainties in our industry, and how they

We believe our broad mix of programs and capabilities continues to position us favorably to support the current and future needs of the DoD. For example, the need for more affordable logistics and sustainment, expansive use of information technology and knowledge-based solutions, and vastly improved levels of network and cybersecurity, all appear to be national priorities. To meet these changing dynamics, we have been growing our portfolio of expertise, diversifying our business, and expanding systems integration skills into adjacent businesses and programs that include surface naval vessels, rotary wing aviation and land vehicles.

We continue to produce the F-22 Raptor for the U.S. Air Force and will expand production of the C-130J Super Hercules tactical airlifter to meet U.S. Government and other demand. We also are preparing for increased production of the F-35 Lightning II Joint Strike Fighter for the U.S. Navy, Air Force, Marine Corps, and international partners. In the areas of space-based intelligence and information superiority, we have leadership positions on programs such as the Global Positioning Satellite program (GPS III), TSAT Mission Operations System (TMOS), Mobile User Objective System (MUOS), the Advanced Extremely High Frequency (AEHF) system, the Space-Based Infrared System-High (SBIRS-H), and classified programs.

Our products are represented in almost every aspect of land, sea, air and space-based missile defense, including the Aegis Weapon System program, the Patriot Advanced Capability (PAC-3) missile program, the Terminal High Altitude Area Defense (THAAD) system, the Multiple Kill Vehicle (MKV) program, and the Medium Extended Air Defense System

Our recent experiences with non-DoD agencies have reinforced our strategy of becoming the world's premier global security company. We have seen the global security environment becoming much more complex and dynamic. The very definition of security has continued to change. Over and above traditional military preparedness, we have seen and been a part of further expansion into more effective counter-terrorism and intelligence capabilities, international cooperation activities requiring more interoperable systems, and humanitarian, peace-keeping, and operational stabilization initiatives.

Consistent with our DoD business, more affordable logistics and sustainment, a more expansive use of information technology and knowledge-based solutions, and improved levels of network and cybersecurity, all appear to be priorities in our non-DoD business as well. Homeland security, critical infrastructure protection, and improved service levels for civil government agencies also appear to be high customer priorities.

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.

We have made disciplined acquisitions and investments to reinforce our presence and skills in the information sciences

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.

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 believe the probability is remote that any of the claims, audits or investigations pending against us will have a material adverse effect on our business or our results of operations, cash flows or financial position.

We have entered into various joint ventures, teaming and other business arrangements to help support our portfolio of products and services in many of our lines of business, and their activities are closely aligned with our operations. For example, we have a 50% equity interest in United Launch Alliance, LLC (ULA), which provides the production, engineering, test and launch operations associated with U.S. Government launches on Atlas and Delta launch vehicles, and a 50% equity interest in United Space Alliance, LLC (USA), which provides ground processing and other operational services to the Space regulations of the U. S. Department of State and the Department of Commerce. If these regulations are violated, it could result in monetary penalties and denial of export privileges. We are currently unaware of any violations of export control

particularly true with expense or income for defined benefit pension plans and retiree medical and life insurance plans because those calculations are sensitive to changes in several key economic assumptions and workforce demographics. Non-union represented employees hired after January 1, 2006 do not participate in our qualified defined benefit pension plans, but are eligible to participate in our defined contribution plan and our other retirement savings plans. They also have the ability to participate in our retiree medical plans, but we do not subsidize the cost of their participation.

We account for our defined benefit pension plans and retiree medical and life insurance plans using Statement of Financial Accounting Standards (FAS) 158, million. The results of these scenarios should not be extrapolated to assess other scenarios beyond the 25 basis points, because there is not a direct correlation between a change in the discount rate and the changes in stockholders’ equity and pension expense.

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 are reviewed over time and then combined with expectations for the future. At December 31, 2008, we concluded that 8.50% was a reasonable estimate for the expected long-term rate of return on plan assets assumption, consistent with the rate used at December 31, 2007.

U.S. Government Cost Accounting Standards (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. Funded amounts are recovered over time through the pricing of our products and services on U.S. Government contracts, and therefore are recognized in our net sales. The total funding requirement for our qualified defined benefit pension plans under CAS was $590 million in 2008 which was recorded in our segments’ results of operations. For 2009, we expect our funding requirements under CAS to decrease slightly. Additional funding requirements computed under the Internal Revenue Code legislation also requires the CAS Board to modify its 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.

E a Ma

We are a party to various agreements, proceedings and potential proceedings for environmental cleanup issues, including matters at various sites where we have been designated a potentially responsible party (PRP) by the EPA or by a state agency. We account for environmental remediation liabilities in accordance with SOP 96-1, *Environmental Remediation Liabilities*.

We enter into agreements (*e.g.*, administrative orders, consent decrees) which document the extent and timing of our environmental remediation obligation. We are also involved in remediation activities at environmental sites where formal

Results of Operations

Since our operating cycle is long-term and involves many types of design, development and production contracts with million of new debt issued in the first quarter of 2008. Interest expense for 2007 was $352 million, or $9 million lower than 2006. This decrease was mainly driven by lower interest expense associated with the September 2006 debt exchange.

Other non-operating income (expense), net was an expense of $88 million in 2008 compared to income of $193 million in 2007 and income of $183 million in 2006. The decrease in 2008 primarily was due to net unrealized losses on marketable securities held to fund certain non-qualified employee benefit obligations and lower interest income on invested cash balances. The increase in 2007 mainly was due to the $16 million of debt exchange expenses recorded in 2006, as there were no comparable charges in 2007.

Our effective income tax rates were 31.6% for 2008, 30.6% for 2007, and 29.6% for 2006. The effective rates for all periods were lower than the statutory rate of 35% due to tax deductions for U.S. manufacturing activities, research and development (R&D) tax credits, and dividends related to our employee stock ownership plan. In addition, the rate for 2007 reflected a reduction in income tax expense of $59 million recorded in the first quarter of 2007 arising from the closure of the IRS examination of the 2003 and 2004 tax years. The rate for 2006 reflected a reduction in income tax expense of $62 million related to a refund claim for additional extraterritorial income (ETI) exclusion benefits in prior years recognized in the third quarter of 2006, and current year ETI tax benefits.

The increase in the 2008 effective tax rate when compared to 2007 primarily is due to the $59 million benefit recorded in the first quarter of 2007. The increase in the 2007 effective tax rate when compared to 2006 primarily is the result of the elimination of the extraterritorial tax benefits in 2007, partially offset by additional tax benefits in 2007 resulting from a statutory increase in U.S. manufacturing benefits, new legislation that provided enhanced R&D tax credits and the favorable closure of an IRS audit.

The Emergency Economic Stabilization Act of 2008 signed by the President on October 3, 2008 retroactively extends the R&D tax credit for two years, from January 1, 2008 to December 31, 2009, and increases the alternative simplified R&D credit rate from 12% to 14% for calendar year 2009. As a result, we recognized a tax benefit, which reduced our income tax expense in the fourth quarter of 2008 by $36 million.

Net earnings increased as compared to the prior year for the sixth consecutive year. We reported net earnings of $3.2 billion ($7.86 per share) in 2008, $3.0 billion ($7.10 per share) in 2007, and $2.5 billion ($5.80 per share) in 2006. Both net earnings and earnings per share were affected by the factors discussed above. In addition, earnings per share has benefitted from the significant number of shares repurchased under our share repurchase program. The effect of those repurchases has been partially offset by common stock issued under our stock-based compensation and defined contribution plans.

