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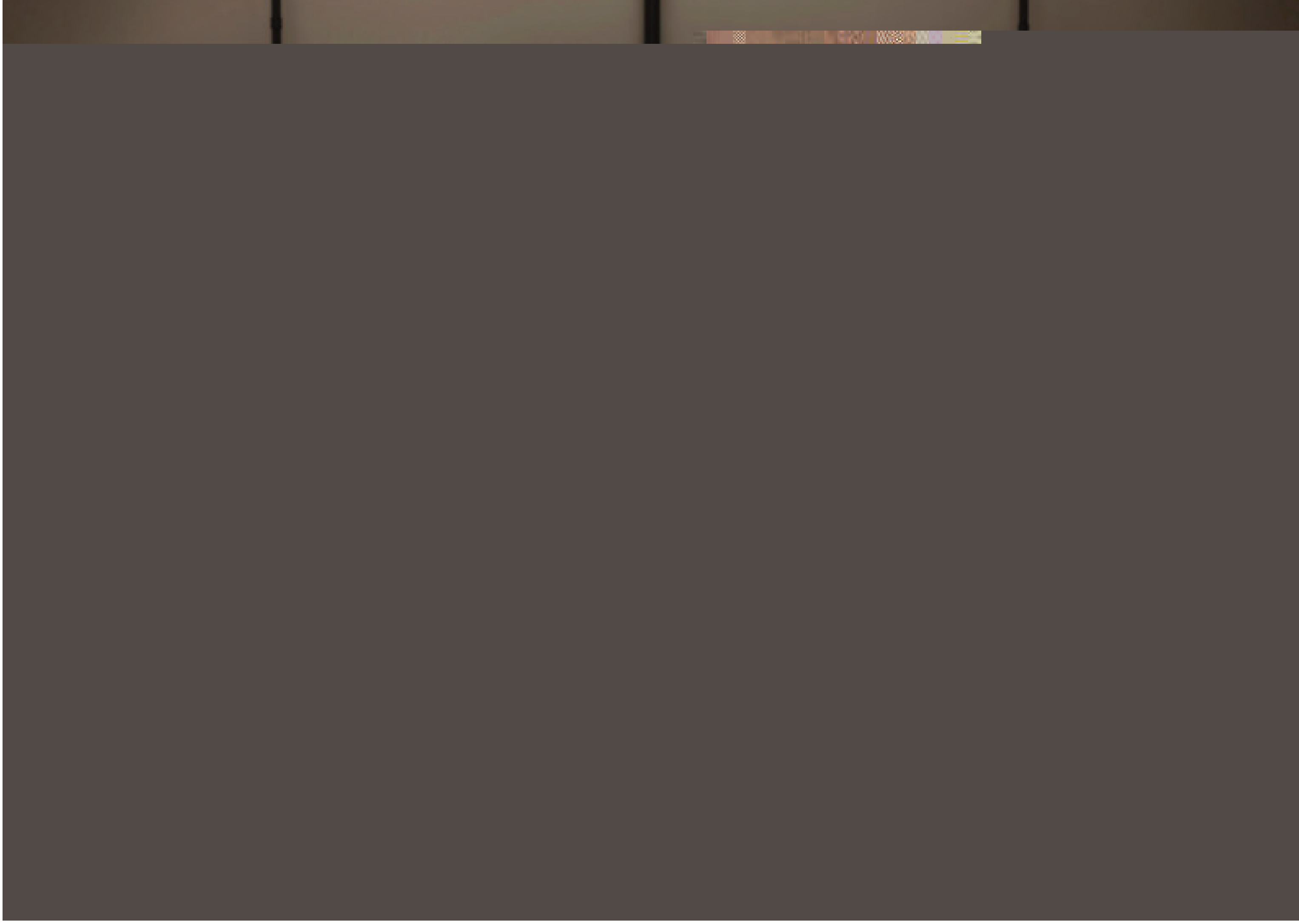
2011 FINANCIAL HIGHLIGHTS

(In millions, except per share data)	**2011**	2010	2009
Net Sales	**$46,499**	$45,671	$43,867
Segment Operating Profit	**5,281**	5,028	5,056
Consolidated Operating Profit	**3,980**	4,049	4,367
Net Earnings From Continuing Operations	**2,667**	2,614	2,967
Net Earnings	**2,655**	2,878	2,973
Diluted Earnings Per Common Share			
Continuing Operations	**7.85**	7.10	7.63
Net Earnings	**7.81**	7.81	7.64
Cash Dividends Per Common Share	**3.25**	2.64	2.34
Average Diluted Common Shares Outstanding	**340**	368	389
Cash, Cash Equivalents and Short-Term Investments	**$ 3,585**	$ 2,777	$ 2,737
Total Assets	**37,908**	35,113	35,167
Total Debt	**6,460**	5,019	5,052
Stockholders' Equity	**1,001**	3,497	3,966
Common Shares Outstanding at Year-End	**321**	346	373
Net Cash Provided by Operating Activities	**$ 4,253**	$ 3,801	$ 3,487

NOTE: For additional information regarding matters affecting the comparability of the information presented above, refer to Item 6. Selected Financial Data, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data in our 2011 Annual Report on Form 10-K.

On the Cover: F-35B: Proud to Serve the U.S. Marines
This F-35B Short-Takeoff/Vertical Landing (STOVL) aircraft makes its first landing on the USS WASP October 6, 2011. Lockheed Martin is developing three variants of the 5th Generation F-35 combat aircraft for the U.S. Marine Corps, U.S. Navy, U.S. Air Force, eight international partners, and two Foreign Military Sales customers.



Dear Fellow Shareholders,

This is a milestone year for Lockheed Martin: our 100th anniversary. Our company's success over the past century is due to the exceptional character and ingenuity of the hundreds of thousands of people who have walked through the doors of our heritage

Our Leadership Team: From Left to Right: Larry A. Lawson Executive Vice President, Aeronautics (effective April 1); Joanne M. Maguire, Executive Vice President, Space Systems; Marillyn A. Hewson, Executive Vice President, Electronic Systems; Robert J. Stevens, Chairman and Chief Executive Officer; Christopher E. Kubasik, President and Chief Operating Officer; Linda R. Gooden, Executive Vice President, Information Systems & Global Solutions; Ralph D. Heath, Executive Vice President, Aeronautics (retiring April 1); Bruce L. Tanner, Executive Vice President and Chief Financial Officer. This photograph of our leadership team against the backdrop of our NexGen Cyber Innovation and Technology Center underscores the commitment of Lockheed Martin's leadership to protecting our customers' networks with trusted, reliable, mission-resilient systems. Lockheed Martin addresses cyber security challenges worldwide with innovative technologies that keep us ahead of a constantly evolving threat. Cyber security is a critical component of everything we do, and every solution we develop.

As reflected in this report, financial results were consistently strong in 2011 with sales of $46.5 billion, representing a two percent increase over 2010. We grew our diluted earnings per share from continuing operations to $7.85, and we grew our backlog to a record $80.7 billion at the end of 2011.

Balanced cash deployment is a key element of our strategy. In 2011, we generated $4.3 billion in cash from operations after making $2.3 billion in contributions to our pension plans. We deployed cash to generate shareholder value through cash dividends of $1.1 billion and share repurchases of $2.4 billion. Our total shareholder return for the year was 21 percent, outperforming all major indices.

Our record of strong cash generation has allowed us to pursue selected acquisitions that add greater depth to our portfolio. In 2011, we completed our acquisition of QTC Holdings, Inc., the largest provider of outsourced medical evaluation services to the U.S. Government and Department of Veterans Affairs. Our distinction as the number one supplier of IT services to the federal government, coupled with QTC's case management services and health care expertise, now position us to help improve health care for veterans, reservists, active duty, and civilian government personnel. We also acquired Netherlands-based Sim-Industries, B.V., which develops and manufactures flight simulators for a wide range of airline customers. These acquisitions demonstrate our commitment to expand into closely related markets that build on our core capabilities and grow our customer base.

Structuring and Managing the Enterprise for Efficiency

Because we operate in a dynamic environment, we continuously evolve our organizational structure to respond with even greater agility and precision to changing business conditions and customer priorities. To that end, in September 2011 we created the Executive Office of the Chairman to include the Chief Executive Officer and Chief Operating Officer.

Through this structure, we stay closely aligned on all operational and functional matters as they arise, and we act interchangeably and decisively to ensure we meet our customers' expectations, and that we focus on excellent performance and profitable growth. We are confident this new structure better aligns business strategy with program execution and affordability.

Additionally, we announced this year the appointment of Larry A. Lawson as executive vice president for Aeronautics, effective April 1. Larry, who currently serves as vice president and general manager of the F-35 program, brings a keen understanding of the entire Aeronautics portfolio. He succeeds Ralph D. Heath, whose leadership of our Aeronautics business has been defined by innovation, attention to performance, and a dedication to the highest standards of ethics and accountability.

Operational Excellence Drives Financial Results

We realize that affordability – creating greater efficiencies and lowering costs in everything we do – is a permanent feature of our corporate culture. We monitor all aspects of our operations to ensure we are always aligned with business needs and positioned to offer value to our customers. We also work closely with our 29,000 active suppliers to drive affordability into every program.

We also recognize that the greatest contributor to the vitality of this company is solid execution on our customers' programs. We have made considerable progress on the development and production phases of the F-35 as evidenced by Secretary of Defense Leon Panetta's lifting of the probation on the F-35B Short-Takeoff/Vertical

Landing (STOVL) variant on January 20, 2012. Saying the F-35 “remains essential” for future air superiority, the Secretary’s action reflects the talent and tenacity of the men and women working to make this program a success.

We exceeded F-35 flight test and test point goals in 2011 with 972 test flights against a plan of 872, and we tallied 7,823 test points against a plan of 6,622. We also completed the Static

- The Space Based Infrared System (SBIRS) spacecraft, launched in May, will protect our nation and allies from missile attack with

with the $487 billion already cut from the budget, sequestration would result in almost a trillion-dollar reduction in defense spending over the next decade. Secretary Panetta has said that cuts of that magnitude would have catastrophic consequences to U.S. defense and would severely erode America's industrial base. We agree. We must not let an automatic budget trigger become the dominant force for allocating resources and shaping the nation's security posture.

We are strengthening the enterprise by adhering to a strategy that puts a premium on execution. Our relentless focus on execution is a significant factor in reducing the cost of doing business, and our remarkable record of innovation continues to play a pivotal role in keeping our portfolio relevant. Innovation allows us to build on our core, move quickly and smartly as new opportunities arise, and meet affordability goals.

As we look ahead, we recognize that we are operating at a critical inflection point as America and her allies confront an emerging national and global security landscape. We have devised a strategic blueprint based on four imperatives: Secure, Extend, Expand, and Enable. This strategy, which leverages the strength of our portfolio, will pave the way through what will be, at times, an uncertain voyage. It will:

- **Secure** our existing programs by performing with excellence. Additionally, we must continue to have candid dialogues with our customers and the highest degree of transparency on all our programs.

- **Extend** the value of our platforms by shaping follow-on business and tailoring our existing capabilities for new applications. We should also continue to seek and implement innovative business models.

- **Expand** our position within targeted segments with market-based strategies. This also means more pursuits internationally, and greater synergies between Lockheed Martin products.

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

Commission file number 1-11437

LOCKHEED MARTIN CORPORATION
(Exact name of registrant as specified in its charter)

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

6801 Rockledge Drive, Bethesda, Maryland 20817-1877 (301/897-6000)
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of each exchange on hich registered**
Common Stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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 which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Approximately $26.4 billion as of June 26, 2011.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. Common Stock, $1 par value, 325,105,500 shares outstanding as of January 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Lockheed Martin Corporation's 2012 Definitive Proxy Statement are incorporated by reference in Part III of this Form 10-K.

LOCKHEED MARTIN CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2011

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PART I

ITEM 1. BUSINESS

General

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also 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 2011, 82% of our $46.5 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 61% from the Department of Defense (DoD)), 17% were from international customers (including foreign military sales (FMS) funded, in whole or in part, by the U.S. Government), and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security, and information technology, including cyber security.

We are operating in an environment that is characterized by both increasing complexity in the global security environment, as well as continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on core program execution, improving the quality and predictability of the delivery of our products and services, and placing more security capability into the hands of our customers at affordable prices. Recognizing that our U.S. Government customers are resource constrained, we are endeavoring to develop and extend our portfolio in a disciplined manner with a focus on international and adjacent markets. Finally, we are focused on cost reduction, through actions such as our workforce reductions in 2011 and programs like our Voluntary Executive Separation Program (VESP) and facility reduction initiatives in 2010, to further enhance the value of our products and services.

We were formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. We are a Maryland corporation. Our principal executive offices are located at 6801 Rockledge Drive, Bethesda, Maryland 20817-1877. Our telephone number is (301) 897-6000. Our website home page on the Internet is www.lockheedmartin.com. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

Throughout this Form 10-K, we incorporate by reference information from parts of other documents filed with the U.S. Securities and Exchange Commission (SEC). The SEC allows us to disclose important information by referring to it in this manner, and you should review that information.

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for our annual stockholders' meeting, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practical after we electronically file the material with, or furnish it to, the SEC. You can learn more about us by reviewing our SEC filings. Our SEC filings can be accessed through the investor relations page of our website, www.lockheedmartin.com/investor. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements, and other information regarding SEC registrants, including Lockheed Martin Corporation.

Business Segments

We have four business segments: Aeronautics, Electronic Systems, Information Systems & Global Solutions (IS&GS), and Space Systems. For more information concerning our segment presentation, including comparative segment net sales, operating profit, and related financial information for 2011, 2010, and 2009, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4 – Information on Business Segments.

Aeronautics

In 2011, our Aeronautics business segment generated net sales of $14.4 billion, which represented 31% of our total consolidated net sales. Aeronautics' customers include the military services and various other government agencies of the U.S. and allied countries around the world. In 2011, U.S. Government customers accounted for 75% and international customers accounted for 25% of Aeronautics' net sales. Sales from Aeronautics' combat aircraft products and services represented 20% of our total consolidated net sales in each of 2011, 2010, and 2009. No other Aeronautics' product or service lines generated more than 10% of our total consolidated net sales in 2011, 2010, or 2009.

Aeronautics is 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. Aeronautics also provides logistics support, sustainment, and upgrade modification services for its aircraft. Aeronautics’ major programs include:

- F-35 Lightning II Joint Strike Fighter – international multi-role, stealth fighter;
- F-16 Fighting Falcon – low-cost, combat-proven, international multi-role fighter;
- F-22 Raptor – air dominance and multi-mission stealth fighter;
- C-130J Hercules – international tactical airlifter; and
- C-5M Super Galaxy – modernization of the C-5 Galaxy, a strategic airlifter.

The F-35 program, which is the largest in our corporation and generated 42% of Aeronautics’ net sales in 2011, consists of multiple contracts. Under our customer’s acquisition strategy, the System Development and Demonstration (SDD) contract will be performed concurrently with the low-rate initial production (LRIP) contracts. Concurrent performance of development and production contracts is advantageous in complex programs to test airplanes, shorten the time to field systems, and achieve overall cost savings. Accordingly, we are performing the SDD contract concurrently with LRIP aircraft lots 2 through 6. We expect the SDD portion of the F-35 program to continue into 2017.

Electronic Systems provides surface ship and submarine combat systems; sea-based missile defense systems; ship systems integration; littoral combat ships; nuclear instrumentation and control systems for naval submarines, aircraft carriers, and surface warships; air and defense missile systems; air-to-ground precision strike weapons systems; tactical missiles; munitions; fire control and navigation systems for rotary and fixed-wing aircraft; manned and unmanned ground vehicles; mission operations support, readiness, engineering support, and integration services; simulation and training services; and energy programs. Electronic Systems' major programs include:

- The Aegis Combat System, which is a fleet defense missile system for the U.S. Navy and international customers and also a sea-based element of the U.S. missile defense system. The Aegis Combat Systems Engineering Agent program, where we are the incumbent contractor, is being recompeted by the U.S. Navy in 2012.
- The Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD) air and missile defense programs. PAC-3 is an advanced defensive missile for the U.S. Army and international customers designed to intercept incoming airborne threats. THAAD is a transportable defensive missile system for the U.S. Government and international customers designed to engage targets both within and outside of the Earth's atmosphere. The United Arab Emirates (UAE) recently selected THAAD, which represents the first international sale for this program.
- The Multiple Launch Rocket System (MLRS), Hellfire, and Joint Air-to-Surface Standoff Missile (JASSM) tactical missile programs. MLRS is a highly mobile, automatic system that fires surface-to-surface rockets and missiles from the M270 and High Mobility Artillery Rocket System platforms produced for the U.S. Army and international customers. Hellfire is an air-to-ground missile used for rotary and fixed-wing aircraft, which is produced for the U.S. Army and international customers. JASSM is an air-to-ground missile used for fixed-wing aircraft, which is produced for the U.S. Air Force and international customers.
- The Apache Fire Control System, which provides weapons targeting capability for the Apache helicopter for the U.S. Army and a number of international customers.
- The Littoral Combat Ship (LCS), which is a surface combatant for the U.S. Navy designed to operate in shallow waters. Our second LCS vessel, the Fort Worth, successfully completed its builder's sea trials in November 2011 and is on schedule for delivery to the U.S. Navy in 2012. Construction also began on our third LCS vessel, the Milwaukee.
- The Special Operations Forces Contractor Logistics Support Services program, which provides logistics support services to the Special Operations Forces of the U.S. Army.

Information Systems & Global Solutions

In 2011, our IS&GS business segment generated net sales of $9.4 billion, which represented 20% of our total consolidated net sales. IS&GS' customers include the military services and various government agencies of the U.S. and allied countries around the world as well as commercial and other customers. In 2011, U.S. Government customers accounted for 93%, international customers accounted for 5%, and U.S. commercial and other customers accounted for 2% of IS&GS' net sales. No IS&GS' product or service lines generated more than 10% of our total consolidated net sales in 2011, 2010, or 2009.

IS&GS provides management services, information technology solutions, and advanced technology expertise across a broad spectrum of applications. IS&GS supports the needs of customers in human capital planning, data protection and sharing, cyber-security, financial services, health care, energy and environment, security, space exploration, biometrics, and transportation. IS&GS provides network-enabled situation awareness, delivers communications and command and control capability through complex mission solutions for defense applications, and integrates complex global systems to help our customers gather, analyze, and securely distribute critical intelligence data. IS&GS has a portfolio of many smaller contracts as compared to our other business segments. IS&GS' major programs include:

- The Command and Control, Battle Management, and Communications (C2BMC) contract, a program to increase the integration of the Ballistic Missile Defense System for the U.S. Government.
- The En-Route Automation Modernization (ERAM) contract, which is a program to replace the Federal Aviation Administration's infrastructure with a modern automation environment that includes new functions and capabilities.
- The Hanford Mission Support contract, which provides infrastructure and site support services to the Department of Energy.
- The National Science Foundation's U.S. Antarctic Support program, which was awarded in December 2011, manages sites and equipment to enable universities, research institutions, and federal agencies to conduct scientific research in the Antarctic.

Space Systems

In 2011, our Space Systems business segment generated net sales of $8.1 billion, which represented 18% of our total consolidated net sales. Space Systems' customers include various government agencies of the U.S. and commercial customers. In 2011, U.S. Government customers accounted for 96%, international customers accounted for 2%, and U.S. commercial and other customers accounted for 2% of Space Systems' net sales. Sales from Space Systems' satellite products and services represented 12%, 13%, and 13% of our total consolidated net sales in 2011, 2010, and 2009. No other Space Systems' product or service lines generated more than 10% of our total consolidated net sales in 2011, 2010, or 2009.

Space Systems is engaged in the design, research and development, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems, including activities related to the planned replacement of the Space Shuttle. Space Systems is responsible for various classified systems and services in support of vital national security systems. Space Systems' major programs include:

- The Trident II D5 Fleet Ballistic Missile, which is a program with the U.S. Navy for the only current submarine-launched intercontinental ballistic missile in production in the U.S.
- The Space-Based Infrared System (SBIRS) program, which provides the U.S. Air Force with enhanced worldwide missile launch detection and tracking capabilities.
- The Orion Multi-Purpose Crew Vehicle (Orion) program, an advanced crew capsule design for the National Aeronautics and Space Administration (NASA) utilizing state-of-the-art technology for human exploration beyond low earth orbit that replaces the Space Shuttle.
- The Advanced Extremely High Frequency (AEHF) system, which is the next generation of highly secure communications satellites for the U.S. Air Force.
- The Mobile User Objective System (MUOS), which is a next-generation narrow band satellite communication system for the U.S. Navy.
- Global Positioning System (GPS) III, which is a program to modernize the GPS satellite system for the U.S. Air Force.

Space Systems has an ownership interest in United Launch Alliance, which provides expendable launch services for the U.S. Government, and in United Space Alliance, which provides processing activities for the Space Shuttle program, which is winding down following the completion of the last mission in 2011.

Competition

Our broad portfolio of products and services competes against the products and services of other large aerospace, defense, and information technology companies, as well as numerous smaller competitors, particularly in the IS&GS segment. We often form teams with other companies that are competitors in other areas to provide customers with the best mix of capabilities to address specific requirements. In some areas of our business, customer requirements are changing to encourage expanded competition, such as information technology contracts where there may be a wide range of small to large contractors bidding on procurements. Principal factors of competition include: value of our products and services to the customer; technical and management capability; the ability to develop and implement complex, integrated system architectures; financing and total cost of ownership; release of technology; our demonstrated ability to execute and perform against contract requirements; and our ability to provide timely solutions.

The competition for foreign sales is subject to additional U.S. Government stipulations (*e.g.*, export restrictions, market access, technology transfer, industrial cooperation, and contracting practices). We may compete against domestic and foreign companies (or teams) for contract awards by foreign governments. International competitions also may be subject to different laws or contracting practices of foreign governments that may impact how we structure our bid for the procurement. In many international procurements, the purchasing government's relationship with the U.S. and its industrial cooperation programs are also important factors in determining the outcome of a competition. It is common for international customers to require contractors to comply with their industrial cooperation regulations, sometimes referred to as offset requirements, and we have undertaken foreign offset agreements as part of securing some international business. For more information concerning offset agreements, see "Contractual Commitments and Off-Balance Sheet Arrangements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Patents

We routinely apply for and own a substantial number of U.S. and foreign patents related to the products and services we provide. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. The U.S. Government has licenses in our patents that are developed in performance of government contracts, and it may use or authorize others to use the inventions covered by our patents for government purposes. Unpatented research, development, and engineering skills also make an important contribution to our business. Although our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license, or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole.

Raw Materials and Seasonality

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

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

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

Government Contracts and Regulation

Our business is heavily regulated. We deal with numerous U.S. Government agencies and entities, including all branches of the U.S. military, the Departments of Defense, Homeland Security, Justice, Commerce, Health and Human

Backlog

At December 31, 2011, our total backlog was $80.7 billion compared with $78.4 billion at December 31, 2010. Backlog

We depend heavily on U.S. Government contracts. A decline or reprioriti ation of funding in the U.S. defense budget or delays in the budget process could adversely affect our ability to gro or maintain our sales, earnings, and cash flo .

We derived 82% of our sales from U.S. Government customers in 2011, including 61% from the DoD. We expect to

We are subject to a number of procurement rules and regulations. Our business and our reputation could be adversely affected if e fail to comply ith those rules.

We must comply with and are affected by laws and regulations relating to the award, administration, and performance of U.S. Government contracts. Government contract laws and regulations affect how we do business with our customers and, in some instances, impose added costs on our business. A violation of specific laws and regulations could harm our reputation and 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 subcontracts either at its convenience or 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-reimbursable contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. 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. We attempt to ensure that adequate funds are available by notifying the customer when its estimated costs, including those associated with a possible termination for convenience, approach levels specified as being allotted to its programs. As funds are typically appropriated on a fiscal-year basis and as the costs of a termination for convenience may exceed the costs of continuing a program in a given fiscal year, occasionally on-going programs do not have sufficient funds appropriated to cover the termination costs were the government to terminate them for convenience. Under such circumstances, the U.S. Government could assert that it is not required to appropriate additional funding.

A termination arising out of our default may 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, notwithstanding 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 not to exercise option periods and may not exercise an option period for various reasons. In addition, the use of progress payment provisions on fixed price contracts may delay our ability to recover costs incurred and affect the timing of our cash flows.

U.S. Government agencies, including the Defense Contract Audit Agency, the Defense Contract Management 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 audits the adequacy of, and a contractor’s compliance with, its systems and policies, including the competitive bidding process entails substantial costs and managerial time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors. Following award, we may encounter significant expenses, delays, contract modifications, or even loss of the contract if our competitors protest or challenge contracts that are awarded to us. Multi-award contracts require that we make sustained efforts to obtain task orders under the contract. We are facing otherwise. The amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities, and it is not possible to obtain insurance to protect against all operational risks and liabilities.

Substantial claims resulting from an accident, failure of our products or services, or other incident, or liability arising from our products and services in excess of any indemnity and our insurance coverage (or for which indemnity or insurance is not available or not obtained) could adversely impact our financial condition, cash flows, or operating results. Any accident, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively. It also could affect the cost and availability of adequate insurance in the future.

Our earnings and margins may vary based on the mix of our contracts and programs, our performance, and our ability to control costs.

Our earnings and margins may vary materially depending on the types of long-term government contracts undertaken, the nature of the products produced or services performed under those contracts, the costs incurred in performing the work, the achievement of other performance objectives, and the stage of performance at which the right to receive fees is finally determined (particularly under award and incentive fee contracts). Changes in procurement policy favoring new, accelerated, or more incentive-based fee arrangements or different award fee criteria or government proposals that indicate what our costs should be may affect the predictability of our profit rates. Our customers are under pressure that may result in a change in contract types earlier in program maturity or pursuit of non-traditional contract provisions in negotiation of contracts.

Our backlog includes a variety of contract types which are intended to address changing risk and reward profiles as a program matures. Contract types include cost-reimbursable, fixed-price incentive, fixed-price, and time-and-materials contracts. Contracts for development programs with complex design and technical challenges are typically cost-reimbursable. Under cost-reimbursable contracts, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance-based. In these cases, the associated financial risks primarily relate to a reduction in fees, and the program could be cancelled if cost, schedule, or technical performance issues arise.

Other contracts in backlog are for the transition from development to production (*e.g.*, Low Rate Initial Production), which includes the challenge of starting and stabilizing a manufacturing production and test line while the final design is being validated. These generally are cost-reimbursable or fixed-price incentive contracts, although there is a current stated U.S. Government preference for fixed-price incentive contracts. Under a fixed-price incentive contract, the allowable costs incurred are eligible for reimbursement, but are subject to a cost-share limit which affects profitability. Changes resulting from the ongoing development phase may need to be implemented on the production contracts, a concept referred to as concurrency. The risks associated with estimating and recovering the potential cost of concurrency changes on LRIP contracts may affect our earnings and cash flows. If our costs exceed the contract target cost or are not allowable under the applicable regulations, we may not be able to obtain reimbursement for all costs and may have our fees reduced or eliminated.

There are also contracts for production as well as operations and maintenance of the delivered products that have the challenge of achieving a stable production and delivery rate, while maintaining operability of the product after delivery. These contracts are mainly fixed-price, although some operations and maintenance contracts are time and materials-type. Under fixed-price contracts, we receive a fixed price despite the actual costs we incur. We have to absorb any costs in excess of the fixed price. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses.

The failure to perform to customer expectations and contract requirements may result in reduced fees and affect our financial performance in that period. Under each type of contract, if we are unable to control costs, our operating results could be adversely affected, particularly if we are unable to justify an increase in contract value to our customers. Cost overruns or the failure to perform on existing programs also may adversely affect our ability to retain existing programs and win future contract awards.

If our subcontractors, suppliers, or teaming agreement or joint venture partners fail to perform their obligations, our performance and our ability to in future business could be harmed.

Many of our contracts involve subcontracts or teaming arrangements with other companies upon which we rely to perform a portion of the services that we must provide to our customers. We also sometimes bid on contracts through joint ventures that award work through these entities, rather than through subcontract or teaming arrangements. There is a risk that we may have disputes with our subcontractors, teammates, or venture members, including disputes regarding the quality and timeliness of work performed, the workshare provided to that party, customer concerns about the other party's performance,

Our business could be negatively affected by cyber or other security threats or other disruptions.

As a U.S. defense contractor, we face cyber threats, threats to the physical security of our facilities and employees, and terrorist acts, as well as the potential for business disruptions associated with information technology failures, natural disasters, or public health crises.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our company sensitive information, as do our customers, suppliers, subcontractors and joint venture partners. We may experience similar security threats at customer sites that we operate and manage as a contractual requirement.

Prior cyber attacks directed at us have not had a material impact on our financial results, and we believe our threat detection and mitigation processes and procedures are robust. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers and our suppliers, subcontractors, and joint venture partners to seek to minimize the impacts of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by those entities.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to customers, loss of competitive advantages derived from our research and development efforts, early obsolescence of our products and services, our future financial results, our reputation or our stock price.

Unforeseen environmental costs could affect our future earnings as ell as the affordability of our products and services.

Our operations are subject to and affected by a variety of federal, state, local, and foreign environmental protection laws and regulations. We are involved in environmental responses at some of our facilities and former facilities, and at third-party sites not owned by us where we have been designated a potentially responsible party by the U.S. Environmental Protection Agency (EPA) or by a state agency. In addition, we could be affected by future regulations imposed in response to concerns over climate change, other aspects of the environment, or natural resources, and by other actions commonly referred to as "green initiatives." We have an ongoing comprehensive program to reduce the effects of our operations on the environment.

We manage various government-owned facilities on behalf of the government. At such facilities, environmental compliance and remediation costs historically have been the responsibility of the government, and we have relied (and continue to rely with respect to past practices) upon government funding to pay such costs. Although the government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance typically are borne by either the government or the contractor, depending on the contract and the relevant facts. Some environmental laws include criminal provisions. An environmental law conviction could affect our ability to be awarded future, or perform existing, U.S. Government contracts.

We have incurred and will continue to incur liabilities under various federal, state, local, and foreign statutes for environmental protection and remediation. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. Among the variables management must assess in evaluating costs associated with these cases and remediation sites generally are the status of site assessment, extent of the contamination, impacts on natural resources, changing cost estimates, evolution of technologies used to remediate the site, and continually evolving governmental environmental standards and cost allowability issues. Both the EPA and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking process is a lengthy one that takes one or more years to complete. If a substantially lower standard is adopted, we would expect a material increase in our cost estimates for remediation at several existing sites. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent probable and estimable, see "Critical Accounting Policies—Environmental Matters" in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 13—Legal Proceedings, Commitments, and Contingencies.

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

Our business may be adversely affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As required by GAAP, we estimate material loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements. For a description of our current legal proceedings, see Item 3 – Legal Proceedings and Note 13 – Legal Proceedings, Commitments, and Contingencies.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2011, we operated in 573 locations (including offices, manufacturing plants, warehouses, service centers, laboratories, and other facilities) throughout the U.S. and internationally. Of these, we owned 45 locations aggregating approximately 29 million square feet, and leased space at 528 locations aggregating approximately 25 million

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, and Note 13 – Legal Proceedings, Commitments, and Contingencies.

Joanne M. Maguire (57), Executive Vice President – Space Systems

Ms. Maguire has served as Executive Vice President – Space Systems since July 2006. She previously served as Vice President and Deputy of Lockheed Martin Space Systems Company from July 2003 to June 2006.

Kenneth R. Possenriede (51), Vice President and Treasurer

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2011.