Discussion of Business Segments

We operate in four principal business segments: Electronic Systems, IS&GS, Aeronautics and Space Systems. We organize our business segments based on the nature of the products and services offered.

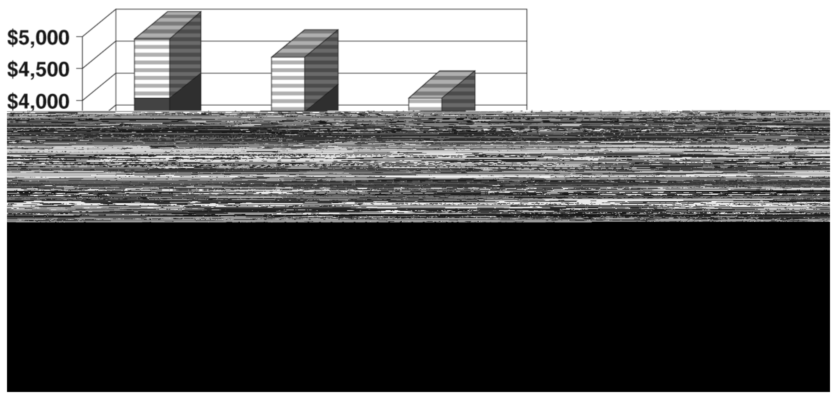
Our Electronic Systems business segment manages complex programs and designs, develops, and integrates hardware and software solutions to ensure the mission readiness of armed forces and government agencies worldwide. With such a broad portfolio of products and services, many of its activities involve a combination of both development and production contracts with varying delivery schedules. This business segment has continued to expand its core competencies as a leading systems integrator both domestically and internationally. Some of its more significant programs, including the Terminal High technologies. Key Combat Aircraft programs include the F-35 Lightning II, F-22 Raptor, and F-16 Fighting Falcon fighter aircraft. The F-35 has completed the seventh year of development and has entered low rate initial production. Aeronautics has been producing F-22s since 1997, and delivered 23 to the U.S. Air Force in 2008, bringing the total deliveries to 133 through 2008. A total of 28 F-16s were delivered in 2008 worldwide, bringing the total deliveries to 4,417 through 2008. Key Air Mobility programs include the C-130J Super Hercules and the C-5 Super Galaxy. We delivered 12 C-130Js in 2008. A total of 257 C-130Js have been ordered with 171 delivered through 2008. In addition to aircraft production, Aeronautics provides logistics support, sustainment, and upgrade modification services for its aircraft. Sales at Aeronautics are expected to grow in 2009 primarily due to the projected increase in F-35 production activities and C-130J deliveries.

Our Space Systems business segment is engaged in the design, research and development, engineering, and production financial statements. We have a number of programs that are classified by the U.S. Government and cannot be specifically described. The operating results of these classified programs are included in our consolidated and business segment results, and are subjected to the same oversight and internal controls as our other programs.

In our discussion of comparative results, changes in net sales and operating profit are generally expressed in terms of volume and/or performance. Volume refers to increases (or decreases) in sales resulting from varying production activity levels, deliveries or services levels on individual contracts. Volume changes typically include a corresponding change in operating profit based on the estimated profit rate at completion for a particular contract for design, development and production activities. Performance generally refers to changes in contract profit booking rates. These changes on our contracts for products usually relate to profit recognition associated with revisions to total estimated costs at completion of the contracts that reflect improved (or deteriorated) operating or award fee performance on a particular contract. Changes in contract profit booking rates on contracts for products are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods. Recognition of the inception-to-date adjustment in the current or prior periods may affect the comparison of segment operating results.

S O a P

(In millions)



E S

Electronic Systems' operating results included the following:

(In millions)	***2008***	*2007*	*2006*
Net sales	**$11,620**	$11,143	$10,519
Operating profit	**1,508**	1,410	1,264
Backlog at year-end	**22,500**	21,200	19,700

Net sales for Electronic Systems increased by 4% in 2008 compared to 2007. Sales increases in Missiles & Fire Control (M&FC) and Maritime Systems & Sensors (MS2) more than offset a decline in Platform, Training & Energy (PT&E). M&FC sales increased $327 million mainly due to higher volume on fire control and tactical missile programs. MS2 sales grew $201 million primarily due to higher volume on surface systems, undersea systems and radar systems activities. The $51 million decline in PT&E mainly was due to lower volume on platform integration activities.

Operating profit increased by 11% in 2008 compared to 2007. The increase in operating profit was due to Space Transportation, which partially was offset by a decline in Satellites. In Space Transportation, the $135 million increase mainly was attributable to higher equity earnings on the ULA joint venture, volume on the Orion program, and the results from successful negotiations of a terminated commercial launch service contract in the first quarter of 2008. The performance of business segments. Therefore, for purposes of segment reporting, the following items were included in unallocated Corporate income (expense), net for 2008, 2007 and 2006:

(In millions, except per share data)	*Operating Profit*	*Net Earnings*	*Earnings Per Share*
Y a D 31, 2008			
Recognition of deferred gain on LKEI and ILS	**$108**	**$ 70**	**$0.17**
Elimination of reserves associated with various land sales	**85**	**56**	**0.14**

In 2008, we repaid $1.1 billion in long-term debt, including the redemption of $1 billion in principal amount of our convertible debentures. Over the past decade, we have reduced our long-term debt by over $7.9 billion, from $11.5 billion at year end 1999 to $3.6 billion at year end 2008. Our currently scheduled debt maturities through 2012 total a relatively modest $245 million.

Cash received from customers, either from the payment of invoices for work performed or for advances in excess of costs incurred, is our primary source of cash. We generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. For example, contracts may be cost reimbursable, time and materials, or fixed price. We generally bill and

At December 31, 2008, we had in place a $1.5 billion revolving credit facility with a group of banks which expires in June 2012. There were no borrowings outstanding under the facility at December 31, 2008. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on the Eurodollar rate or a bank defined Base Rate. 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. The leverage ratio covenant excludes the adjustments recognized in stockholders' equity related to our postretirement benefit plans.

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, 2008. If we were to issue commercial paper, the borrowings would be supported by the $1.5 billion credit facility.