Period	*Total Number of Shares Purchased*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Program* (1)	*Amount Available for Future Share Repurchases Under the Program* (2)
				(in millions)
October (September 26, 2011 –				

ITEM 6. SELECTED FINANCIAL DATA

(In millions, except per share data)	***2011***	*2010*	*2009*	*2008*	*2007*
OPERATING RESULTS					
Net sales	**$46,499**	$45,671	$43,867	$41,212	$40,612
Operating profit [a]	**3,980**	4,049	4,367	4,987	4,444
Net earnings from continuing operations [a][b]	**2,667**	2,614	2,967	3,127	2,990
Net earnings [c]	**2,655**	2,878	2,973	3,185	3,000
EARNINGS PER COMMON SHARE					
Net earnings from continuing operations					
Basic [a]	**$ 7.94**	$ 7.18	$ 7.71	$ 7.82	$ 7.19
Diluted [a]	**7.85**	7.10	7.63	7.64	7.00
Net earnings					
Basic [c]	**7.90**	7.90	7.73	7.97	7.21
Diluted [c]	**7.81**	7.81	7.64	7.78	7.02
CASH DIVIDENDS PER COMMON SHARE	**$ 3.25**	$ 2.64	$ 2.34	$ 1.83	$ 1.47
BALANCE SHEET					
Cash, cash equivalents and short-term investments [d]	**$ 3,585**	$ 2,777	$ 2,737	$ 2,229	$ 2,981
Total current assets	**14,094**	12,893	12,529	10,736	10,973
Goodwill	**10,148**	9,605	9,948	9,526	9,387
Total assets [e]	**37,908**	35,113	35,167	33,495	28,961
Total current liabilities	**12,130**	11,401	10,910	10,702	10,146
Long-term debt, net [d]	**6,460**	5,019	5,052	3,563	4,303
Total liabilities [e]	**36,907**	31,616	31,201	30,742	19,236
Stockholders' equity [e]	**1,001**	3,497	3,966	2,753	9,725
COMMON SHARES AT YEAR-END	**321**	346	373	393	409
CASH FLOW DATA					
Net cash provided by operating activities	**$ 4,253**	$ 3,801	$ 3,487	$ 4,724	$ 4,458
Net cash used for investing activities	**(813)**	(573)	(1,832)	(1,210)	(1,425)
Net cash used for financing activities	**(2,119)**	(3,358)	(1,432)	(3,994)	(2,297)
NEGOTIATED BACKLOG	**$80,700**	$78,400	$77,300	$80,200	$76,000

(a) Our operating profit and net earnings from continuing operations included severance charges of $136 million ($88 million or $.26 per share, after tax) in 2011 (Note 2); charges for the Voluntary Executive Separation Program and facilities consolidation totaling $220 million ($143 million or $.38 per share, after tax) in 2010 (Note 2); and noncash pension expense (FAS/CAS) of $922 million, $454 million, and $456 million in 2011, 2010, and 2009. Net earnings from continuing operations per common share benefitted from the significant number of shares repurchased under our share repurchase program (Note 11).

(b) Our net earnings from continuing operations included an $89 million reduction in income tax expense through the elimination of liabilities for unrecognized tax benefits in 2011; tax expense of $96 million as a result of health care legislation that eliminated the tax deduction for company-paid retiree prescription drug expenses to the extent they are reimbursed under Medicare Part D in 2010; and a $69 million income tax benefit for the resolution of certain tax matters in 2009 (Note 8).

(c) Our net earnings were affected by the items in notes (a) and (b) above, as well as items related to discontinued operations such as a $184 million gain ($.50 per share) on the sale of Enterprise Integration Group in 2010, and $73 million ($.20 per share) of benefits for certain adjustments related to the planned sale of Pacific Architects and Engineers in 2010 (Note 14).

(d) The increase in our cash and long-term debt from 2010 to 2011 primarily was due to the issuance of $2.0 billion of long-term notes in 2011, partially offset by our redemption of $584 million in long-term notes in 2011 (Note 9). The increase in our long-term debt from 2008 to 2009 primarily was due to the issuance of $1.5 billion of long-term notes in 2009.

(e) The increase in our total assets and total liabilities and decrease in stockholders' equity from 2007 to 2008 and 2010 to 2011 primarily was due to the annual remeasurement of the funded status of our postretirement benefit plans at December 31, 2008 and 2011. The effects of the downward market conditions were included in the 2008 remeasurement.

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

Management Overview

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also 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 2011, 82% of our $46.5 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 61% from the Department of Defense (DoD)), 17% were from international customers (including foreign military sales (FMS) funded, in whole or in part, by the U.S. Government), and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security, and information technology, including cyber security.

We have four business segments: Aeronautics, Electronic Systems, Information Systems & Global Solutions (IS&GS), and Space Systems. We organize our business segments based on the nature of the products and services offered.

We are operating in an environment that is characterized by both increasing complexity in the global security environment, as well as continuing economic pressures in the U.S. and globally. A significant component of our strategy in

Given the Administration’s emphasis on affordability and the need to find further efficiencies in the management and operations of DoD, the need for more affordable logistics and sustainment, expansive use of information technology and knowledge-based solutions, and vastly improved levels of network and cyber security, all appear to continue to be national priorities. To address these priorities, we continue to focus on growing our portfolio in these areas, diversifying our business, and expanding into adjacent businesses and programs that include surface naval vessels, rotary wing aviation, and land vehicles.

Our products are represented in almost every aspect of land, sea, air, and space-based missile defense, including the Aegis Combat System, the Patriot Advanced Capability-3 (PAC-3) missile program, and the Terminal High Altitude Area Defense (THAAD) transportable defensive missile system. Even as future quantities may be adjusted to reflect reduced government resources for defense, we continue to perform ondeAipr and uniutions, missils,
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With regard to the Aegis Combat System, our Electronic Systems segment performs activities in the development, production, ship integration and test, and lifetime support for ships of international customers such as Japan, Spain, Korea,

Portfolio Shaping Activities

Overvie

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our customers. We accomplish this in part by our independent research and development activities, and through acquisition, divestiture, and internal realignment activities.

We selectively pursue the acquisition of businesses and investments that complement our current portfolio and allow access to new customers or technologies. We have made a number of niche acquisitions of businesses and investments in affiliates during the past several years. We also may explore the divestiture of businesses. In pursuing our business strategy, we routinely conduct discussions, evaluate targets, and enter into agreements regarding possible acquisitions, divestitures, joint ventures, and equity investments. As part of our business strategy, we seek to identify acquisition or investment opportunities that will expand or complement our existing products and services, or customer base, at attractive valuations.

Ac uisitions and Divestitures

We used $649 million in 2011 for acquisition activities, including the acquisition of businesses and investments in affiliates. We have accounted for the acquisition of businesses under the acquisition method, which requires that all of the assets acquired and liabilities assumed be measured and recorded at their acquisition-date fair values. Acquisitions in 2011 primarily include QTC Holdings Inc. (QTC), which provides outsourced medical evaluation services to the U.S. Government, and Sim-Industries B.V., a commercial aviation simulation company. QTC is included within our IS&GS business segment, and Sim-Industries B.V. is included within our Electronic Systems business segment. The results of operations of these acquisitions have been included in the Statement of Earnings from the date of acquisition in the fourth quarter.

During 2011, we committed to a plan to sell Savi Technology, Inc. (Savi), and we closed on the sale of Pacific Architects and Engineers, Inc. (PAE). In 2010, we closed on the sale of Enterprise Integration Group (EIG). For additional information, see Note 14 to the accompanying consolidated financial statements.

Results of Operations

Since our operating cycle is long-term and involves many types of design, development, and production (DD&P) contracts with varying production delivery schedules, the results of operations of a particular year, or year-to-year comparisons of recorded sales and profits, may not be indicative of future operating results. The following discussions of comparative results among periods should be viewed in this context. All per share amounts cited in these discussions are presented on a "per diluted share" basis from continuing operations, unless otherwise noted.

(In millions, except per share data)	***2011***	*2010*	*2009*
Operating Results [(a)]			
Net sales	**$ 46,499**	$ 45,671	$ 43,867
Cost of sales	**(42,795)**	(41,883)	(39,720)
Operating profit	**3,980**	4,049	4,367
Interest expense	**(354)**	(345)	(308)
Other non-operating income, net	**5**	74	123
Income tax expense	**(964)**	(1,164)	(1,215)
Net earnings from continuing operations	**2,667**	2,614	2,967
Net earnings (loss) from discontinued operations	**(12)**	264	6
Net earnings	**2,655**	2,878	2,973
Diluted Earnings Per Common Share [(a)]			
Continuing operations	**$ 7.85**	$ 7.10	$ 7.63
Discontinued operations	**(.04)**	.71	.01
Total	**$ 7.81**	$ 7.81	$ 7.64

(a) The amounts in the above table reflect, as appropriate, the change in our accounting for services contracts with the U.S. Government from the services accounting method to the percentage-of-completion method (Note 1) and the operating results of Savi as discontinued operations (Note 14). All prior period amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to reflect these changes.

Services Sales

Services sales at Electronic Systems increased about $165 million in 2011 compared to 2010 primarily due to growth on the Special Operations Forces Contractor Logistics Support Services (SOF CLSS) program partially offset by lower volume on various other logistic and training services programs. Services sales at IS&GS increased approximately $155 million in 2011 compared to 2010 due to activities on a number of smaller contracts. Most of our services sales are in the Electronic Systems and IS&GS business segments.

Services sales at Electronic Systems increased about $645 million in 2010 compared to 2009 primarily due to growth on various logistic and training programs and the start of the SOF CLSS program in the third quarter of 2010. IS&GS' services sales increased about $310 million in 2010 compared to 2009 due to activities on the Hanford Mission Support contract and numerous other services contracts at IS&GS.

Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, and subcontracting costs, as well as an allocation of indirect costs (overhead and general and administrative). For each of our contracts, we manage the nature and amount of costs at the contract level, which form the basis for estimating our total costs at completion of the contract.

Management evaluates performance on our contracts by focusing on net sales and operating profit, and not by type or amount of operating expense. Consequently, our discussion of business segment performance focuses on net sales and operating profit, consistent with our approach for managing the business. This approach is consistent with the overall life cycle of our contracts, as management assesses the bidding of each contract by focusing on net sales and operating profit, and monitors performance on our contracts in a similar manner through their completion.

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports is accumulated in a manner specified by the requirements of each contract. For example, cost data provided to our customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) or for services, the type of work being performed (such as help-desk support).

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

(In millions)	***2011***	*2010*	*2009*
Cost of sales			
Cost of product sales	**$(32,968)**	$(32,539)	$(31,643)
% of product sales	**89.3%**	89.4%	88.7%
Cost of services sales	**(8,514)**	(8,382)	(7,406)
% of services sales	**88.9%**	90.2%	90.6%
Severance and other charges	**(136)**	(220)	—
Other unallocated corporate costs	**(1,177)**	(742)	(671)
Total	**$(42,795)**	$(41,883)	$(39,720)

Due to the nature of POC accounting, changes in our cost of product and services sales are typically accompanied by changes in our net sales. The following discussion of material changes in our consolidated cost of sales should be read in tandem with the preceding discussion of changes in our consolidated net sales and with our "Discussion of Business Segments."

Cost of sales was $42.8 billion in 2011, a $912 million or 2% increase over 2010 cost of sales of $41.9 billion. The increase was due to a $429 million increase in cost of product sales, a $132 million increase in cost of services sales and a $435 million increase in other unallocated corporate costs, partially offset by a reduction in severance and other charges of $84 million as further discussed in the following sections. Cost of sales was $41.9 billion in 2010, a $2.2 billion or 5% increase over 2009 cost of sales of $39.7 billion. The increase was due to a $896 million increase in cost of product sales, a $976 million increase in cost of services sales, a $71 million increase in other unallocated corporate costs and an increase for severance and other charges of $220 million, as further discussed in the following sections.

Cost of Product Sales

Cost of product sales at Aeronautics increased by about $1.1 billion in 2011 compared to 2010 primarily due to production volume on various programs, including F-35 LRIP contracts, and the impact of additional aircraft deliveries. Cost of product sales for Electronic Systems was relatively unchanged between 2011 and 2010. Cost of product sales at IS&GS decreased about $560 million in 2011 compared to 2010 primarily due to the absence of the DRIS program and lower volume on the JTRS program. Cost of product sales decreased at Space Systems by about $120 million in 2011 compared to 2010 primarily due to lower volume on the NASA External Tank and Orion programs.

Cost of product sales at Aeronautics increased by about $1.1 billion in 2010 compared to 2009 primarily due to production activities on various programs, including F-35 LRIP contracts, and the impact of aircraft deliveries. Cost of product sales at Electronic Systems increased about $115 million in 2010 compared to 2009 primarily due to volume on air defense and tactical missile programs. IS&GS' cost of product sales were relatively unchanged between 2010 and 2009. Cost of product sales at Space Systems declined about $400 million in 2010 compared to 2009 primarily due to lower volume on various programs, including the NASA External Tank, and the absence of a commercial launch as compared to the prior year. The 0.70% increase in the percentage of cost of product sales relative to product sales in 2010 compared to 2009 primarily was due to the increased development and initial production work on the F-35 program and less work on mature programs, such as F-22 and F-16. Development and initial production contracts yield lower profits than mature full rate programs.

Cost of Services Sales

Cost of services sales at Electronic Systems increased about $180 million in 2011 compared to 2010 primarily due to SOF CLSS. Cost of services sales at IS&GS decreased by about $55 million in 2011 compared to 2010 primarily due to the retirement of risks during 2011 and the recognition of reserves on various programs in 2010. The 1.3% decrease in the percentage of cost of services sales relative to services sales in 2011 compared to 2010 primarily was due to the retirement risks and other factors on numerous programs at IS&GS, partially offset by volume on SOF CLSS, which provides a lower margin relative to other Electronic Systems programs. Most of our services sales are in the Electronic Systems and IS&GS business segments.

Cost of services sales at Electronic Systems increased about $535 million in 2010 compared to 2009 primarily due to volume on various logistics activities, as well as the start of the SOF CLSS program. IS&GS' cost of services sales increased approximately $325 million in 2010 compared to 2009 due to volume on various service contracts, including the Hanford Mission Support contract. Most of our services sales are in the Electronic Systems and IS&GS business segments.

Severance and other charges

During 2011, we recorded charges related to certain severance actions totaling $136 million, net of state tax benefits. Of these severance charges, $49 million and $48 million related to our Aeronautics and Space Systems business segments, and $39 million related to our IS&GS business segment and Corporate Headquarters. These charges reduced our net earnings in 2011 by $88 million ($.26 per share). These severance actions resulted from a strategic review of these businesses and our Corporate Headquarters to better align our organization and cost structure with changing economic conditions. The workforce reductions at the business segments also reflect changes in program lifecycles, where several of our major programs are transitioning out of development and into production, and certain programs are ending. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions.

In 2010, we recorded a charge of $178 million, net of state tax benefits, related to the VESP. The charge, which included lump-sum special payments for qualifying executives, reduced our net earnings by $116 million ($.31 per share). The amounts of the VESP attributable to our business segments were $25 million at Aeronautics, $38 million at Electronic Systems, $42 million at IS&GS, and $41 million at Space Systems. The remaining $32 million was attributable to our Corporate Headquarters. Also, in 2010, we recorded a $42 million charge related to our decision to consolidate certain

Other unallocated corporate costs

Other unallocated corporate costs principally includes the non-cash FAS/CAS pension adjustment, stock compensation, and other corporate costs. These costs are not allocated to the business segments and, therefore, are excluded from the costs of product and services sales (see Note 4 to the accompanying consolidated financial statements for a description of these items). The $435 million increase between 2011 and 2010 primarily was attributable to an increase in the non-cash FAS/CAS pension adjustment of $468 million, which included increased FAS pension expense in 2011 compared to 2010 due to the decrease in the discount rate in 2011, together with the effect of the recognition of the 2008 investment losses, partially offset by the effects of investment gains in 2009 and 2010 (each as compared to our 8.50% long-term rate of return assumption). For more information, see the related discussion in Critical Accounting Policies under the caption “Postretirement Benefit Plans.” Other unallocated corporate costs increased $71 million between 2010 and 2009 primarily due to fluctuations in expense associated with a number of corporate activities.