Purchase obligations related to operating activities include agreements and requirements contracts that give the supplier recourse to us for cancellation or nonperformance under the contract or contain terms that would subject us to liquidated damages. Such agreements and contracts may, for example, be related to direct materials, obligations to subcontractors and outsourcing arrangements. Total purchase obligations in the preceding table include approximately $20 billion related to contractual commitments entered into as a result of contracts we have with our U.S. Government customers. However, the U.S. Government would generally be required to pay us for any costs we incur relative to these commitments if they were to terminate the related contracts "for convenience" pursuant to the FAR. For example, if we had commitments to purchase goods and services that were entered into as a result of a specific contract we received from our U.S. Government customer and the customer terminated the contract for its convenience, any amounts we would be required to pay to settle the related commitments, as well as amounts previously incurred, would generally be reimbursed by the customer. This would also be true in cases where we perform subcontract work for a prime contractor under a U.S. Government contract. The termination

We have entered into standby letter of credit agreements and other arrangements with financial institutions and customers mainly relating to advances received from customers and/or the guarantee of future performance on some of our contracts. In some cases, we may also guarantee the contractual performance of third parties. At December 31, 2008, we had outstanding letters of credit, surety bonds and guarantees, as follows:

		Commitment Expiration By Period			
(In millions)	*Total Commitment*	*Less Than 1 Year* [a]	*1-3 Years* [a]	*3-5 Years* [a]	*After 5 Years* [a]
Standby letters of credit	$2,680	$2,245	$350	$ 64	$ 21
Surety bonds	417	395	22	—	—
Guarantees	25	13	9	3	—
Total commitments	$3,122	$2,653	$381	$ 67	$ 21

[a] Approximately $2,157 million, $141 million, $23 million, and $5 million of standby letters of credit in the “Less Than 1 Year,” “1-3 Years,” “3-5 Years,” and “After 5 Years” periods, and approximately $42 million and $3 million of surety bonds in the “Less Than 1 Year” and “1-3 Years” periods, are expected to renew for additional periods until completion of the contractual obligation.

Included in the table above is approximately $145 million representing letter of credit amounts for which related obligations or liabilities are also recorded on the Balance Sheet, either as reductions of inventories, as customer advances and amounts in excess of costs incurred, or as other liabilities. Approximately $1.8 billion of the standby letters of credit in the table above were issued to secure advance payments received under an F-16 contract from an international customer. These letters of credit are available for draw down in the event of our nonperformance, and the amount available will be reduced as certain events occur throughout the period of performance in accordance with the contract terms. Similar to the letters of credit for the F-16 contract, other letters of credit and surety bonds are available for draw down in the event of our nonperformance.

Under the agreement to sell LKEI and ILS (see Note 14), we were responsible for refunding customer advances to certain customers if launch services were not provided and ILS did not refund the advances. Our responsibility to refund the advances expired upon the successful completion of the final launch, which occurred in November 2008.

Acquisition and Divestiture Activities

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our

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There were no divestiture activities in 2008. During 2007 and 2006, we continued to execute the strategy to monetize certain of our equity investments and real estate by divesting of the following:

Year ended December 31, 2007

- Our remaining 20% interest in Comsat International, which resulted in a gain, net of state income taxes, of $25 million in other income (expense), net, and increased net earnings by $16 million ($0.04 per share); and
- Certain land in California, which resulted in a gain, net of state income taxes, of $25 million in other income (expense), net, and increased net earnings by $16 million ($0.04 per share).

Year ended December 31, 2006

- Our ownership interests in Lockheed Khrunichev Energia International, Inc. (LKEI) and International Launch Services, Inc. (ILS). The gain on the sale was deferred pending the disposition of guarantees associated with providing launch services for certain customers (see Note 14);
- 21 million shares of Inmarsat plc, which resulted in a gain, net of state income taxes, of $127 million in other income (expense), net, and increased net earnings by $83 million ($0.19 per share);
- The assets of Space Imaging, LLC, which resulted in a gain, net of state income taxes, of $23 million in other income (expense), net, and increased net earnings by $15 million ($0.03 per share); and

changes and investments in fixed income securities that are exposed to changes in interest rates. Changes in the value of the Rabbi Trust are recognized in our earnings, in the caption "Other Non-operating Income (Expense), Net." During 2008, we recorded net unrealized losses totaling $158 million related to the decrease in the value of the Rabbi Trust assets. A portion of the liabilities associated with the deferred compensation plans supported by the Rabbi Trust is also impacted by changes in the market price of our common stock and certain market indices. Changes in the value of the deferred compensation liabilities are recognized in the caption "Unallocated Corporate Costs." The current portion of the deferred compensation plan liabilities is on our Balance Sheet in salaries, benefits, and payroll taxes, and the non-current portion of the liability is on our Balance Sheet in other liabilities. The resulting change in the value of the liabilities generally has the effect of partially offsetting the impact of changes in the value of the Rabbi Trust. During 2008, we recorded earnings of $32 million related to the decrease in the value of the deferred compensation liabilities.

Recent Accounting Pronouncements

There are a number of new accounting pronouncements and interpretations that will impact our financial statements and disclosures (see Note 1 under the caption "Recent Accounting Pronouncements"). We do not expect that any of those pronouncements or interpretations upon adoption will have a material impact on our results of operations, financial position or cash flows.

Controls and Procedures

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

Lockheed Martin Corporation
Consolidated Statement of Earnings

(In millions, except per share data)	*Year ended December 31,* **2008**	*2007*	*2006*
Net Sales			
Products	**$34,809**	$35,267	$33,863
Services	**7,922**	6,595	5,757
	42,731	41,862	39,620
Cost of Sales			
Products	**30,874**	31,479	30,572
Services	**7,147**	5,874	5,118
Unallocated Corporate Costs	**61**	275	496
	38,082	37,628	36,186
	4,649	4,234	3,434
Other Income (Expense), Net	**482**	293	336
Operating Profit	**5,131**	4,527	3,770
Interest Expense	**341**	352	361
Other Non-operating Income (Expense), Net	**(88)**	193	183
Earnings Before Income Taxes	**4,702**	4,368	3,592
Income Tax Expense	**1,485**	1,335	1,063
Net Earnings	**$ 3,217**	$ 3,033	$ 2,529
Earnings Per Common Share			
Basic	**$ 8.05**	$ 7.29	$ 5.91
Diluted	**$ 7.86**	$ 7.10	$ 5.80

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
Consolidated Balance Sheet

(In millions, except per share data)	*December 31,* **2008**	*2007*
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 2,168**	$ 2,648
Short-term Investments	**61**	333
Receivables	**5,296**	4,925
Inventories	**1,902**	1,718
Deferred Income Taxes	**755**	756
Other Current Assets	**501**	560
Total Current Assets	**10,683**	10,940
Property, Plant and Equipment, Net	**4,488**	4,320
Goodwill	**9,526**	9,387
Purchased Intangibles, Net	**355**	463
Prepaid Pension Asset	**122**	313
Deferred Income Taxes	**4,651**	760
Other Assets	**3,614**	2,743
	$33,439	$28,926
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable	**$ 2,030**	$ 2,163
Customer Advances and Amounts in Excess of Costs Incurred	**4,535**	4,212
Salaries, Benefits and Payroll Taxes	**1,684**	1,544
Current Maturities of Long-term Debt	**242**	104
Other Current Liabilities	**2,051**	2,014
Total Current Liabilities	**10,542**	10,037
Long-term Debt, Net	**3,563**	4,303
Accrued Pension Liabilities	**12,004**	1,192
Other Postretirement Benefit Liabilities	**1,386**	928
Other Liabilities	**3,079**	2,661
Total Liabilities	**30,574**	19,121
Stockholders' Equity		
Common Stock, $1 Par Value Per Share	**393**	409
Additional Paid-in Capital		—
Retained Earnings	**11,621**	11,247
Accumulated Other Comprehensive Income (Loss)	**(9,149)**	(1,851)
Total Stockholders' Equity	**2,865**	9,805
	$33,439	$28,926