Changes in our cost of sales between periods were not material, except as described above. The period-over-period change in our cost of sales was due to the volume of costs resulting from production, deliveries of products, and/or services provided on our portfolio of contracts. We have not identified any developing trends in cost of sales that would have a material impact on our future operations.

Operating Profit

Our operating profit for 2011 was $4.0 billion, essentially unchanged from 2010. The increase in the non-cash FAS/CAS pension adjustment was offset by increases in operating profit in every business segment, a decrease in severance and other charges, and a decrease in other unallocated corporate costs attributable to various corporate activities.

Our operating profit for 2010 was $4.0 billion, a decrease of 7% compared to operating profit of $4.4 billion in 2009. The decline in operating profit of $318 million primarily was attributable to the effects of severance and other charges, net of state tax benefits, of $220 million (Note 2).

Interest Expense

Interest expense for 2011 was $354 million, about the same as in 2010. Increased interest expense from the $2.0 billion issuance of long-term debt late in the third quarter of 2011 partially was offset by the redemption of certain notes in the fourth quarter of 2011. Interest expense for 2010 was $345 million, or $37 million higher than 2009. The increase mainly was driven by interest expense on the $1.5 billion of long-term notes issued in the fourth quarter of 2009.

Other Non-Operating Income, Net

Other non-operating income, net was $5 million in 2011, compared to $74 million in 2010. The decrease primarily was due to premiums of $48 million on early extinguishments of debt (Note 9) and lower net unrealized gains on marketable securities held to fund certain non-qualified employee benefit obligations in 2011. Other non-operating income, net was $74 million in 2010, compared to $123 million in 2009. The change between periods primarily reflects lower net unrealized gains on marketable securities held to fund certain non-qualified employee benefit obligations.

Income Tax Expense

Our effective income tax rate from continuing operations was 26.5% for 2011, 30.8% for 2010, and 29.1% for 2009. These rates were lower than the statutory rate of 35% for all periods due to tax benefits for U.S. manufacturing activities, the deduction of dividends related to certain of our defined contribution plans with an employee stock ownership plan feature, and the research and development (R&D) tax credit.

The 2011 effective tax rate was affected by the completion by the U.S. Congressional Joint Committee on Taxation of its review of IRS Appeals’ resolution of certain adjustments related to tax years 2003-2008. As a result of completion of the review in April 2011, we recorded a reduction in income tax expense of $89 million in 2011.

The effective tax rates for 2011 and 2010 also included additional tax benefits related to U.S. manufacturing activities primarily due to an increase in 2011 and 2010 qualified production activity income and an increase in the U.S. manufacturing activity deduction rate from 6% to 9%.

The 2010 effective tax rate was affected by the enactment of the Patient Protection and Affordable Care Act and the

During the fourth quarter of 2011, we realigned an immaterial supply chain services business from our Aeronautics business segment to our Electronic Systems business segment. The realignment had no effect on our consolidated results of operations, financial position, or cash flows. The financial information in the following table has been reclassified to reflect this realignment.

(In millions)	***2011***	*2010*	*2009*
Net Sales			
Aeronautics	**$14,362**	$13,109	$11,988
Electronic Systems	**14,622**	14,399	13,630
Information Systems & Global Solutions	**9,381**	9,921	9,599
Space Systems	**8,134**	8,242	8,650
Total	**$46,499**	$45,671	$43,867
Operating Profit			
Aeronautics	**$ 1,630**	$ 1,498	$ 1,567
Electronic Systems	**1,788**	1,748	1,648
Information Systems & Global Solutions	**874**	814	874
Space Systems	**989**	968	967
Total business segments	**5,281**	5,028	5,056
Unallocated corporate expense:			
Non-cash FAS/CAS pension adjustment:			
FAS pension expense	**(1,821)**	(1,442)	(1,036)
Less: CAS expense	**(899)**	(988)	(580)
Non-cash FAS/CAS pension adjustment [(a)]	**(922)**	(454)	(456)
Severance and other charges	**(136)**	(220)	—
Stock compensation expense and other, net [(b)]	**(243)**	(305)	(233)
Total unallocated corporate expense, net	**(1,301)**	(979)	(689)
Total operating profit	**$ 3,980**	$ 4,049	$ 4,367

(a) FAS pension expense increased in 2011 compared to 2010, and in 2010 compared to 2009, due to the decrease in the discount rate each year, together with the effect of the recognition of investment losses from 2008, partially offset by the effects of investment gains in 2009 and 2010 (each as compared to our 8.50% long-term rate of return assumption). The segment operating profit includes pension expense only as determined and funded in accordance with U.S. Government Cost Accounting Standards (CAS). The non-cash FAS/CAS pension adjustment represents the difference between pension expense calculated in accordance with GAAP and pension costs calculated and funded in accordance with CAS. The non-cash FAS/CAS pension adjustment is expected to be about $835 million in 2012. For more information, see the related discussion in Critical Accounting Policies under the caption "Postretirement Benefit Plans").

(b) The change in stock compensation expense and other, net between the periods primarily was due to fluctuations in expense associated with various corporate activities, none individually significant.

The following segment discussions also include information relating to negotiated backlog for each segment. Total negotiated backlog was approximately $80.7 billion, $78.4 billion, and $77.3 billion at December 31, 2011, 2010, and 2009. These amounts included both funded backlog (unfilled firm orders for which funding has been both authorized and appropriated by the customer – Congress in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not yet been appropriated). Negotiated backlog does not include unexercised options or task orders to be issued under indefinite-delivery, indefinite-quantity (IDIQ) contracts. Funded backlog was approximately $55.1 billion at December 31, 2011.

Our net sales are derived from long-term contracts for DD&P activities and for services provided to the U.S. Government as well as FMS conducted through the U.S. Government. We account for these contracts, as well as DD&P contracts with non-U.S. Government customers, under the POC method of accounting which represent approximately 95% of our net sales. We derive our remaining net sales from contracts to provide services to non-U.S. Government customers, which we account for under the services method of accounting.

Under the POC method of accounting, we record sales on contracts based upon our progress towards completion on a particular contract as well as our estimate of the profit to be earned at completion. Cost-reimbursable contracts, which account for the majority of our net sales, provide for the payment of allowable costs plus a fee. For fixed-priced contracts, net sales and cost of sales are recognized as products are delivered or as costs are incurred. Due to the nature of the POC method of accounting, changes in our cost of sales are typically accompanied by a related change in our net sales.

Changes in volume refer to increases or decreases in net sales resulting from varying production activity levels, deliveries, or service levels on individual contracts. Volume changes typically include a corresponding change in segment operating profit based on the current profit booking rate for a particular contract. For example, if the cost volume on a cost-reimbursement-type contract increased or decreased compared with a prior period, sales and operating profit for that contract also will be increased or decreased.

Changes in performance refer to increases or decreases in the estimated profit booking rates on our POC contracts and usually relate to revisions in the total estimated costs at completion that reflect improved or deteriorated conditions on a particular contract. For example, improved conditions typically result from the retirement of risks on contracts. Such changes in estimated profit booking rates are recognized in the current period and reflect the inception-to-date effect of such changes. For example, if we increase the estimated profit booking rate on a cost-reimbursable contract, the increase in sales and operating profit for that contract will reflect a higher return on sales in the current period due to the recognition of the higher profit booking rate on both current period costs as well as previously incurred costs.

Many of our contracts are multi-billion dollar contracts that span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule, and costs aspects of the contract, and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (for example, a newly-developed product versus a mature product), the schedule and associated tasks (for example, the number and type of milestone events), and costs (for example, material, labor, subcontractor and overhead). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule, and costs in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and costs aspects of the contract. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate.

We have a number of programs that are designated as 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.

Aeronautics

Our Aeronautics business segment is 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. Aeronautics also provides logistics support, sustainment, and upgrade modification services for its aircraft. Aeronautics' major programs include the F-35 Lightning II Joint Strike Fighter, F-16 Fighting Falcon, F-22 Raptor, C-130J Hercules, and the C-5M Super Galaxy. Aeronautics' operating results included the following:

(In millions)	***2011***	*2010*	*2009*
Net sales	**$14,362**	$13,109	$11,988
Operating profit	**1,630**	1,498	1,567
Operating margin	**11.3%**	11.4%	13.1%
Backlog at year-end	**30,500**	27,500	26,800

Net sales for the Aeronautics segment increased $1.3 billion, or 10%, in 2011 compared to 2010. The growth in net sales primarily was due to higher volume of about $850 million for work performed on the F-35 LRIP contracts as production delivery of the first C-5M. These increases partially were offset by lower volume of approximately $660 million on the F-35 SDD contract, lower F-16 volume of approximately $340 million primarily due to a reduction of deliveries (20 F-16 deliveries in 2010 compared to 31 in 2009), and lower volume on the F-22 program of $305 million as production continued to wind down.

Operating profit for the Aeronautics segment increased $132 million, or 9%, in 2011 compared to 2010. The increase primarily was attributable to approximately $115 million of higher operating profit on C-130 programs due to increased volume and the retirement of risks, increased volume and risk retirements on F-16 programs of about $50 million and C-5 programs of approximately $20 million, and about $70 million due to risk retirements on other Aeronautics sustainment activities in 2011. These increases partially were offset by a decline in operating profit of approximately $75 million on the F-22 program and F-35 SDD contract primarily due to lower volume and about $55 million on other programs, including F-35 LRIP, primarily due to lower profit rate adjustments in 2011, compared to 2010.

Operating profit for the Aeronautics segment decreased by $69 million, or 4%, in 2010 compared to 2009. The decrease primarily was attributable to a decline in operating profit on the F-22 program of about $75 million due to lower volume and a decrease in the level of risk retirements as the production program winds down, lower volume and a decrease in the level of risk retirements of approximately $45 million on the F-35 SDD contract, and a decline in operating profit of about $40 million on the F-16 program due to a reduction of deliveries. These decreases more than offset increased operating profit resulting from higher volume and risk retirements on the F-35 LRIP contracts of approximately $100 million.

The decrease in the Aeronautics segment's operating margin from 2010 to 2009 reflects increased development and initial production work on the F-35 program and less work on more mature programs such as the F-22 and F-16. Development and initial production contracts yield lower profits than mature full rate programs. Accordingly, while net sales increased in 2010 relative to 2009, operating profit decreased and consequently operating margins have declined.

Backlog increased in 2011 compared to 2010 mainly due to orders exceeding sales on the F-35 and C-5 programs, which partially were offset by higher sales volume on the C-130 program. Backlog increased in 2010 compared to 2009 mainly due to orders exceeding sales on the C-130, F-35 and C-5 programs, which partially were offset by higher sales volume compared to new orders on the F-22 program in 2010.

We expect that Aeronautics' net sales in 2012 will be comparable with 2011. An increase in net sales on the F-35 LRIP contracts is expected to be mostly offset by a decline in volume on the F-22 production program due to completion of the production program with the last aircraft delivery in the first half of 2012. Operating profit is projected to decrease at a low single digit percentage range from 2011 levels, resulting in a slight decline in operating margins between the years.

Electronic Systems

Our Electronic Systems business segment396(12)-275(will00om)-tag10.

Net sales for the IS&GS segment decreased $540 million, or 5%, in 2011 compared to 2010. The decrease primarily was attributable to lower volume of approximately $665 million due to the absence of the DRIS program that supported the 2010 U.S. census and a decline in activities on the JTRS program. This decrease partially was offset by increased net sales on numerous programs.

Net sales for the IS&GS segment increased $322 million, or 3%, in 2010 compared to 2009. The increase primarily was attributable to higher volume of $620 million on the DRIS program and the Hanford Mission Support contract. These increases partially were offset by lower volume on numerous smaller programs.

Operating profit for the IS&GS segment increased $60 million, or 7%, in 2011 compared to 2010. Operating profit increased approximately $180 million due to volume and the retirement of risks in 2011 and the absence of reserves recognized in 2010 on numerous programs (including among others, the NASA Outsourcing Desktop Initiative (ODIN) (about $60 million) and Transportation Worker Identification Credential and Automated Flight Service Station programs). The increases in operating profit partially were offset by the absence of the DRIS program and a decline in activities on the JTRS program of about $120 million.

Operating profit for the IS&GS segment decreased $60 million, or 7%, in 2010 compared to 2009. The decrease primarily was attributable to the recognition of reserves of about $55 million on several programs (including, among others, the ODIN program). Lower volume on numerous programs offset increased operating profit from the DRIS program.

The decrease in backlog during 2011 compared to 2010 mainly was due to declining activities on the JTRS program and several other smaller programs. The decrease in backlog during 2010 compared to 2009 mainly was due to higher sales volume associated with the DRIS program, the Hanford Mission Support contract, and several other smaller programs.

We expect IS&GS will experience a decrease in net sales in the mid to upper single digit percentage range for 2012 as compared to 2011. The decline is primarily due to the completion of various programs including ODIN, the U.K. Census, and JTRS, and we do not expect that this work will be replaced by other contracts due to the fiscal pressures constraining government purchases of IT and other products and services. Operating profit is expected to decline in 2012 in the upper program of about $130 million due to the wind down of the Space Shuttle program and volume from commercial satellite and launch vehicle activities of approximately $125 million. There was one commercial satellite delivery in 2010 and 2009 and no commercial launches in 2010 compared to one commercial launch in 2009. Partially offsetting these decreases was a growth of about $35 million due to higher volume in government satellites activities.

Operating profit for the Space Systems segment increased $21 million, or 2%, in 2011 compared to 2010. The increase in operating profit principally was attributable to retirement of risks on government satellite programs of about $60 million and decreased equity earnings of about $30 million primarily due to the completion of the Space Shuttle program.

Operating profit for the Space Systems segment was unchanged for 2010 compared to 2009. Operating profit increased on government satellites programs by approximately $15 million due to higher volume and risk retirements and higher equity earnings of approximately $40 million. These increases were offset by lower volume and reserve for performance of about $40 million on commercial satellite programs and lower volume on the NASA External Tank program of approximately $15 million.

Total equity earnings recognized by the Space Systems segment from ULA and USA represented approximately $230 million, or 23% of this segment’s operating profit during 2011. During 2010, total equity earnings recognized by the Space Systems segment from ULA and USA represented approximately $260 million, or 27% of this segment’s operating profit.

Backlog decreased in 2011 compared to 2010 mainly due to higher sales volume associated with the Orion program and on government satellite activities. Backlog increased in 2010 compared to 2009 mainly due to orders exceeding sales on government satellite programs and strategic missile programs, which more than offset higher sales volume compared to new orders on the Orion program in 2010.

We expect Space Systems’ net sales to decline in 2012 in the mid single digit percentage range as compared to 2011 primarily due to lower activities on government satellite programs and the Orion program. Operating profit is expected to decline in the mid to upper single digit percentage range in 2012 due to the lower sales volume as well as lower equity earnings from ULA, resulting in a slight decline in operating margins between the years.

Liquidity and Cash Flows

Our access to capital resources that provide liquidity has not been materially affected by the changing economic and market conditions over the past few years. We continually monitor changes in such conditions so that we can timely respond to any related developments. We have generated strong operating cash flows which have been the primary source of funding for our operations, debt service and repayments, capital expenditures, share repurchases, dividends, acquisitions, and postretirement benefit plan funding. We have accessed the capital markets on limited occasions, as needed or when opportunistic.

We expect our cash from operations to continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. We have financing resources available to fund potential cash outflows that are less predictable or more discretionary, as discussed under Capital Structure, Resources, and Other. We have access to the credit markets, if needed, for liquidity or general corporate purposes, including letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

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. We generally bill and collect cash more frequently under cost-reimbursable and time-and-materials contracts, which together represent approximately 55% of the sales we recorded in 2011, as we are authorized to bill as the costs are incurred or work is performed. In contrast to cost-reimbursable contracts, for fixed-price contracts, which represented approximately 45% of the revenues we recorded in 2011, we generally do not bill until milestones, including deliveries, are achieved. A number of our fixed-price contracts may provide for performance-based payments which allow us to bill and collect cash as we perform on the contract. The U.S. Government recently has indicated that it would consider progress payments as the baseline for negotiating payment terms on fixed-price contracts, rather than performance-based payments. The use of progress payment provisions on fixed-price contracts may delay our ability to recover costs incurred and affect the timing of our cash flows.

The majority of our capital expenditures for 2011 and those planned for 2012 can be divided into the categories of facilities infrastructure, equipment, and IT. Expenditures for facilities infrastructure and equipment are generally incurred to support new and existing programs across all of our business segments. For example, we have projects underway in our Aeronautics business segment for facilities and equipment to support production of the F-35 combat aircraft. In addition, we have projects underway to modernize certain of our facilities. We also incur capital expenditures for IT to support programs and general enterprise IT infrastructure as well as for the development or purchase of internal-use software.

We have a balanced cash deployment strategy to enhance stockholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have invested in our business, including capital expenditures and independent research and development, repurchased shares, increased our dividends, made selective acquisitions of businesses, and managed our debt levels. The following table provides a summary of our cash flow information and the subsequent discussion provides an overview of our execution of this strategy.

(In millions)	***2011***	*2010*	*2009*
Net cash provided by operating activities [(a)]	**$ 4,253**	$ 3,801	$ 3,487
Net cash used for investing activities [(a)]	**(813)**	(573)	(1,832)
Net cash used for financing activities	**(2,119)**	(3,358)	(1,432)

(a) In the fourth quarter of 2011, we revised the classification of cash payments associated with the development or purchase of internal-use software from operating cash flows to investing cash flows (Note 1). Cash flows for all years above have been adjusted for this change. Cash payments for internal-use software were $173 million in 2011, $254 million in 2010, and $314 million in 2009.

Operating Activities

Net cash provided by operating activities increased by $452 million to $4.3 billion in 2011 as compared to 2010. The increase in cash flows from operating activities was driven by a $536 million increase in cash provided by operating working capital (defined as accounts receivable and inventories less accounts payable and customer advances and amounts in excess of costs incurred) as discussed below and $84 million related to lower net income tax payments due to the absence of a payment made in 2010 related to matters pending with IRS appeals. These improvements partially were offset by a $134 million net increase in cash outflows related to defined benefit pension plans, and lower operating results. The increase in cash outflows related to defined benefit pension plans was due to a $45 million increase in contributions paid to the pension trust and a decrease in the recovery of CAS costs on our contracts.

The improvement in cash provided by operating working capital changes primarily was due to the timing of payment of accounts payable, which partially was offset by the timing of collections of accounts receivable and customer advance payments. The change in accounts receivable primarily reflects the timing of contract negotiations and related billing activities on the F-35 program at our Aeronautics segment. The decrease in cash flows from customer advances and amounts in excess of costs incurred was attributable to the C-130 programs at our Aeronautics segment, which was partially offset by various programs (largely PAC-3) at our Electronic Systems segment. Our operating working capital is subject to wide fluctuations based on the timing of cash transactions related to production schedules, timing of progress and advance payments, the acquisition of inventory, the collection of accounts receivable, and the payment of accounts payable. Cash provided by changes in operating working capital balances in 2012 may decrease over 2011 primarily due to the timing of collections of accounts receivable and the payment of accounts payable. Consequently, we expect that net cash provided by operating activities will be lower in 2012.

Net cash provided by operating activities increased by $314 million to $3.8 billion in 2010 as compared to 2009. The increase primarily was attributable to changes in our operating working capital balances of $585 million and $187 million related to lower net income tax payments. Partially offsetting these improvements was a net reduction in cash of $350 million related to our defined benefit pension plans. The improvement in cash provided by operating working capital was due to a decline in 2010 accounts receivable balances and an increase in 2010 customer advances and amounts in excess of costs incurred balances. These improvements partially were offset by a decline in accounts payable balances in 2010 compared to 2009. The decline in accounts receivable primarily was due to higher collections on various programs at Electronic Systems, IS&GS, and Space Systems business segments. The increase in customer advances and amounts in excess of costs incurred primarily was attributable to an increase on government and commercial satellite programs at Space Systems and C-130 programs at Aeronautics, partially offset by a decrease on various programs at Electronic Systems. The decrease in accounts payable was attributable to the timing of accounts payable activities across all segments. The reduction in cash from defined benefit pension plans was the result of increased contributions to the pension trust of $758 million as compared to 2009, partially offset by an increase in the CAS costs recovered on our contracts.

Investing Activities

Capital expenditures – The majority of our capital expenditures relate to facilities infrastructure and equipment that are generally incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for IT to support programs and general enterprise IT infrastructure. Capital expenditures for property, plant, and equipment amounted to $814 million in 2011, $820 million in 2010, and $852 million in 2009. Costs associated with the development or purchase of internal-use software amounted to $173 million in 2011, $254 million in 2010, and $314 million in 2009, and have trended downward with the completion of certain infrastructure systems. We expect that our operating cash flows will continue to be sufficient to fund our planned annual capital expenditures over the next few years.

Acquisitions, divestitures and other activities – Acquisition activities include both the acquisition of businesses and investments in affiliates. We paid $649 million in 2011 for acquisition activities, primarily related to the acquisition of QTC and Sim-Industries B.V. (Note 14), compared to amounts paid in 2010 of $148 million primarily related to investments in affiliates. In 2009, we paid $435 million for acquisition activities. In 2010, we received proceeds of $798 million from the sale of EIG, net of $17 million in transaction costs (Note 14). There were no material divestiture activities in 2011 or 2009. During 2011, we decreased our short-term investments by $510 million compared to an increase of $171 million in 2010.

Financing Activities

Share activity and dividends – We paid cash totaling $2.5 billion for share repurchases during 2011, which included $63 million for shares we repurchased in December 2010 but that were not paid for until January 2011. In 2010 and 2009, we paid cash totaling $2.4 billion and $1.9 billion for share repurchases. Our share repurchase program provides for the repurchase of our common stock from time-to-time. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. In 2011, our Board authorized an additional $3.5 billion for share repurchases, bringing the total authorized amount under the program to $6.5 billion (Note 11). As of December 31, 2011, we te 14).in2011.257(-6ized)-2321(toslaw)-26or

We issued $728 million of new 5.72% Notes due 2040 (the New Notes) in 2010 in exchange for $611 million of our then outstanding debt securities. We paid a premium of $158 million, of which $117 million was in the form of New Notes and $41 million was paid in cash, which was recorded as a discount and is being amortized as additional interest expense over the life of the New Notes using the effective interest method. The New Notes are included on our Balance Sheet net of unamortized discounts.

In 2009, we issued a total of $1.5 billion of long-term notes in a registered public offering, $900 million of which are due in 2019 and have a fixed coupon interest rate of 4.25%, and $600 million of which are due in 2039 and have a fixed coupon interest rate of 5.50%.

In August 2011, we entered into a new $1.5 billion revolving credit facility with a group of banks and terminated our existing $1.5 billion revolving credit facility which was to expire in June 2012. The new credit facility expires August 2016, and we may request and the banks may grant, at their discretion, an increase to the new credit facility by an additional amount up to $500 million. There were no borrowings outstanding under either facility through December 31, 2011. Borrowings under the new credit facility would be unsecured and bear interest at rates based, at our option, on a Eurodollar rate or a Base Rate, as defined in the new credit facility. Each bank’s obligation to make loans under the new credit facility is subject to, among other things, our compliance with various representations, warranties and covenants, including covenants

Contractual Commitments and Off-Balance Sheet Arrangements

At December 31, 2011, we had contractual commitments to repay debt, make payments under operating leases, settle obligations related to agreements to purchase goods and services, and settle tax and other liabilities. Capital lease obligations were negligible. Payments due under these obligations and commitments are as follows:

		Payments Due By Period			
(In millions)	*Total*	*Less Than 1 Year*	*Years 2 and 3*	*Years 4 and 5*	*After 5 Years*
Long-term debt [a]	$ 6,934	$ —	$ 153	$ 954	$ 5,827
Interest payments	6,756	378	736	713	4,929
Other liabilities	2,379	278	451	282	1,368
Operating lease obligations	1,017	264	339	168	246
Purchase obligations:					
Operating activities	25,109	16,336	7,451	817	505
Capital expenditures	218	162	56	—	—
Total contractual cash obligations	$42,413	$17,418	$9,186	$2,934	$12,875

[a] Long-term debt includes scheduled principal payments only.

Amounts related to other liabilities represent the contractual obligations for certain long-term liabilities recorded as of December 31, 2011. Such amounts mainly include expected payments under deferred compensation plans, non-qualified

ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its $400 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for certain financial support arrangements (*e.g.*, letters of credit or surety bonds provided by either party) and guarantees by us and Boeing of the performance and financial

Beginning January 1, 2011, we evaluate new or significantly modified contracts with customers other than the U.S. Government, to the extent the contracts include multiple elements, to determine if the individual deliverables should be accounted for as separate units of accounting. When we determine that accounting for the deliverables as separate units is appropriate, we allocate the contract value to the deliverables based on their relative estimated selling prices. The contracts or contract modifications we evaluate for multiple elements typically are long term in nature and include the provision of both DD&P activities and services. Based on the nature of our business, we generally account for components of such contracts using the POC accounting model or the services accounting model, as appropriate. This change in accounting has not had a material effect on our financial results, and is not expected to have a material effect in future periods.

We classify net sales as products or services on our Statements of Earnings based on the predominant attributes of the underlying contract. Most of our long-term contracts are denominated in U.S. dollars, including contracts for sales of military products and services to foreign governments conducted through the U.S. Government. We record sales for both DD&P activities and services under cost-reimbursable, fixed-price, and time-and-materials contracts.

Contract Types

Cost-reimbursable contracts

Cost-reimbursable contracts, which accounted for about 50% of our total net sales in 2011, provide for the payment of allowable costs incurred during performance of the contract plus a fee, up to a ceiling based on the amount that has been funded. We generate revenue under two general types of cost-reimbursable contracts: cost-plus-award-fee/incentive fee (which represent a substantial majority of our cost-reimbursable contracts) and cost-plus-fixed-fee contracts.

Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer’s assessment of our performance against a predetermined set of criteria, such as targets based on cost, quality, technical, and schedule criteria. Cost-plus-incentive-fee contracts provide for reimbursement of costs plus a fee which is adjusted by a formula based on the relationship of total allowable costs to total target costs (incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (incentive based on performance). The fixed fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed fee does not vary with actual costs.

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contracts for specific matters. For example, most of the environmental costs we incur for environmental remediation related to sites operated in prior years are allocated to our current operations as general and administrative costs under FAR provisions and supporting advance agreements reached with the U.S. Government.

We closely monitor compliance with, and the consistent application of, our critical accounting policies related to contract accounting. Costs incurred and allocated to contracts are reviewed for compliance with U.S. Government regulations

Our stockholders' equity has been reduced by $11.2 billion from the annual year-end measurement of the funded status of our postretirement benefit plans, inclusive of the December 31, 2011 adjustment of $2.9 billion. These noncash, after-tax amounts primarily represent net actuarial losses resulting from declines in discount rates and differences between actual experience and our actuarial assumptions, which will be amortized to expense in future periods. During 2011, $666 million of these amounts was recognized as a component of our postretirement benefit plans expense and $812 million is expected to be recognized as expense in 2012.

We expect that our 2012 pension expense will increase to $1.9 billion as compared with 2011 pension expense of $1.8 billion, primarily due to an increase in the amortization of net actuarial gains and losses caused by the decrease in the discount rate mentioned above.

The discount rate assumption we select at the end of each year is based on our best estimates and judgment. A reasonably possible change of plus or minus 25 basis points in the 4.75% discount rate assumption at December 31, 2011, with all other assumptions held constant, would have decreased or increased the amount of the qualified pension benefit obligation we recorded at the end of 2011 by approximately $1.3 billion, which would have resulted in an after-tax increase or decrease in stockholders' equity at the end of the year of approximately $850 million. If the 4.75% discount rate at December 31, 2011 that was used to compute the expected 2012 expense for our qualified defined benefit pension plans had been 25 basis points higher or lower, with all other assumptions held constant, the amount of expense projected for 2012 would be lower or higher by approximately $125 million.

Funding Considerations

The PPA became applicable to us and other large U.S. defense contractors beginning in 2011 and had the effect of accelerating the required amount of annual pension plan contributions. We made contributions related to our qualified defined benefit pension plans of $2.3 billion in 2011, $2.2 billion in 2010, and $1.5 billion in 2009. We recovered $899 million in 2011, $988 million in 2010 and $580 million in 2009 as CAS costs. Amounts funded under CAS are recovered over time through the pricing of our products and services on U.S. Government contracts, including FMS, and are recognized in our cost of sales and net sales. Amounts contributed in excess of the CAS funding requirements, over $3.0 billion, are considered to be prepayment credits under the CAS rules.

We expect to make contributions of $1.1 billion related to our qualified defined benefit pension plans in 2012 and anticipate recovering $1.1 billion as CAS cost in 2012 which is consistent with our anticipated contributions. We may review options for further contributions in 2012.

The CAS Board published its revised pension accounting rules (CAS Harmonization) with an effective date of February 27, 2012 to better align the recovery of pension contributions, including prepayment credits, on U.S. Government contracts with the accelerated funding requirements of the PPA. The CAS Harmonization rules will increase our CAS cost beginning in 2013. There is a transition period during which the cost impact of the new rules will be phased in, with the full

We enter into agreements (*e.g.,* administrative orders, consent decrees) that document the extent and timing of our environmental remediation obligation. We also are involved in remediation activities at environmental sites where formal agreements either do not exist or do not quantify the extent and timing of our obligation. Environmental cleanup activities usually span many years, which makes estimating the costs more judgmental due to, for example, changing remediation technologies. To determine the costs related to cleanup sites, we have to assess the extent of contamination, effects on natural resources, the appropriate technology to be used to accomplish the remediation, and evolving regulatory environmental standards.

We perform quarterly reviews of environmental remediation sites and record liabilities and receivables in the period it becomes probable that a liability has been incurred and the amounts can be reasonably estimated (see the discussion under "Environmental Matters" in Notes 1 and 13 to the financial statements). We consider the above factors in our quarterly 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 do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. Given the required level of judgment and estimation, it is likely that materially different amounts could be recorded if different assumptions were used or if circumstances were to change (*e.g.,* a change in environmental standards or a change in our estimate of the extent of contamination).

Both the EPA and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking process is a lengthy one and may take one or more years to complete. If a substantially lower standard is adopted, we would expect a material increase in our estimates for remediation at several existing sites.

Under agreements reached with the U.S. Government, most of the amounts we spend for environmental remediation are allocated to our operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures relating to our U.S. Government business, after deducting any recoveries received from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, most of the expenditures we incur are included in our net sales and cost of sales according to U.S. Government agreement or regulation, regardless of the contract form (*e.g.* cost-reimbursable, fixed price). We conest5286cngth292(the)-293(timing)-29859(in)(and)-351(

Good ill

Our goodwill at December 31, 2011 and 2010 amounted to $10.1 billion and $9.6 billion. We review goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Such events or circumstances could include significant changes in the business climate of our industry, operating performance indicators, competition, or sale or disposal of a portion of a reporting unit. The assessment is performed at the reporting unit level. Our annual testing date is October 1.