Lockheed Martin Corporation
Consolidated Statement of Cash Flows

(In millions)	*Year ended December 31,* **2008**	*2007*	*2006*
Operating Activities			
Net earnings	**$ 3,217**	$ 3,033	$ 2,529
Adjustments to reconcile net earnings to Net Cash Provided by Operating Activities			
Depreciation and amortization of plant and equipment	**727**	666	600
Amortization of purchased intangibles	**118**	153	164
Stock-based compensation	**155**	149	111
Excess tax benefits on stock-based compensation	**(92)**	(124)	(129)
Deferred income taxes	**72**	110	75
Changes in operating assets and liabilities:			
Receivables	**(333)**	(324)	94
Inventories	**(183)**	(57)	(530)
Accounts payable	**(141)**	(66)	217
Customer advances and amounts in excess of costs incurred	**313**	394	475
Other	**568**	304	159
Net Cash Provided by Operating Activities	**4,421**	4,238	3,765
Investing Activities			
Expenditures for property, plant and equipment	**(926)**	(940)	(893)
Acquisitions of businesses / investments in affiliates	**(233)**	(337)	(1,122)
Divestitures of businesses / investments in affiliates		26	180
Net proceeds from short-term investment transactions	**272**	48	48
Other	**(20)**	(2)	132
Net Cash Used for Investing Activities	**(907)**	(1,205)	(1,655)
Financing Activities			
Issuances of common stock	**250**	350	627
Excess tax benefits on stock-based compensation	**92**	124	129
Repurchases of common stock	**(2,931)**	(2,127)	(2,115)
Common stock dividends	**(737)**	(615)	(538)
Issuance of long-term debt and related costs	**491**	—	—
Repayments of long-term debt	**(1,103)**	(32)	(210)
Premium and transaction costs for debt exchange		—	(353)
Net Cash Used for Financing Activities			

Lockheed Martin Corporation
Consolidated Statement of Stockholders' Equity

(In millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Other	Total Stockholders' Equity	*Comprehensive Income (Loss)*
Balance at December 31, 2005	$432	$ 1,724	$ 7,278	$(1,553)	$ (14)	$ 7,867	
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, net of tax							

Note 1 – Significant Accounting Policies

O a a – Lockheed Martin Corporation is a global security company engaged in the research, design, development, manufacture, integration, operation and sustainment of advanced technology systems and products, and in providing a broad range of management, engineering, technical, scientific, logistic and information services. As a leading systems integrator, our products and services range from electronics and information systems, including integrated net-centric solutions, to missiles, aircraft and spacecraft. 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.

Ba a a a a – Our consolidated financial statements include the accounts of subsidiaries we control and other entities where we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. Our receivables, inventories, customer advances and certain amounts in other current liabilities are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, we include these items in Current Assets and Current Liabilities.

We have reclassified certain amounts for prior years to conform with the 2008 presentation. We reclassified $3 million and $18 million in 2007 and 2006 related to the effect of exchange rate changes on cash held in foreign currencies on our Statement of Cash Flows from operating activities to effect of exchange rate changes on cash and cash equivalents. We have reclassified $166 million in 2007 related to certain contract-related amounts from other liabilities to other current liabilities.

years. Proceeds from sales of marketable securities totaled $28 million in 2008, $53 million in 2007, and $167 million in 2006. Gross gains and losses related to sales of marketable securities in 2008, 2007 and 2006, as well as net unrealized gains and losses at each year end, were not material.

R a – 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.

I – 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.

P , a a , – 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.

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recorded sales. We record sales under certain long-term, fixed-price design, 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 and profits are recorded based on the ratio of costs we incur to our estimate of total costs at completion. We record sales and an estimated profit under design, development and production cost-reimbursement-type contracts as costs are incurred in the proportion that the incurred costs bear to total estimated costs. 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. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined. We record sales of products and services provided under essentially commercial terms and conditions upon delivery and passage of title.

We consider incentives or penalties related to performance on design, development and production contracts in estimating sales and profit rates, and record them when there is sufficient information to assess anticipated contract performance. We also consider estimates of award fees in estimating sales and profit rates based on actual awards and anticipated performance. We generally do not recognize incentive provisions which increase or decrease earnings based solely on a single significant event until the event occurs. We only include amounts representing contract change orders, claims or other items in sales when they can be reliably estimated and realization is probable.

We record revenue under contracts for services other than those associated with design, development and production activities either as services are performed or when a contractually required event has occurred, depending on the contract. The majority of our service contracts is in our Information Systems & Global Services segment. We generally record revenue under such services contracts on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs we incur under these services contracts are expensed as incurred, except that we capitalize and recognize initial “set-up” costs over the life of the agreement. Award and incentive fees related to our performance on services contracts are recognized when they are fixed and determinable, generally at the date the amount is communicated to us by the customer.

R a a a a – Costs for research and development we sponsor primarily include independent research and development and bid and proposal efforts related to government products and services. Except for certain arrangements described below, we generally include these costs as part of the general and administrative costs that are allocated among all of our contracts and programs in progress under U.S. Government contractual arrangements. Costs for product development initiatives we sponsor that are not otherwise allocable are charged to expense when incurred. Under some arrangements in which a customer shares in product development costs, our portion of unreimbursed costs is generally expensed as incurred. Total independent research and development costs charged to cost of sales in 2008, 2007 and 2006, losses arising from issuances of stock by wholly-owned or majority-owned subsidiaries, or by equity method investees, in the current period in other non-operating income (expense), net.

For those investments that represent less than a 20% ownership interest, if classified as available-for-sale under FAS 115, the investments are accounted for at fair value, with unrealized gains and losses reflected net of income taxes in accumulated other comprehensive income (loss) in the Statement of Stockholders' Equity. Investments classified as trading under FAS 115 are accounted for at fair value, with unrealized gains and losses recorded in other non-operating income and adoption did not have a material impact on our results of operations, financial position, cash flows, or financial statement disclosures.

In October 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset in a Market that is Not Active*. FSP 157-3 clarifies the application of FAS 157 in an inactive market. The provisions of FSP 157-3 are effective immediately and adoption did not have a material impact on our results of operations, financial position or cash flows.

We adopted FAS 157, *Fair Value Measurements*, effective January 1, 2008, as it relates to financial assets and liabilities (see Note 15). FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The partial adoption of FAS 157 did not have a material impact on our results of operations, financial position or cash flows. The FAS 157 requirements for certain non-financial assets and liabilities have been deferred until the first quarter of 2009 in accordance with FASB FSP 157-2, *Effective Date of FASB Statement No. 157*. We do not expect the adoption of FAS 157 as it relates to certain non-financial assets and liabilities will have a material impact on our results of operations, financial position or cash flows.

We adopted FASB Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes*, 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, *Accounting for Income Taxes*. 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, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, 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 10). The effect of adopting the statement on our financial condition at December 31, 2006 has been reflected in these financial statements. 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 June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which will be effective beginning with our first quarter 2009 financial reporting. The FSP provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, retrospective adjustment to earnings an-386(inacti9(be)rningn)-33ssr63-lati(be

In December 2007, the FASB issued FAS 141(R), *Business Combinations*, which is effective January 1, 2009. The new standard replaces existing guidance and significantly changes 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) is effective for businesses acquired after the effective date.

In December 2007, the FASB issued FAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. This new standard requires all entities to report noncontrolling interests in subsidiaries as equity in the consolidated financial statements. FAS 160 is effective beginning with our first quarter 2009 financial reporting. We do not expect the adoption of FAS 160 will have a material impact on our results of operations, financial position or cash flows.