Performing the goodwill impairment test requires judgment, including how we define reporting units and determine their fair value. We consider a component of our business to be a reporting unit if it constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. We estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies. Determining fair value requires the exercise of significant judgments, including judgments about contracts are designated as fair value hedges. Related gains and losses on foreign currency exchange and interest rate swap contracts, to the extent they are effective hedges, are recognized in earnings at the same time the hedged transaction is recognized in earnings. To the extent the hedges are ineffective, gains and losses on the contracts are recognized in current period earnings. The aggregate notional amount of the outstanding foreign currency exchange contracts at December 31, 2011 and 2010 was $1.7 billion and $2.2 billion. The aggregate notional amount of our interest rate swap contracts at December 31, 2011 was $450 million. There were no interest rate swap contracts outstanding at December 31, 2010. At

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Lockheed Martin Corporation
Consolidated Statements of Earnings

(In millions, except per share data)	*Year ended December 31,* **2011**	*2010*	*2009*
Net Sales			
Products	**$ 36,925**	$ 36,380	$ 35,689
Services	**9,574**	9,291	8,178
Total net sales	**46,499**	45,671	43,867
Cost of Sales			
Products	**(32,968)**	(32,539)	(31,643)
Services	**(8,514)**	(8,382)	(7,406)
Severance and other charges	**(136)**	(220)	—
Other unallocated corporate costs	**(1,177)**	(742)	(671)
Total cost of sales	**(42,795)**	(41,883)	(39,720)
Gross profit	**3,704**	3,788	4,147
Other income, net	**276**	261	220
Operating Profit	**3,980**	4,049	4,367
Interest expense	**(354)**	(345)	(308)
Other non-operating income, net	**5**	74	123
Earnings from continuing operations before income taxes	**3,631**	3,778	4,182
Income tax expense	**(964)**	(1,164)	(1,215)
Net earnings from continuing operations	**2,667**	2,614	2,967
Net earnings (loss) from discontinued operations	**(12)**	264	6
Net Earnings	**$ 2,655**	$ 2,878	$ 2,973
Earnings (Loss) Per Common Share			
Basic			
Continuing operations	**$ 7.94**	$ 7.18	$ 7.71
Discontinued operations	**(.04)**	.72	.02
Basic earnings per common share	**$ 7.90**	$ 7.90	$ 7.73
Diluted			
Continuing operations	**$ 7.85**	$ 7.10	$ 7.63
Discontinued operations	**(.04)**	.71	.01
Diluted earnings per common share	**$ 7.81**	$ 7.81	$ 7.64

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
Consolidated Balance Sheets

(In millions, except per share data)	*December 31,* ***2011***	*2010*
Assets		
Current assets		
Cash and cash equivalents	**$ 3,582**	$ 2,261
Short-term investments	**3**	516
Receivables, net	**6,064**	5,692
Inventories, net	**2,481**	2,363
Deferred income taxes	**1,339**	1,147
Other current assets	**625**	518
Assets of discontinued operation held for sale	[illegible]	396
Total current assets	**14,094**	12,893
Property, plant and equipment, net	**4,611**	4,554
Goodwill		

Lockheed Martin Corporation
Consolidated Statements of Cash Flows

(In millions)	*Year ended December 31,* **2011**	*2010*	*2009*
Operating Activities			
Net earnings	**$ 2,655**	$ 2,878	$ 2,973
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**1,008**	1,052	1,014
Stock-based compensation	**157**	168	154
Deferred income taxes	**(2)**	452	567
Severance and other charges	**136**	220	—
Reduction in tax expense from resolution of certain tax matters	**(89)**	(10)	(69)
Tax expense related to Medicare Part D reimbursement	[illegible]	96	—
Net adjustments related to discontinued on	—		

Lockheed Martin Corporation
Consolidated Statements of Stockholders' Equity

(In millions, except per share data)	*Common Stock*	*Additional Paid-In Capital*	*Retained Earnings*	*Accumulated Other Comprehensive Loss*	*Total Stockholders' Equity*	*Comprehensive Income (Loss)*
Balance at December 31, 2008	$393	$ —	$11,621	$ (9,149)	$ 2,865	
Cumulative effect of a change in accounting principle (see Note 1)	—	—	(112)	—	(112)	
Balance at December 31, 2008, as adjusted	393	—	11,509	(9,149)	2,753	
Net earnings	—	—	2,973	—	2,973	$ 2,973
Repurchases of common stock	(25)	(440)	(1,386)	—	(1,851)	—
Common stock dividends declared ($2.34 per share)	—	—	(908)	—	(908)	—
Stock-based awards and ESOP activity	5	440	—	—	445	—
Other comprehensive income (loss):						
Postretirement benefit plans:						
Unrecognized amounts in 2009, net of tax of $121 million	—	—	—	214	214	214
Recognition of previously deferred amounts, net of tax of $158 million	—	—	—	281	281	281
Other, net	—	—	—	59	59	59
Balance at December 31, 2009	373	—	12,188	(8,595)	3,966	$ 3,527
Net earnings	—	—	2,878	—	2,878	$ 2,878
Repurchases of common stock	(33)	(514)	(1,936)	—	(2,483)	—

Common stock dividends declared ($2.6,ds :.42409-245(st9d04)]o89.a908) —

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Note 1 – Significant Accounting Policies

Organi ation – We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also 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.

Basis of presentation – Our consolidated financial statements include the accounts of subsidiaries we control and other entities for which we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. Our receivables, inventories, customer advances and amounts in excess of costs incurred, and certain amounts in other current liabilities primarily are 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. Certain prior year amounts have been reclassified to conform to the current year’s presentation, which are discussed elsewhere in our footnotes. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a “per diluted share” basis from continuing operations.

Use of estimates – We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). In doing so, we are required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Our actual results may differ from those estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, sales recognition, postretirement benefit plans, environmental receivables and liabilities, and contingencies.

Receivables – Receivables include amounts billed and currently due from customers, and unbilled costs and accrued profits primarily related to sales on long-term contracts that have been recognized but not yet billed to customers. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, assets related to such contracts as a result of advances, performance-based payments, and progress payments. We reflect those advances and payments as an offset to the related receivables balance.

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

Property, plant and e uipment – We include property, plant, and equipment on our Balance Sheets 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. No depreciation expense is recorded on construction in progress until such assets are placed into operation. Depreciation expense related to plant and equipment was $712 million in 2011, $749 million in 2010, and $750 million in 2009.

We review the carrying values of long-lived assets for impairment if events or changes in the facts and circumstances indicate that their carrying values may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset to its carrying value. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying value.

$160 million in 2009. In 2011, we revised the classification of cash payments associated with the development or purchase of internal-use software from operating cash flows to investing cash flows. Cash flows for all years above have been adjusted for this change. Cash payments for internal-use software were $173 million in 2011, $254 million in 2010, and $314 million in 2009.

Good ill – We evaluate goodwill for potential impairment annually on October 1, or whenever impairment indicators estimated profit as costs are incurred based on the proportion that the incurred costs bear to total estimated costs. For contracts that require us to provide a substantial number of similar items without a significant level of development, we record sales and an estimated profit on a POC basis using units-of-delivery as the basis to measure progress toward completing the contract. For contracts to provide services to the U.S. Government, sales are generally recorded using the cost-to-cost method.

Award fees and incentives, as well as penalties related to contract performance, are considered in estimating sales and profit rates on contracts accounted for under the POC method. Estimates of award fees are based on past experience and anticipated performance. We record incentives or penalties when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs.

Accounting for contracts under the POC method requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance), and making assumptions for schedule and technical issues. Due to the scope and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables and,

Research and development and similar costs – Except for certain arrangements described below, we account for independent research and development 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 expensed as incurred. Independent research and development costs charged to cost of sales totaled $585 million in 2011, $639 million in 2010, and $717 million in 2009. Costs we incur under customer-sponsored research and development programs pursuant to contracts are included in net sales and cost of sales.

Investments in marketable securities – Investments in marketable securities consist of debt and equity securities and are classified as either available-for-sale securities or trading securities. If classified as available-for-sale securities, unrealized gains and losses are reflected net of income taxes in accumulated other comprehensive loss on the Statements of Stockholders' Equity. If classified as trading securities, unrealized gains and losses are recorded in other non-operating income, net on the Statements of Earnings. If declines in the value of available-for-sale securities are determined to be other than temporary, a loss is recorded in earnings in the current period. We make such determinations by considering, among other factors, the length of time the fair value of the investment has been less than the carrying value, future business prospects for the investee, and information regarding market and industry trends for the investee's business, if available. For purposes of computing realized gains and losses on marketable securities, we determine cost on a specific identification basis.

Available-for-sale securities are recorded at fair value and classified as short-term investments on the Balance Sheets. Our available-for-sale securities as of December 31, 2010 consisted primarily of U.S. Treasury securities with a fair value of approximately $500 million, which matured during 2011. The cost basis of these securities was not materially different from their respective fair value as of December 31, 2010. As of December 31, 2011 and 2010, the fair value of our trading securities totaled $781 million and $843 million and was included in other assets on the Balance Sheets. Our trading securities are held in a Rabbi Trust, which includes investments to fund certain of our non-qualified deferred compensation plans.

Net gains on marketable securities in 2011, 2010, and 2009 were $40 million, $56 million, and $110 million and were included in other non-operating income, net on the Statements of Earnings. Included in these amounts are net unrealized gains (losses) on trading securities of $(24) million in 2011, $24 million in 2010, and $115 million in 2009.

E uity method investments – Investments where we have the ability to exercise significant influence over, but do not control, are accounted for under the equity method of accounting and are included in other assets on the Balance Sheets. Significant influence typically exists if we have a 20% to 50% ownership interest in the investee. Under this method of accounting, our share of the net earnings or losses of the investee is included in operating profit in other income, net on the Statements of Earnings since the activities of the investee are closely aligned with the operations of the business segment holding the investment. We evaluate our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period. As of December 31, 2011 and 2010, our equity method investments totaled $697 million and $671 million, and our share of net earnings related to these investments was $332 million in 2011, $312 million in 2010, and $278 million in 2009.

Derivative financial instruments – We use derivative financial instruments to manage our exposure to fluctuations in foreign currency exchange rates and interest rates. Foreign currency exchange contracts are entered into to manage the exchange rate risk of forecasted foreign currency denominated cash receipts and cash payments. The majority of our foreign currency exchange contracts are designated as cash flow hedges. We also use derivative financial instruments to manage our exposure to changes in interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate, long-term debt. Our interest rate swap contracts are designated as fair value hedges. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We record derivatives at their fair value. The classification of gains and losses resulting from changes in the fair values at December 31, 2011 and 2010 was $1.7 billion and $2.2 billion. The aggregate notional amount of our outstanding interest rate swap contracts at December 31, 2011 was $450 million, and we had no interest rate swap contracts outstanding at December 31, 2010. The effect of our derivative instruments on our Statements of Earnings for the years ended December 31, 2011, 2010, and 2009, and on our Balance Sheets as of December 31, 2011 and 2010 was not material. See Note 15 for further discussion on the fair value measurements related to our derivative instruments.

Stock-based compensation – Compensation cost related to all share-based payments (stock options and restricted stock units) is measured at the grant date based on the estimated fair value of the award. We generally recognize the compensation cost ratably over a three-year vesting period.

Income taxes – We periodically assess our tax filing exposures related to periods that are open to examination. Based on the latest available information, we evaluate tax positions to determine whether the position will more likely than not be sustained upon examination by the Internal Revenue Service (IRS). If we cannot reach a more-likely-than-not determination, no benefit is recorded. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. We record interest and penalties related to income taxes as a component of income tax expense on our Statements of Earnings.

Comprehensive income (loss) – Comprehensive income (loss) and its components are presented on the Statements of Stockholders' Equity.

Accumulated other comprehensive loss consisted of the following:

(In millions)	***2011***	*2010*
Postretirement benefit plan adjustments	**$(11,186)**	$(8,994)
Other, net	**(71)**	(16)
Accumulated other comprehensive loss	**$(11,257)**	$(9,010)

Recent accounting pronouncements – In June 2011, the Financial Accounting Standards Board (FASB) issued a new standard, which eliminates the option to present other comprehensive income (OCI) in the statement of stockholders' equity and instead requires net income, the components of OCI, and total comprehensive income to be presented in either one continuous statement or two separate but consecutive statements. The standard also requires that items reclassified from OCI to net income be presented on the face of the financial statements; however, in December 2011, the FASB deferred this requirement. The new standard will be effective for us beginning with our first quarter 2012 reporting and will be applied retrospectively. The adoption of the new standard or the deferred requirement will not have an effect on our results of operations, financial position, or cash flows as it only requires a change in the presentation of OCI in our consolidated financial statements.

In September 2011, the FASB issued a new standard which amends the existing guidance on goodwill impairment testing. The new standard allows an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If this is the case, the entity will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The standard will be effective for annual or interim goodwill impairment tests performed by us after December 31, 2011, and will not have an effect on the measurement of goodwill impairment, if any.

Note 2 – Severance and Other Charges

During 2011, we recorded charges related to certain severance actions totaling $136 million, net of state tax benefits. Of these severance charges, $49 million and $48 million related to our Aeronautics and Space Systems business segments, and $39 million related to our Information Systems & Global Solutions (IS&GS) business segment and Corporate Headquarters. These charges reduced our net earnings in 2011 by $88 million ($.26 per share). These severance actions resulted from a strategic review of these businesses and our Corporate Headquarters to better align our organization and cost structure with changing economic conditions. The workforce reductions at the business segments also reflect changes in program lifecycles, where several of our major programs are transitioning out of development and into production, and certain programs are ending. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees receive lump-sum severance payments based on years of service, which are expected to be paid through the first half of 2012. During 2011, we made approximately half of the severance payments associated with the total severance charges.

In 2010, we recorded a charge of $178 million, net of state tax benefits, related to the Voluntary Executive Separation Program (VESP). The charge, which included lump-sum special payments for qualifying executives, reduced our net earnings by $116 million ($.31 per share). The amounts of the VESP attributable to our business segments were $25 million at Aeronautics, $38 million at Electronic Systems, $42 million at IS&GS, and $41 million at Space Systems. The remaining $32 million was attributable to our Corporate Headquarters. The effective date of termination of employment for most participants was February 1, 2011, with the lump-sum special payments to be made within 90 days from separation of service. As of December 31, 2011, all payments under the VESP have been made.

In 2010, our Electronic Systems business segment decided to consolidate certain of its operations, including the closure of a facility in Eagan, Minnesota. Accordingly, we recorded a charge to cost of sales, net of state tax benefits, of $42 million which reduced our net earnings for 2010 by $27 million ($.07 per share). The majority of the charge was associated with the accrual of severance payments to employees, with the remainder associated with impairment of assets. We expect to complete these activities by 2013.

Note 3 – Earnings Per Share

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

(In millions)	***2011***	*2010*	*2009*
Average number of common shares outstanding for basic computations	**335.9**	364.2	384.8
Dilutive stock options and restricted stock units	**4.0**	4.1	4.1
Average number of common shares outstanding for diluted computations	**339.9**	368.3	388.9

integrates complex global systems to help our customers gather, analyze, and securely distribute critical intelligence data.

Selected Financial Data by Business Segment

(In millions)	***2011***	*2010*	*2009*
Net sales			
Aeronautics	**$14,362**	$13,109	$11,988
Electronic Systems	**14,622**	14,399	13,630
Information Systems & Global Solutions	**9,381**	9,921	9,599
Space Systems	**8,134**	8,242	8,650
Total	**$46,499**	$45,671	$43,867
Operating profit [a]			
Aeronautics	**$ 1,630**	$ 1,498	$ 1,567
Electronic Systems	**1,788**	1,748	1,648
Information Systems & Global Solutions	**874**	814	874
Space Systems	**989**	968	967
Total business segments	**5,281**	5,028	5,056
Severance and other charges [b]	**(136)**	(220)	—
Other unallocated corporate expense, net [c]	**(1,165)**	(759)	(689)
Operating profit	**$ 3,980**	$ 4,049	$ 4,367
Intersegment revenue			
Aeronautics	**$ 193**	$ 128	$ 210
Electronic Systems	**1,095**	988	856
Information Systems & Global Solutions	**864**	912	827
Space Systems	**113**	124	122
Total	**$ 2,265**	$ 2,152	$ 2,015
Depreciation and amorti ation			
Aeronautics	**$ 345**	$ 334	$ 304
Electronic Systems	**276**	286	287
Information Systems & Global Solutions	**83**	106	119
Space Systems	**199**	212	209
Total business segments	**903**	938	919
Corporate activities	**105**	114	95
Total	**$ 1,008**	$ 1,052	$ 1,014
Expenditures for property, plant and e uipment and capitali ed soft are			
Aeronautics	**$ 361**	$ 422	$ 436
Electronic Systems	**280**	288	290
Information Systems & Global Solutions	**71**	67	66
Space Systems	**192**	205	232
Total business segments	**904**	982	1,024
Corporate activities	**83**	92	142
Total	**$ 987**	$ 1,074	$ 1,166

Selected Financial Data by Business Segment (continued)

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

(In millions)	***2011***	*2010*	*2009*
Aeronautics	**$ 7**	$ 7	$ 9
Electronic Systems	**64**	50	53
Space Systems	**227**	259	218
Total business segments	**298**	316	280
Corporate activities	**34**	(4)	(2)
Total	**$332**	$312	$278

(b) Severance and other charges include the severance charges recorded in 2011 associated with Aeronautics, IS&GS, and Space Systems business segments, and Corporate Headquarters, and for 2010, included the charges related to the VESP and facilities consolidation within Electronic Systems (Note 2).

(c) Other unallocated corporate expense, net included the following:

(In millions)	***2011***	*2010*	*2009*
Non-cash FAS/CAS pension adjustment	**$ (922)**	$(454)	$(456)
Stock-based compensation and other, net	**(243)**	(305)	(233)
Total	**$(1,165)**	$(759)	$(689)

Net Sales by Customer Category

(In millions)	***2011***	*2010*	*2009*
U.S. Government			
Aeronautics	**$10,749**	$10,623	$ 9,966
Electronic Systems	**10,662**	10,749	9,864
Information Systems & Global Solutions	**8,769**	9,488	9,156
Space Systems	**7,821**	8,000	8,401
Total	**$38,001**	$38,860	$37,387
International (a)			
Aeronautics	**$ 3,577**	$ 2,458	$ 1,973
Electronic Systems	**3,883**	3,562	3,664
Information Systems & Global Solutions			

Selected Financial Data by Business Segment (continued)

(In millions)	***2011***	*2010*
Assets (a)		
Aeronautics	**$ 5,752**	$ 5,231
Electronic Systems	**10,480**	9,925
Information Systems & Global Solutions	**5,838**	5,463
Space Systems	**3,121**	3,041
Total business segments	**25,191**	23,660
Corporate assets (b)	**12,717**	11,057
Assets of discontinued operation held for sale	[illegible]	396
Total	**$37,908**	$35,113
Good ill		
Aeronautics	**$ 146**	$ 148
Electronic Systems	**5,760**	5,601
Information Systems & Global Solutions	**3,749**	3,363
Space Systems	**493**	493
Total (c)	**$10,148**	$ 9,605
Customer advances and amounts in excess of costs incurred		
Aeronautics	**$ 2,443**	$ 2,774
Electronic Systems	**3,214**	2,491
Information Systems & Global Solutions	**350**	284
Space Systems	**392**	341
Total	**$ 6,399**	$ 5,890

(a) We have no significant long-lived assets located in foreign countries.

(b) Corporate assets primarily include cash and cash equivalents, short-term investments, deferred income taxes, environmental receivables, and investments held in a Rabbi Trust.

(c) During 2011, the increase in goodwill primarily was due to the acquisition of QTC and Sim-Industries B.V. In 2010, goodwill decreased primarily due to the sale of Enterprise Integration Group (EIG) and the reclassification of Pacific Architects and Engineers, Inc.'s (PAE) assets and liabilities to discontinued operations in 2010 (Note 14).

Note 5 – Receivables, net

Receivables consisted of the following components:

(In millions)	***2011***	*2010*
U.S. Government		
Amounts billed	**$ 1,273**	$1,360
Unbilled costs and accrued profits	**4,961**	3,176
Less: customer advances and progress payments	**(1,086)**	(705)
Total U.S. Government receivables, net	**5,148**	3,831
Foreign governments and commercial		
Amounts billed	**396**	461
Unbilled costs and accrued profits	**774**	1,649
Less: customer advances	**(254)**	(249)
Total foreign governments and commercial receivables, net	**916**	1,861
Total receivables, net	**$ 6,064**	$5,692

We expect to bill substantially all of the December 31, 2011 unbilled costs and accrued profits during 2012.

Our reconciliation of the 35% U.S. federal statutory income tax rate to actual income tax expense for continuing operations is as follows:

(In millions)	***2011***	*2010*	*2009*
Income tax expense at the U.S. federal statutory tax rate	**$1,271**	$1,322	$1,465
Increase (decrease) in tax expense:			
U.S. manufacturing activity benefit	**(106)**	(110)	(39)
Tax deductible dividends	**(62)**	(56)	(49)
Research and development tax credit	**(35)**	(43)	(43)
IRS appeals and audit resolution	**(89)**	(10)	(69)
Medicare Part D law change	[illegible]	96	—
Other, net	**(15)**	(35)	(50)
Income tax expense	**$ 964**	$1,164	$1,215

Our U.S. manufacturing activity benefit is based on income derived from qualified production activity (QPA) in the U.S. The deduction rate, which was 9% for both 2011 and 2010, and 6% for 2009, is applied against QPA income to arrive at the deduction. The increased benefit in 2011 and 2010 was due to an increase in QPA income, as well as the higher deduction rate in 2011 and 2010 compared to 2009.

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

(In millions)	***2011***	*2010*
Deferred tax assets related to:		
Accrued compensation and benefits	**$ 843**	$ 877
Pensions	**4,578**	3,642
Other postretirement benefit obligations	**487**	459
Contract accounting methods	**806**	531
Sale of discontinued operations	**69**	179
Foreign company operating losses and credits	**31**	31
Other	**305**	202
Valuation allowance [(a)]	**(14)**	(17)
Deferred tax assets, net	**7,105**	5,904
Deferred tax liabilities related to:		
Goodwill and purchased intangibles	**369**	336
Property, plant and equipment	**638**	558
Exchanged debt securities and other [(b)]	**379**	391
Deferred tax liabilities	**1,386**	1,285
Net deferred tax assets [(c)]	**$5,719**	$4,619

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

(b) Includes deferred tax liabilities associated with the exchange of debt securities in 2010 (see Note 9) and 2006.

(c) Includes net foreign current deferred tax liabilities, which are included on the Balance Sheets in other current liabilities.

We had recorded liabilities for unrecognized tax benefits related to permanent and temporary tax adjustments, exclusive

Note 9 – Debt

Our long-term debt consisted of the following:

The rules related to accounting for postretirement benefit plans under GAAP require 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 net periodic benefit cost recognized each year included the following components:

	Qualified Defined Benefit Pension Plans [(a)]			*Retiree Medical and Life Insurance Plans*		
(In millions)	***2011***	*2010*	*2009*	***2011***	*2010*	*2009*
Service cost	**$ 974**	$ 903	$ 870	**$ 32**	$ 36	$ 34
Interest cost	**1,918**	1,876	1,812	**162**	166	165
Expected return on plan assets	**(2,033)**	(2,027)	(2,028)	**(140)**	(129)	(106)
Recognized net actuarial losses	**880**	595	302	**34**	25	42
Amortization of prior service cost	**82**	83	80	**(16)**	(16)	(23)
Curtailment	[illegible]	12	—	[illegible]	—	—
Total net periodic benefit cost	**$ 1,821**	$ 1,442	$ 1,036	**$ 72**	$ 82	$ 112

(a) Total net periodic benefit cost associated with our qualified defined benefit plans represents pension expense calculated in accordance with GAAP (FAS expense). We are required to calculate pension expense in accordance with both GAAP and CAS rules, each of which results in a different calculated amount of pension expense. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in net sales and cost of sales for products and services. We include the difference between FAS expense and CAS expense, referred to as the non-cash FAS/CAS pension adjustment ($922 million in 2011, $454 million in 2010, and $456 million in 2009), as a component of other unallocated corporate costs on our Statements of Earnings. The non-cash FAS/CAS pension adjustment effectively adjusts the amount of pension expense in the results of operations so that pension expense recorded on our Statements of Earnings is equal to FAS expense.

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

(In millions)		

postemployment plans and foreign benefit plans. The aggregate liability for the other postemployment plans was $107 million and $93 million as of December 31, 2011 and 2010. The expense for the other postemployment plans, as well as the liability and expense associated with the foreign benefit plans, was not material to our results of operations, financial position, or cash flows.

Plan Assets

Investment policies and strategies – Lockheed Martin Investment Management Company (LMIMCo), our wholly-owned subsidiary, has the fiduciary responsibility for making investment decisions related to the assets of our postretirement benefit plans. LMIMCo's investment objectives for the assets of these plans are (1) to minimize the net present value of expected funding contributions; (2) to ensure there is a high probability that each plan meets or exceeds our actuarial long-term rate of return assumptions; and (3) to diversify assets to minimize the risk of large losses. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers; the maintenance of a portfolio diversified by asset class, investment approach, and security holdings; and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

LMIMCo's investment policies require that asset allocations of postretirement benefit plans be maintained within the following approximate ranges:

Asset Class	*Asset Allocation Ranges*
Cash and cash equivalents	0 – 30%
Equity	10 – 55%
Fixed income	10 – 60%
Alternative investments:	
Private equity funds	0 – 15%
Real estate funds	0 – 10%
Hedge funds	0 – 20%
Commodities	0 – 25%

Fair value measurements – The rules related to accounting for postretirement benefit plans under GAAP require certain fair value disclosures related to postretirement benefit plan assets, even though those assets are not included on our Balance Sheets. The following table presents the fair value of the assets of our qualified defined benefit pension plans and retiree medical and life insurance plans by asset category and their level within the fair value hierarchy, which has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets, Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

	Balance as of December 31, 2011				*Balance as of December 31, 2010*			
(In millions)	***Level 1***	***Level 2***	***Level 3***	***Total***	*Level 1*	*Level 2*	*Level 3*	*Total*
Cash and cash equivalents	**$ 2,886**	**$ —**	**$ —**	**$ 2,886**	$ 1,726	$ —	$ —	$ 1,726
Equity [a]:								
U.S. equity securities	**3,834**	**37**	**7**	**3,878**	4,548	44	—	4,592
International equity securities	**3,750**	**11**	**15**	**3,776**	5,008	6	16	5,030
Commingled equity funds	**1,016**	**1,127**	**—**	**2,143**	1,287	1,056	—	2,343
Fixed income [a]:								
Corporate debt securities	**—**	**946**	**98**	**1,044**	—	1,351	63	1,414
U.S. Government securities	**—**	**10,040**	**—**	**10,040**	—	7,262	—	7,262
Other fixed income securities	**—**	**508**	**45**	**553**	—	584	47	631
Alternative investments:								
Private equity funds	**—**	**—**	**2,286**	**2,286**	—	—	2,085	2,085
Real estate funds	**—**	**—**	**278**	**278**	—	—	164	164
Hedge funds	**—**	**—**	**825**	**825**	—	—	1,025	1,025
Commodities [a]	**992**	**277**	**—**	**1,269**	343	516	—	859
Total	**$12,478**	**$12,946**	**$3,554**	**$28,978**	$12,912	$10,819	$3,400	$27,131
Receivables, net				**63**				47
Total				**$29,041**				$27,178

[a] Equity securities, fixed income securities, and commodities included derivative assets and liabilities whose fair values were not material as of December 31, 2011 and 2010. LMIMCo's investment policies restrict the use of derivatives to either establish long exposures for purposes of expediency or capital efficiency, or to hedge risks to the extent of a plan's current exposure to such risks. Most derivative transactions are settled on a daily basis.

As of December 31, 2011 and 2010, the assets associated with our foreign defined benefit pension plans were not material and have not been included in the table above.

The following table presents the changes during 2011 and 2010 in the fair value of plan assets categorized as Level 3 in the preceding table:

(In millions)	*Private Equity Funds*	*Real Estate Funds*	*Hedge Funds*	*Other*	*Total*
Balance at January 1, 2010	$1,730	$125	$ 750	$ 58	$2,663
Actual return on plan assets:					
Realized gains, net	123	—	1	2	126
Unrealized gains, net	103	7	13	—	123
Purchases, sales, and settlements, net	129	32	261	65	487
Transfers into (out of) Level 3	—	—	—	1	1
Balance at December 31, 2010	$2,085	$164	$1,025	$126	$3,400
Actual return on plan assets:					
Realized gains (losses), net	**171**	**25**	**(4)**	**2**	**194**
Unrealized gains (losses), net	**7**	**22**	**(11)**	**(9)**	**9**
Purchases, sales, and settlements, net	**23**	**67**	**(183)**	**21**	**(72)**
Transfers into (out of) Level 3	[illegible]	[illegible]	**(2)**	**25**	**23**
Balance at December 31, 2011	**$2,286**	**$278**	**$ 825**	**$165**	**$3,554**

Valuation techni ues – Cash equivalents are mostly comprised of short-term money-market instruments and are valued at cost, which approximates fair value.

U.S. equity securities and international equity securities categorized as Level 1 are traded on active national and international exchanges and are valued at their closing prices on the last trading day of the year. For U.S. equity securities and international equity securities not traded on an active exchange, or if the closing price is not available, the trustee obtains indicative quotes from a pricing vendor, broker, or investment manager. These securities are categorized as Level 2 if the custodian obtains corroborated quotes from a pricing vendor or categorized as Level 3 if the custodian obtains uncorroborated quotes from a broker or investment manager.

Commingled equity funds are public investment vehicles valued using the Net Asset Value (“NAV”) provided by the fund manager. The NAV is the total value of the fund divided by the number of shares outstanding. Commingled equity funds are categorized as Level 1 if traded at their NAV on a nationally recognized securities exchange or categorized as Level 2 if the NAV is corroborated by observable market data (*e.g.*, purchases or sales activity).

Fixed income securities categorized as Level 2 are valued by the trustee using pricing models that use verifiable observable market data (*e.g.* interest rates and yield curves observable at commonly quoted intervals), bids provided by brokers or dealers, or quoted prices of securities with similar characteristics.

Private equity funds, real estate funds, hedge funds, and fixed income securities categorized as Level 3 are valued based on valuation models that include significant unobservable inputs and cannot be corroborated using verifiable observable market data. Valuations for private equity funds and real estate funds are determined by the general partners, while hedge funds are valued by independent administrators. Depending on the nature of the assets, the general partners or independent administrators use both the income and market approaches in their models. The market approach consists of analyzing market transactions for comparable assets while the income approach uses earnings or the net present value of estimated future cash flows adjusted for liquidity and other risk factors.

Commodities categorized as Level 1 are traded on an active commodity exchange and are valued at their closing prices on the last trading day of the year. Commodities categorized as Level 2 represent shares in a commingled commodity fund valued using the NAV, which is corroborated by observable market data.

Contributions and Expected Benefit Payments

We generally determine funding requirements for our defined benefit pension plans in a manner consistent with CAS and Internal Revenue Code rules. In 2011, we made contributions of $2.3 billion related to our qualified defined benefit pension plans. We plan to make contributions of approximately $1.1 billion related to the qualified defined benefit pension plans in 2012. We also may review options for further contributions in 2012. We expect to make required contributions of $112 million related to the retiree medical and life insurance plans in 2012.

The following table presents estimated future benefit payments, which reflect expected future employee service, as of December 31, 2011:

(In millions)	*2012*	*2013*	*2014*	*2015*	*2016*	*2017 - 2021*
Qualified defined benefit pension plans	$1,760	$1,830	$1,910	$1,990	$2,080	$12,120
Retiree medical and life insurance plans	240	250	260	260	270	1,240

Defined Contribution Plans

We maintain a number of defined contribution plans, most with 401(k) features, that cover substantially all of our employees. Under the provisions of our 401(k) plans, we match most employees' eligible contributions at rates specified in the plan documents. Our contributions were $378 million in 2011, $379 million in 2010, and $364 million in 2009, the majority of which were funded in our common stock. Our defined contribution plans held approximately 52.1 million and 60.7 million shares of our common stock as of December 31, 2011 and 2010.

Note 11 – Stockholders' Equity

At December 31, 2011, our authorized capital was composed of 1.5 billion shares of common stock and 50 million shares of series preferred stock. Of the 323 million shares of common stock issued and outstanding, 321 million shares were considered outstanding for Balance Sheet presentation purposes; the remaining shares were held in the Rabbi Trust. No preferred stock shares were issued and outstanding at December 31, 2011.