In December 2008, the FASB issued FSP 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. The FSP replaces the requirement to disclose the percentage of the fair value of total plan assets with a requirement to disclose the fair value of each major asset category and for companies to consider providing additional disclosures about major asset categories based on the disclosure objectives in the FSP. Also, the FSP requires disclosure of the level within the fair value hierarchy in which each major category of plan assets falls, using the guidance in FAS 157. Furthermore, the FSP requires companies to reconcile the beginning and ending balances of plan assets with fair values measured using significant unobservable inputs (Level 3 in the hierarchy). The FSP is effective beginning with our 2009 annual consolidated financial statements. We do not expect the adoption of FSP 132(R)-1 will have a material impact on our results of operations, financial position, or cash flows.

Note 2 – 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.

As of August 15, 2008, all of the $1.0 billion of floating rate convertible debentures had been delivered for conversion or were redeemed. Upon conversion of the debentures, we paid cash for the principal amount of the debentures relative to our conversion obligations, and satisfied the conversion obligations in excess of the principal amount by issuing 5.0 million shares of our common stock (see Note 9). FAS 128, *Earnings Per Share*, required that shares to be used to pay the conversion obligations in excess of the accreted principal amount be included in our calculation of weighted average common shares outstanding for the diluted earnings per share computation up to the date the convertible securities were converted. The number of shares included in the computation at December 31, 2007 and 2006 did not have a material impact on earnings per share.

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

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

(In millions, except per share data)	***2008***	*2007*	*2006*
N a a a a	**$3,217**	$3,033	$2,529
W a a a a			
Average number of common shares outstanding for basic computations	**399.7**	416.0	428.1
Dilutive stock options, restricted stock and convertible securities	**9.7**	11.1	8.3
Average number of common shares outstanding for diluted computations	**409.4**	427.1	436.4
Ea a			
Basic	**$ 8.05**	$ 7.29	$ 5.91
Diluted	**$ 7.86**	$ 7.10	$ 5.80

Note 3 – Other Income (Expense), Net

The components of other income (expense), net included the following:

(In millions)	***2008***	*2007*	*2006*
Included in operating profit			
Equity in net earnings of equity investees	**$289**	$203	$130
Gain on sale of ownership interests in LKEI and ILS	**108**	—	—
Earnings from elimination of reserves associated with various land sales	**85**	—	—
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
Earnings from expiration of AES transaction indemnification		—	29
Gain on sale of Space Imaging's assets		—	23
Other activities, net		19	(24)
	$482	$293	$336
Included in other non-operating income (expense), net			
Investment income (expense), net			

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

- **E S** Engaged in managing complex programs and designs, develops, and integrates hardware and software solutions to ensure the mission readiness of armed forces and government agencies worldwide. Global security solutions include advanced sensors, decision systems, and weapons for air-, land-, and sea-based platforms. The segment integrates land vehicles, ships, and fixed- and rotary-wing aircraft. Major lines of business include air and missile defense; tactical missiles; weapon fire control systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; land, sea-based, and airborne radars; surveillance and reconnaissance systems; simulation and training systems; and integrated logistics and sustainment services. Electronic Systems also manages and operates the Sandia National Laboratories for the U.S. Department of Energy and is part of the consortium that manages the United Kingdom’s Atomic Weapons Establishment.

- **I a S &G a S** – Engaged in providing federal services, Information Technology (IT) solutions and advanced technology expertise across a broad spectrum of applications and customers. Information Systems & Global Services 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 defense and civil government agencies in the U.S. and abroad.

- **A a** Engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. 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 program; and support for the P-3 maritime patrol aircraft and U-2 high-altitude reconnaissance aircraft. We also produce major components for Japan’s F-2 fighter aircraft and are a co-developer of the Korean T-50 supersonic jet trainer aircraft. The Skunk Works advanced development organization provides next generation innovative system solutions using rapid prototype applications and advanced technologies.

- **S a S** – Engaged in the design, research and 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 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.

S F a a Da a B S ( )

(In millions)	**2008**	2007	2006
A ( )			
Electronic Systems	**$ 8,515**	$ 8,500	$ 8,217
Information Systems & Global Services	**7,593**	7,477	7,054
Aeronautics	**3,521**	3,014	3,140
Space Systems	**2,908**	2,977	2,913
Total business segments	**22,537**	21,968	21,324
Corporate activities [d]	**10,902**	6,958	6,907
Total	**$33,439**	$28,926	$28,231
G			
Electronic Systems	**$ 4,573**	$ 4,518	$ 4,505
Information Systems & Global Services	**4,334**	4,265	4,141
Aeronautics	**148**	148	148
Space Systems	**471**	456	456
Total	**$ 9,526**	$ 9,387	$ 9,250
C a a a a			
Electronic Systems	**$ 2,002**	$ 1,801	$ 1,374
Information Systems & Global Services	**187**	202	272
Aeronautics	**2,132**	1,833	1,816
Space Systems	**214**	376	394
Total	**$ 4,535**	$ 4,212	$ 3,856

[a] Operating profit included equity in net earnings (losses) of equity investees as follows:

(In millions)	**2008**	2007	2006
Electronic Systems	**$ 36**	$ 58	$ 29
Information Systems & Global Services	**8**	6	6
Aeronautics	**21**	25	17
Space Systems	**224**	134	78
Total business segments	**289**	223	130
Corporate activities		(20)	—
Total	**$289**	$ 203	$130

[b] Net unallocated Corporate income (expense), net includes the following:

(In millions)	**2008**	2007	2006
FAS/CAS pension adjustment	**$ 128**	$ (58)	$(275)
Items not considered in segment operating performance	**193**	71	230
Stock-based compensation	**(155)**	(149)	(111)
Other	**(5)**	(28)	(105)
	$ 161	$ (164)	$ (261)

For information regarding the items not considered in management's evaluation of segment operating performance, see

S F a a Da a B S ( )

N Sa C Ca

(In millions)	***2008***	*2007*	*2006*
U.S. G			
Electronic Systems	**$ 8,247**	$ 8,196	$ 8,006
Information Systems & Global Services	**10,850**	9,591	8,484
Aeronautics	**9,268**	9,597	9,578
Space Systems	**7,685**	7,681	7,185
Total	**$36,050**	$35,065	$33,253
F (a) ( )			
Electronic Systems	**$ 3,039**	$ 2,672	$ 2,362
Information Systems & Global Services	**390**	284	91
Aeronautics	**2,043**	2,531	2,581
Space Systems	**15**	13	11
Total	**$ 5,487**	$ 5,500	$ 5,045
C a a O ( )			
Electronic Systems	**$ 334**	$ 275	$ 151
Information Systems & Global Services	**371**	338	415
Aeronautics	**162**	175	29
Space Systems	**327**	509	727
Total	**$ 1,194**	$ 1,297	$ 1,322
	$42,731	$41,862	$39,620

(a)

Note 6 – Inventories

Inventories consisted of the following components:

(In millions)	***2008***	*2007*
Work-in-process, primarily related to long-term contracts and programs in progress	**$ 4,631**	$ 4,039
Less customer advances and progress payments	**(3,396)**	(2,839)
	1,235	1,200
Other inventories	**667**	518
	$ 1,902	$ 1,718

Work-in-process inventories at December 31, 2008 and 2007 included general and administrative costs of $434 million and $303 million. For the years ended December 31, 2008, 2007 and 2006, general and administrative costs incurred and recorded in inventories totaled $2,344 million, $2,077 million and $1,894 million, and general and administrative costs charged to cost of sales from inventories totaled $2,213 million, $2,103 million and $1,863 million.

Note 7 – Property, Plant and Equipment

Property, plant and equipment consisted of the following components:

(In millions)	***2008***	*2007*
Land	**$ 109**	$ 112
Buildings	**4,756**	4,574
Machinery and equipment	**6,034**	5,619
	10,899	10,305
Less accumulated depreciation and amortization	**(6,411)**	(5,985)
	$ 4,488	$ 4,320

During the year ended December 31, 2008, we wrote off $314 million of cost and accumulated depreciation related to certain plant and equipment that had been fully depreciated or amortized.

Note 8 – Income Taxes

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

(In millions)	***2008***	*2007*	*2006*
Federal income taxes			
Current	**$1,385**	$1,199	$ 979
Deferred	**72**	107	73
Total federal income taxes	**1,457**	1,306	1,052
Foreign income taxes			
Current	**28**	26	9
Deferred		3	2
Total foreign income taxes	**28**	29	11
Income tax expense	**$1,485**	$1,335	$1,063

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

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)	***2008***	*2007*	*2006*
Income tax expense at the U.S. federal statutory tax rate	**$1,646**	$1,528	$1,257
Reduction in tax expense			
U.S. production activity benefit	**(67)**	(55)	(21)
Research tax credit	**(36)**	(30)	(9)
Tax deductible dividends	**(38)**	(32)	(29)
Closure of IRS examination		(59)	—
Extraterritorial income (ETI) exclusion benefit		—	(63)
Refund claims for additional ETI benefits		—	(62)
Other, net	**(20)**	(17)	(10)
Income tax expense	**$1,485**	$1,335	$1,063

Income tax expense for 2008 included the impact of the Emergency Economic Stabilization Act of 2008, signed by the President on October 3, 2008, which retroactively extended the research and development tax credit from January 1, 2008 to December 31, 2009. As a result, we recognized a tax benefit, which reduced our income tax expense in the fourth quarter of 2008 by $36 million ($0.09 per share). In 2007, we closed IRS examinations which included resolution of uncertain tax positions associated with the 2003 and 2004 audit years and claims we filed for additional ETI 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 IRS for additional ETI tax 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 $277 million and $41 million at December 31, 2008 and 2007 are included in other current liabilities on the Balance Sheet.

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

(In millions)	***2008***	*2007*
Deferred tax assets related to:		
Contract accounting methods	**$ 363**	$ 465
Accrued compensation and benefits	**745**	683
Pensions [(a)]	**4,361**	526
Other postretirement benefit obligations [(a)]	**580**	437
Foreign company operating losses and credits	**34**	34
Gross deferred tax assets	**6,083**	2,145
Less: valuation allowance [(b)]	**30**	30
Net deferred tax assets	**6,053**	2,115
Deferred tax liabilities related to:		
Goodwill and purchased intangibles	**365**	365
Property, plant and equipment	**235**	180
Other	**63**	54
Deferred tax liabilities	**663**	599
Net deferred tax assets [(c)]	**$5,390**	$1,516

(a) The increase in the deferred tax balance for the postretirement benefit plans resulted from increases in accrued pension and other postretirement benefit 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.

(c) Net deferred tax assets as of December 31, 2008 includes $16 million of net foreign noncurrent deferred tax liabilities, which is included on the Balance Sheet in other liabilities.

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. We have recorded liabilities for unrecognized tax benefits related to permanent and temporary tax adjustments which, exclusive of interest, totaled $250 million and $195 million at December 31, 2008 and 2007, and $266 million at January 1, 2007, after the adjustment to the beginning balance of retained earnings. The change in the liability primarily resulted from the following:

(In millions)	***2008***	*2007*
Balance at January 1	**$195**	$266
Tax positions related to the current year	**55**	81
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
Decreases related to settlements with taxing authorities		(82)
Balance at December 31	**$250**	$195

The liability at the end of 2008 was recorded in other current liabilities on the Balance Sheet. Approximately $150 million of the $195 million of liabilities at the end of 2007 were recorded in other liabilities on the Balance Sheet, with the remainder recorded in other current liabilities. At December 31, 2008 and 2007, the amount of unrecognized tax benefits from permanent tax adjustments that, if recognized, would affect the effective tax rate, was $238 million and $180 million. Over the next year, it is expected that the IRS examination of our U.S. Federal income tax returns for 2005-2008 and certain non-domestic income tax issues will be resolved. Resolution of these matters is expected to change our unrecognized tax

Note 9 – Debt

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

(In millions)	***Interest Rate***	***2008***	*2007*
Notes due 6/15/2008	7.70%	**$**	$ 103
Notes due 12/1/2009	8.20%	**241**	241
Debentures due 4/15/2013	7.38%	**150**	150
Notes due 3/14/2013	4.12%	**500**	—
Debentures due 5/1/2016	7.65%	**600**	600
Debentures due 9/15/2023	7.00%	**200**	200
Notes due 6/15/2024	8.38%	**167**	167
Debentures due 6/15/2025	7.63%	**150**	150
Debentures due 5/1/2026	7.75%	**423**	423
Debentures due 12/1/2029	8.50%	**317**	317
Convertible Debentures due 8/15/2033	LIBOR – 0.25%		1,000
Debentures due 5/1/2036	7.20%	**300**	300
Notes due 9/1/2036	6.15%	**1,079**	1,079
Discount on Notes due 9/1/2036	N/A	**(340)**	(342)
Other	Various	**18**	19
		3,805	4,407
Less: Current maturities of long-term debt		**242**	104
		$3,563	$4,303

In June 2008, our Board of Directors authorized and we announced the planned redemption of any and all of our $1.0 billion in original principal amount of floating rate convertible debentures that remained outstanding on August 15, 2008. Holders could elect to convert their debentures at any time prior to the close of business on August 14, 2008. Any debentures not delivered for conversion by the close of business on that date were no longer available for conversion and were redeemed at $1,000 for each $1,000 in principal amount on August 15, 2008.

As of August 15, 2008, all of the debentures had been delivered for conversion or were redeemed. The aggregate amount paid in cash subsequent to conversion of the debentures was $1.0 billion, representing the principal amount of the accrued and unpaid interest on the previous notes. We accounted for the transaction as an exchange of debt under Emerging Issues Task Force (EITF) Issue 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*. The cash consideration of $343 million, which is included in the Statement of Cash Flows in financing activities, will be amortized over the life of the Notes as a discount using the effective interest method and recorded in interest expense. The 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 by $11 million ($0.03 per share) in 2006.

At December 31, 2008 and 2007, we had in place a $1.5 billion revolving credit facility with a group of banks which expires in June 2012. There were no borrowings outstanding under the facility at December 31, 2008 and 2007. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on the Eurodollar rate or a bank defined Base Rate. 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 certain of our subsidiaries to encumber assets and a covenant not to exceed a maximum leverage ratio.