During 2011, 2010, and 2009, we repurchased 31.8 million, 33.0 million, and 24.9 million shares of our common stock for $2.4 billion, $2.5 billion, and $1.9 billion. We paid cash totaling $2.5 billion for share repurchases during 2011, which included $63 million for shares we repurchased in December 2010 but that were not paid for until January 2011. Our share repurchase program provides for the repurchase of our common stock from time-to-time. Under the program, we have discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. In 2011, our Board authorized an additional $3.5 billion for share repurchases, bringing the total authorized amount under the program to $6.5 billion. As of December 31, 2011, we had repurchased a total of 43.0 million shares under the program for $3.2 billion, and there remained $3.3 billion authorized for additional share repurchases.

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 $1.8 billion and $1.9 billion recorded as a reduction of retained earnings in 2011 and 2010.

Note 12 – Stock-Based Compensation

During 2011, 2010, and 2009, we recorded non-cash compensation cost related to stock options and restricted stock units totaling $157 million, $168 million, and $154 million, which is included on our Statements of Earnings in other unallocated corporate costs within cost of sales. The net impact to earnings for the respective years was $101 million, $109 million, and $99 million.

Stock-Based Compensation Plans

We had two stock-based compensation plans in place at December 31, 2011: the Lockheed Martin 2011 Incentive Performance Award Plan (the Award Plan) and the Lockheed Martin Directors Equity Plan (the Directors Plan). Under the Award Plan, we have the right to grant key employees stock-based incentive awards, including options to purchase common stock, stock appreciation rights, restricted stock, or stock units. Employees also may receive cash-based incentive awards. We evaluate the types and mix of stock-based incentive awards on an ongoing basis and may vary the mix based on our overall strategy regarding compensation. The Award Plan was approved by our stockholders at our April 28, 2011 annual meeting. Prior to stockholder approval of the Award Plan, equity awards were made to employees under the Amended and Restated 2003 Incentive Performance Award Plan (the Prior Plan). Awards made under the Prior Plan remain outstanding but no new awards may be made under the Prior Plan after April 28, 2011.

2011 Activity

Stock Options

The following table summarizes stock option activity during 2011:

	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, 2010	24,497	$75.90		
Granted	2,540	79.60		
Exercised	(2,257)	51.56		
Terminated	(221)	83.77		
Outstanding at December 31, 2011	**24,559**	**78.45**	**5.7**	**$204.1**
Vested and expected-to-vest at December 31, 2011	**24,476**	**78.45**	**5.6**	**204.0**
Vested at December 31, 2011	**18,356**	**78.41**	**4.8**	**187.1**

Stock options 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 that were granted, vested, and exercised in 2011, 2010, and 2009:

(In millions, except for grant-date fair value of stock options)	***2011***	*2010*	*2009*
Weighted average grant-date fair value of stock options granted	**$13.06**	$14.05	$14.91
Aggregate fair value of all the stock options that vested	**60**	71	72
Aggregate intrinsic value of all of the stock options exercised	**60**	50	37

We estimate the fair value for stock options at the date of grant using the Black-Scholes option pricing model, which requires us to make certain assumptions. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield is determined based on estimated dividend payments and changes to our stock price during the expected option life. We estimate volatility based on the historical volatility of our daily stock price over the past five years, which is commensurate with the expected life of the options. We base the average expected life on the contractual term of the stock option, historical trends in employee exercise activity, and post-vesting employment termination trends. We estimate forfeitures at the date of grant based on historical experience. The impact of forfeitures is not material.

We used the following weighted average assumptions in the Black-Scholes option pricing model to determine the fair values of stock-based compensation awards during 2011, 2010, and 2009:

	2011	*2010*	*2009*
Risk-free interest rate	**1.97%**	2.49%	1.69%
Dividend yield	**4.20%**	3.40%	2.30%
Volatility factors	**0.277**	0.272	0.244
Expected option life	**5 years**	5 years	5 years

RSUs

Note 13 – Legal Proceedings, Commitments, and Contingencies

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. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings discussed below, will have a material adverse effect on the Corporation as a whole, incurred if the plaintiffs were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them. On March 31, 2009, the Judge dismissed a number of the plaintiffs' claims, leaving three claims for trial, specifically the plaintiffs' claims involving the company stock funds, the Stable Value Fund, and overall fees. The Court also granted class certification on two of the plaintiffs' claims. We appealed the class certification. On March 15, 2011, the U.S. Court of Appeals for the Seventh Circuit vacated the Court's class certification. The case has been remanded to the District Court.

On August 28, 2003, the DoJ filed complaints in partial intervention in two lawsuits filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Western District of Kentucky, *United States ex rel. Natural Resources Defense Council, et al., v. Lockheed Martin Corporation, et al*., and *United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al*. The DoJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing, and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The complaint does not allege a specific calculation of damages, and we cannot reasonably estimate the possible loss, or range of loss, which could be incurred if the plaintiff were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

We resolved or reached an agreement in principle to resolve three previously disclosed matters without a material effect to the Corporation's financial statements. These matters were:

- *United States ex rel. Becker and Spencer v. Lockheed Martin Corporation, et al*., which was filed in the U.S. District Court for the Northern District of Texas and alleged that a subcontractor submitted invalid invoices under the False Claims Act.

- An arbitration proceeding with the U.K. Ministry of Defence related to the "Soothsayer" contract for electronic

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 results in the calculation of a range of estimates for a particular environmental remediation site.

We perform quarterly reviews of the status of our environmental remediation sites and the related liabilities and receivables. We record a liability when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined.

We cannot reasonably determine the extent of our financial exposure in all cases at this time. There are a number of former operating facilities that we are monitoring or investigating for potential future remediation. In some cases, although 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 PRPs, including the U.S. Government.

Both the U.S. Environmental Protection Agency and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking processes are lengthy ones and may take one or more years to complete. If a substantially lower standard is adopted, we would expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

We are conducting remediation activities, including under various consent decrees and orders, relating to soil, groundwater, sediment, or surface water contamination at certain sites of former or current 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).

Operating Leases

We rent certain equipment and facilities under operating leases. Certain major plant facilities and equipment are furnished by the U.S. Government under short-term or cancelable arrangements. Our total rental expense under operating leases was $347 million, $399 million, and $370 million for 2011, 2010, and 2009. Future minimum lease commitments at December 31, 2011 for all operating leases that have a remaining term of more than one year were $1.0 billion ($264 million in 2012, $200 million in 2013, $139 million in 2014, $97 million in 2015, $71 million in 2016 and $246 million in later years).

Letters of Credit, Surety Bonds, and Third-Party Guarantees

We have($2/T1_0s2JT*[(in)-367 as aEnvi320(under)3,more]TJ3Tm[(Le)-260a(E5(Our)-365or)-48-404(to)rrtemi$10,e33x$e]TJ8 potential joint venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. We believe our current and former joint venture partners will be able to perform their obligations, as they have done through December 31, 2011, and that it will not be necessary to make payments under the guarantees.

United Launch Alliance

and accounts payable are carried at cost, which approximates fair value. The estimated fair values of our long-term debt instruments at December 31, 2011 and 2010, aggregated approximately $7.8 billion and $6.2 billion, compared with a carrying amount of approximately $7.0 billion and $5.5 billion, which excludes $506 million and $505 million of unamortized discounts. The fair values were estimated based on quoted market prices of debt with terms and due dates similar to our long-term debt instruments.

Note 16 – Summary of Quarterly Information (Unaudited)

	2011 Quarters			
(In millions, except per share data)	***First*** [a]	***Second*** [a]	***Third***	***Fourth***
Net sales [b]	**$10,626**	**$11,543**	**$12,119**	**$12,211**
Operating profit	**864**	**993**	**1,041**	**1,082**
Net earnings from continuing operations [c]	**556**	**748**	**665**	**698**
Net earnings (loss) from discontinued operations [d]	**(26)**	**(6)**	**35**	**(15)**
Net earnings	**530**	**742**	**700**	**683**
Basic earnings per share [e]	**1.52**	**2.16**	**2.12**	**2.12**
Diluted earnings per share [e]	**1.50**	**2.14**	**2.10**	**2.09**

	2010 Quarters			
(In millions, except per share data)	*First* [a]	*Second* [a]	*Third*	*Fourth*
Net sales [b]	$10,308	$11,259	$11,343	$12,761
Operating profit	938	1,119	877	1,115
Net earnings from continuing operations [c]	519	717	557	821
Net earnings from discontinued operations [d]	14	107	3	140
Net earnings	533	824	560	961
Basic earnings per share [e]	1.43	2.24	1.56	2.70
Diluted earnings per share [e]				

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

(d) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors required by Item 401 of Regulation S-K is included under the caption “Proposal 1 - Election of Directors” in our definitive Proxy Statement to be filed pursuant to Regulation 14A (the 2012 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 2012 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 “Committees of the Board of Directors — Committees” and “Committees of the Board of Directors — Audit Committee Report” in the 2012 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 principal accounting officer and controller, and to members of our Board of Directors. A copy of our Code of Ethics and

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

The information required by this Item 12 is included under the heading “Security Ownership of Management and Certain Beneficial Owners” in the 2012 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

E uity Compensation Plan Information

The following table provides information about our equity compensation plans that authorize the issuance of shares of Lockheed Martin common stock to employees and directors. The information is provided as of December 31, 2011.

Plan category	Number of securities to be issued upon exercise of outstanding options, arrants, and rights (a)	Weighted average exercise price of outstanding options, arrants, and rights (b)	Number of securities remaining available for future issuance under e uity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1) (2)	29,276,874	$78.45	10,783,023
Equity compensation plans not approved by security holders (3)	1,610,974	—	2,561,892
Total (1) (2) (3)	30,887,848	$78.45	13,344,915

(1) As of December 31, 2011, there were 10,214,254 shares available for grant under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (“IPA Plan”) as options, stock appreciation rights (“SARs”), Restricted Stock Awards (“RSAs”), or Restricted Stock Units (“RSUs”); there are no restrictions on the number of the available shares that may be issued in respect of SARs or stock units. As of December 31, 2011, 110,000 shares have been granted as restricted stock under the IPA Plan. Of the 10,214,254 shares available for grant on December 31, 2011, 3,390,348 and 1,987,114 shares are issuable pursuant to grants on January 30, 2012, of options and RSUs, respectively. Amounts in column (c) of the table also include 568,769 shares that may be issued under the Lockheed Martin Corporation 2009 Directors Equity Plan (“Directors Equity Plan”), and 1,320 shares that may be issued under the Lockheed Martin Corporation Directors’ Deferred Stock Plan (“Directors’ Deferred Stock Plan”), a plan that was approved by the stockholders in 1995; effective May 1, 1999, no additional shares may be awarded under the Directors’ Deferred Stock Plan. For RSUs, shares are issued once the restricted period ends and the shares are no longer forfeitable.

(2) At December 31, 2011, a total of 39,149 shares of Lockheed Martin common stock were issuable upon the exercise of the options assumed by the Corporation in connection with the COMSAT Corporation acquisition. The weighted average exercise price of those outstanding options was $26.15 per share.

(3) The shares represent Management Incentive Compensation Plan (“MICP”) bonuses and Long-Term Incentive Performance (“LTIP”) payments earned and voluntarily deferred by employees. The deferred amounts are payable to them under the Deferred Management Incentive Compensation Plan (“DMICP”). Deferred amounts are credited as phantom 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. Distributions may be made from newly

PART IV

ITEM 15. EXHIBITS AND 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:

	Page
Consolidated Statements of Earnings – Years ended December 31, 2011, 2010, and 2009	51
Consolidated Balance Sheets – At December 31, 2011 and 2010	52
Consolidated Statements of Cash Flows – Years ended December 31, 2011, 2010, and 2009	53
Consolidated Statements of Stockholders' Equity – Years ended December 31, 2011, 2010, and 2009	54
Notes to Consolidated Financial Statements	55

The report of Lockheed Martin Corporation's independent registered public accounting firm with respect to the above-referenced financial statements and their report on internal control over financial reporting appear on pages 50 and 84 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, as amended by Articles of Amendment dated April 23, 2009 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).

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

10.17 Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008).

10.18 Five-Year Credit Agreement, dated as of August 26, 2011, among Lockheed Martin Corporation and the banks listed therein (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 1, 2011).

10.19 Lockheed Martin Supplemental Retirement Plan, as amended (incorporated by reference to Exhibit 10.20 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).

10.20 Joint Venture Master Agreement, dated as of May 2, 2005, by and among Lockheed Martin Corporation, The Boeing Company and United Launch Alliance, L.L.C. (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).

10.21 Lockheed Martin Corporation Nonqualified Capital Accumulation Plan, as amended (incorporated by reference to Exhibit 10.22 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).

10.22 Lockheed Martin Corporation Severance Benefit Plan For Certain Management Employees, as amended (incorporated by reference to Exhibit 10.23 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010).

10.23 Lockheed Martin Corporation 2009 Directors Equity Plan (incorporated by reference to Appendix E to Lockheed Martin Corporation's Definitive Proxy Statement on schedule 14A filed with the SEC on March 14, 2008).

10.24 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.34 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2009).

10.25 Lockheed Martin Corporation Special Termination Plan for Certain Management Employees (incorporated by reference to Exhibit 10 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 27, 2010).

10.26 Form of Stock Option Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

10.27 Form of Restricted Stock Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

10.28 Form of Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2006-2008 performance periods) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.4 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 2, 2006).

10.29 Form of the Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2007-2009 Performance Period) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.30 of Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2006).

10.30 Forms of Long-Term Incentive Performance Award Agreements (2008-2010 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.39 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2007).

10.31 Forms of Long-Term Incentive Performance Award Agreements (2009-2011 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.32 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008).

10.32 Forms of Long-Term Incentive Performance Award Agreements (2010-2012 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.33 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2009).

10.33	Form of Stock Option Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.2 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 3, 2011).
10.34	Form of Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.3 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 3, 2011).

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]

Vice President and Controller
(Chief Accounting Officer)

Date: February 23, 2012

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

[redacted]

Exhibit 31.1

I, Robert J. Stevens, 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.

[redacted]utive Officer

Date: February 23, 2012

Exhibit 31.2

I, Bruce L. Tanner, 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 haver based orhavs this reporh eva15(f intficel con5rol

Bruce L. Tanner

Exhibit 32.1

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, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Stevens, Chairman and Chief Executive 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.

[redacted]

Date: February 23, 2012

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.

Exhibit 32.2

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

In connection with the Annual Report of Lockheed Martin Corporation (the "Corporation") on Form 10-K for the period ended December 31, 2011 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

Bruce L. Tanner

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GENERAL INFORMATION

December 31, 2011

As of December 31, 2011, there were approximately 35,426 holders of record of Lockheed Martin common stock and 323,367,990 shares outstanding.

TRANSFER AGENT & REGISTRAR

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

DIVIDEND REINVESTMENT PLAN

Lockheed Martin Direct Invest, our direct stock purchase and dividend reinvestment plan, provides new investors and current stockholders with a convenient, cost-effective way to purchase Lockheed Martin common stock, increase holdings and manage the investment. For more information about Lockheed Martin Direct Invest, contact our transfer agent, Computershare Trust Company, N.A. at 1-877-498-8861, or to view plan materials online and enroll electronically, go to: www.computershare.com/investor

INDEPENDENT AUDITORS

Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

COMMON STOCK

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

2011 FORM 10-K

Our 2011 Form 10-K is included in this Annual Report in its entirety with the exception of certain exhibits. All of the exhibits may be obtained on our Investor Relations homepage at www.lockheedmartin.com/investor or by accessing our SEC filings. **In addition, stockholders may obtain a paper copy of any exhibit or a copy of the Form 10-K by riting to:**

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

The CEO/CFO certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act are included as Exhibits 31.1 and 31.2 to our 2011 Form 10-K, and are included in this Annual Report. In addition, an annual CEO certification regarding compliance with the NYSE's Corporate Governance listing standards was submitted by our Chairman and CEO to the NYSE on May 24, 2011.

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

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