Our scheduled long-term debt maturities following December 31, 2008 are: $242 million in 2009; $1 million in 2010; $1 million in 2011; $1 million in 2012; $651 million in 2013; and $3,249 million thereafter. These amounts do not include the remaining $340 million unamortized discount recorded in connection with the debt exchange in 2006.

The estimated fair values of our long-term debt instruments at December 31, 2008 and 2007, aggregated approximately $4,782 million and $5,701 million, compared with a carrying amount of approximately $4,145 million and 4,749 million, excluding the $340 million and 342 million unamortized discount. The fair values were estimated based on quoted market prices.

Interest payments were $320 million in 2008, $327 million in 2007, and $337 million in 2006.

future benefits to eligible retirees and dependents (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans). We use December 31 as the measurement date. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for each of the years presented were based on assumptions in effect at the end of the respective preceding year.

We account for our defined benefit pension and retiree medical and life insurance plans using FAS 158, FAS 87, and FAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* FAS 158 requires us to recognize on a plan-by-plan basis the funded status of our postretirement benefit plans, with a corresponding noncash adjustment to accumulated other comprehensive income (loss), net of tax, in stockholders' equity. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan. The adjustment to stockholders' equity at December 31, 2006 represented the net unrecognized actuarial losses and prior service costs which were previously netted against the plan's funded status on our Balance Sheet in accordance with FAS 87 and included the elimination of the minimum pension liability and intangible asset related to our defined benefit pension plans that had been recorded prior to its adoption.

The following provides a reconciliation of benefit obligations and funded status related to our nonqualified defined benefit pension plans. We have set aside certain assets in a Rabbi Trust which we expect to be used to pay obligations under our nonqualified plans. Under the provisions of FAS 87, those assets may not be used to offset the amount of the benefit obligation similar to the qualified defined benefit pension and retiree medical and life insurance plans in the table above.

other plans are not expected to be material. The prior service credit or cost included in accumulated other comprehensive income (loss) at the end of 2008 and expected to be recognized in net pension cost during 2009 is a cost of $81 million ($52 million net of income tax benefits) for our qualified defined benefit pension plans and a credit of $23 million ($15 million net of income taxes) for our retiree medical and life insurance plans. The amounts of prior service cost for the nonqualified, foreign and other plans are not expected to be material. No plan assets are expected to be returned to us in 2009.

The net pension cost as determined by FAS 87 and the net postretirement benefit cost as determined by FAS 106 include the following components:

(In millions)

Equity securities purchased by external investment managers and included in the assets of the defined benefit pension plans included our issued and outstanding common stock in the amounts of $6 million (less than 0.03% of total plan assets) and $14 million (less than 0.06% of total plan assets) at December 31, 2008 and 2007. Equity securities included in the assets of the retiree medical and life insurance plans included less than $0.2 million (less than 0.01% of total plan assets) and $1 million (less than 0.03% of total plan assets) of our issued and outstanding common stock at December 31, 2008 and 2007.

We generally refer to U.S. Government Cost Accounting Standards (CAS) and Internal Revenue Code rules in

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 $2,106 million and $471 million recorded as a reduction of retained earnings in 2008 and 2007.

Note 12 – Stock-Based Compensation

In 2008, our stockholders approved a new plan for the Board of Directors (the 2009 Directors Equity Plan) which became effective January 1, 2009. The 2009 Directors Equity Plan replaces but provides comparable compensation to the Directors Plan, which was due to expire in May 2009. There are 0.6 million shares reserved for issuance under the New Directors Plan.

2008 A

Stock Options

The following table summarizes stock option activity during the year ended December 31, 2008:

	Number of Stock Options *(In thousands)*	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life *(In years)*	Aggregate Intrinsic Value *(In millions)*
Outstanding at December 31, 2007	20,365	$ 59.99		
Granted	3,581	106.88		
Exercised	(4,700)	52.80		
Terminated	(97)	75.64		
O a a D 31, 2008	**19,149**	**70.44**	**6.3**	**$380.8**
V a a D 31, 2008	**19,024**	**70.22**	**6.3**	**380.8**
E a a D 31, 2008	**12,107**	**55.25**	**5.0**	**361.0**

Stock options granted vest over three years and have 10-year terms. Exercise prices of stock options awarded for all periods were equal to the market price of the stock on the date of grant. The following table pertains to stock options which

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.

As described in the “Environmental Matters” discussion below, we are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have property subject to various other lawsuits or proceedings involving environmental matters and remediation obligations.

On September 11, 2006, we and LMIMCo were named as defendants in a lawsuit filed in the U.S. District Court for the Southern District of Illinois, seeking to represent a class of purportedly similarly situated participants and beneficiaries in our Salaried Savings Plan and the Hourly Savings Plan (the Plans). Plaintiffs allege that we or LMIMCo caused the Plans to pay expenses that were higher than reasonable by, among other actions, permitting service providers of the Plans to engage in revenue sharing, paying investment management fees for the company stock funds, and causing the company stock funds to hold cash for liquidity thus reducing the return on those funds. The plaintiffs further allege that we or LMIMCo failed to disclose information appropriately relating to the fees associated with managing the Plans. In August 2008, plaintiffs filed an amended complaint, adding allegations that we or LMIMCo breached fiduciary duties under ERISA with respect to particular funds offered under our 401(k) plans. Plaintiffs have moved to certify a class in the matter, and we have opposed that motion. We dispute the allegations and are defending against them.

We have been in litigation with certain residents of Redlands, California since 1997 before the California Superior Court for San Bernardino County regarding allegations of personal injury, property damage, and other tort claims on behalf of individuals arising from our alleged contribution to regional groundwater contamination. On July 11, 2006, the California Court of Appeal dismissed the plaintiffs’ punitive damages claim. On September 23, 2008, the trial court dismissed the remaining first tier plaintiffs, ending the first round of individual trials. The first tier plaintiffs are pursuing their appellate remedies, and opposing counsel has asked the trial court to consider procedures for the litigation of the next round of individual plaintiffs.

E a Ma

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities. Environmental cleanup activities usually span several years, which make estimating liabilities a matter of judgment because of such factors as changing remediation technologies, assessments of the extent of contamination, and continually evolving regulatory environmental standards. We consider these and other factors in 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 better than another, we record an amount at the low end of the range. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined.

At December 31, 2008 and 2007, the aggregate amount of liabilities recorded relative to environmental matters was $809 million and $572 million. Approximately $694 million and $491 million are recorded in other liabilities on the Balance Sheet, with the remainder recorded in other current liabilities. A portion of environmental costs is eligible for future recovery in the pricing of our products and services on U.S. Government contracts. We have recorded assets totaling $683 million and $480 million at December 31, 2008 and 2007 for the estimated future recovery of these costs, as we consider the recovery a loss may be probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory standard. We also are pursuing claims for contribution to site cleanup costs against other potentially responsible parties (PRPs), including the U.S. Government.

We are conducting remediation activities under various consent decrees and orders relating to soil or groundwater contamination at certain sites of former operations. Under an agreement related to our Burbank and Glendale, California sites, the U.S. Government reimburses us an amount equal to approximately 50% of expenditures for certain remediation activities in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

L C a O A a

We have entered into standby letter of credit agreements, surety bonds and other arrangements with financial institutions and other third parties primarily relating to advances received from customers and/or the guarantee of future performance on

We used a total of approximately $337 million in 2007 for acquisition activities, including an additional contribution of $177 million related to our investment in ULA discussed below. Those activities also included the acquisition of, among others, Management Systems Designers, Inc., a provider of information technology (IT) and scientific solutions supporting government life science, national security, and other civil agency share in the gains associated with the land sales. At the time the land sales occurred, we believed the value of the properties sold was attributable to the land versus the buildings and improvements. The dispute ultimately went to trial with the Armed Services Board of Contract Appeals (ASBCA), subsequent to which the ASBCA determined that our accounting for the land sales was in accordance with the Federal Acquisition Regulation and CAS. We reached a settlement with the U.S. Government in the second quarter of 2008, and the previously recorded reserves were no longer required. Resolution of this matter increased our net earnings by $56 million ($0.14 per share).

In the first quarter of 2007, we sold certain land in California for $36 million in cash. The transaction resulted in a gain, net of state income taxes, of $25 million which we recorded in other income (expense), net, and an increase in net earnings of $16 million ($0.04 per share). In the second and third quarters of 2006, we sold certain land in California and Florida for combined proceeds of $76 million in cash. The transactions resulted in an aggregate gain, net of state income taxes, of $51 million which we recorded in other income (expense), net, and an increase in net earnings of $33 million ($0.08 per share).

Investments

In the first quarter of 2006, we sold 21 million of our Inmarsat plc (Inmarsat) shares for $132 million, reducing our ownership from 5.3% to less than 1%. As a result of this transaction, we recorded a gain, net of state income taxes, of $127 million in other income (expense), net, which increased our net earnings by $83 million ($0.19 per share). Also in the first quarter of 2006, we received proceeds from the sale of the assets of Space Imaging, LLC. The transaction resulted in a gain, net of state income taxes, of $23 million in other income (expense), net, and increased net earnings by $15 million ($0.03 per share).

Other

In 2000, we sold our Aerospace Electronics Systems business. In connection with that sale, we established a transaction-related reserve to address an indemnity provision included in the sale agreement. The risks associated with that indemnity provision expired in 2006 and we eliminated the reserve. This resulted in an increase, net of state income taxes, of $29 million in other income (expense), net, and increased net earnings by $19 million ($0.04 per share).

United Launch Alliance

On December 1, 2006, we completed a transaction with Boeing that resulted in the formation of ULA, a joint venture which combines the engineering, production, test and launch operations associated with U.S. Government launches of our Atlas launch vehicles and Boeing’s Delta launch vehicles. Under the terms of the joint venture master agreement, Atlas and Delta expendable launch vehicles will continue to be available as 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 measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The adoption of FAS 157 did not have a material impact on our results of operations, financial position or cash flows.

The fair-value hierarchy established in FAS 157 prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and
- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions. At December 31, 2008, we have no financial assets or liabilities that are categorized as Level 3. During 2008, we had no financial assets or liabilities that were transferred in or out of the Level 3 category.

The following table presents assets and liabilities measured and recorded at fair value on our Balance Sheet on a recurring basis and their level within the fair value hierarchy as of December 31, 2008:

(In millions)	Level 1	Level 2	Balance as of December 31, 2008
Assets			
Short-term investments [a]	$ —	$ 61	$ 61
Rabbi Trust investments [b]	274	226	500
Derivative assets [c]	—	100	100
Total assets	$ 274	$387	$661
Derivative liabilities [c]	—	48	48
Net assets	$ 274	$339	$613

(a) Short-term investments are comprised of fixed income securities. The fair values of these securities are based on either quoted prices for similar securities or quoted prices for identical or similar securities in inactive markets and, therefore, are categorized as Level 2.

(b) We maintain a Rabbi Trust which includes investments to fund certain of our non-qualified deferred compensation plans. The Rabbi Trust is included in other assets. Investments in the trust that are categorized as Level 1 are marketable equity securities and fixed income securities with the U.S. Government, both of which are valued using quoted market prices and those categorized as Level 2 are fixed income securities which are valued based on either quoted prices for similar securities or quoted prices for identical or similar securities in inactive markets. Investments in the trust are classified as trading securities and, accordingly, changes in their fair values are recorded in other non-operating income (expense), net. Our net unrealized gains (losses) on the investments in the trust were $(158) million, $(13) million, and $24 million for the years ended December 31, 2008, 2007, and 2006.

(c) Derivative assets and liabilities relate to foreign currency exchange contracts used to manage our exposure to fluctuations in foreign currency exchange rates, and which most qualify for hedge accounting treatment. The balances are included in other current assets and other current liabilities. These foreign currency exchange contracts hedge the fluctuations in cash flows associated with firm commitments or specific anticipated transactions contracted in foreign currencies. The contracts are categorized as Level 2 since they

Note 17 – Summary of Quarterly Information (Unaudited)

	2008 Q a [a]			
(In millions, except per share data)	**F ( )**	**S ( )**	**T ( )**	**F ( )**
Net sales	**$9,983**	**$11,039**	**$10,577**	**$11,132**
Operating profit	**1,178**	**1,363**	**1,242**	**1,348**
Net earnings	**730**	**882**	**782**	**823**
Basic earnings per share	**1.80**	**2.21**	**1.97**	**2.08**

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 2009 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 is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2009 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 the 2009 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. *Setting the Standard*, our Code of Ethics and Business Conduct, applies to all our employees, including our principal executive officer, principal financial officer, and

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) List of financial statements filed as part of this Form 10-K.

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

	Pa
Consolidated Statement of Earnings – Years ended December 31, 2008, 2007, and 2006	63
Consolidated Balance Sheet – At December 31, 2008 and 2007	64
Consolidated Statement of Cash Flows – Years ended December 31, 2008, 2007, and 2006	65
Consolidated Statement of Stockholders' Equity – Years ended December 31, 2008, 2007, and 2006	66
Notes to Consolidated Financial Statements – December 31, 2008	67

The report of Lockheed Martin Corporation's 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 61 and 62 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 June 26, 2008).

3.2 Bylaws of Lockheed Martin Corporation, as amended and restated effective April 25, 2008 (incorporated by

10.4 Martin Marietta Corporation Postretirement Death Benefit Plan for Senior Executives, as amended January 1, 1995 (incorporated by reference to Exhibit 10.9 to Lockheed Martin Corporation’s Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995), and as further amended September 26, 1996 (incorporated by reference to Exhibit 10 (ooo) to Lockheed Martin Corporation’s Annual Report on Form 10-K for the year ended December 31, 1996).

10.5 Martin Marietta Corporation Amended Omnibus Securities Award Plan, as amended March 25, 1993 (incorporated by reference to Exhibit 10.13 to Lockheed Martin Corporation’s Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995).

10.6 Martin Marietta Corporation Directors’ Life Insurance Program (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation’s Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995).

10.7 Lockheed Martin Supplementary Pension Plan for Employees of Transferred GE Operations, as amended.

10.23 Form of the Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2007-2009

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

[redacted]

MARTIN T. STANISLAV
Vice President and Controller
(Chief Accounting Officer)

Date: February 26, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following

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 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

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 26, 2009

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, 2008 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
Executive Vice President and Chief Financial Officer

Date: February 26, 2009

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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GENERAL INFORMATION

December 31, 2008

As of December 31, 2008, there were approximately 39,000 holders of record of Lockheed Martin common stock and 395,026,178 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,