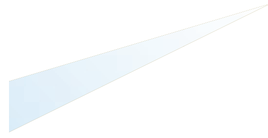
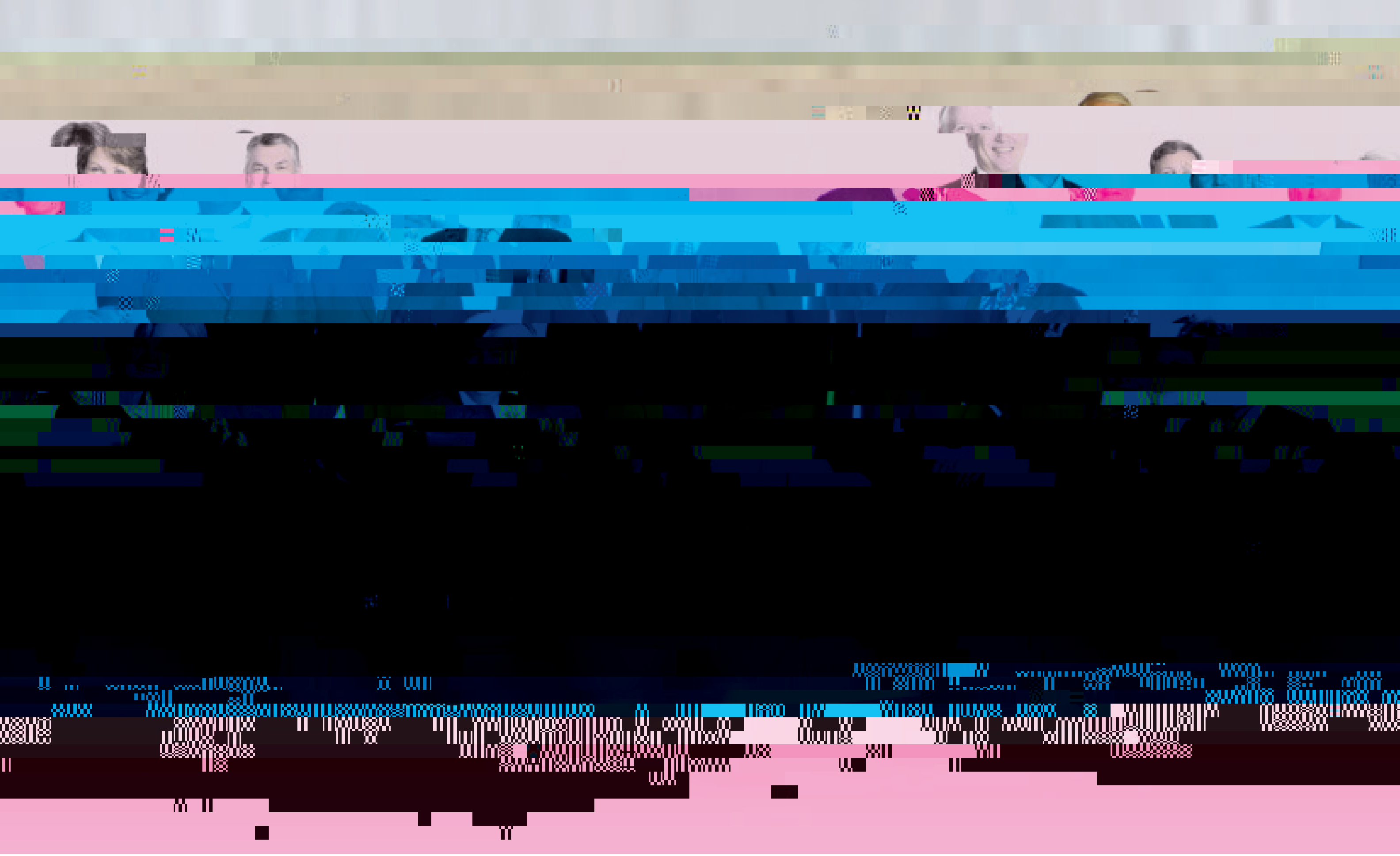


100 YEARS OF ACCELERATING TOMORROW

2012 FINANCIAL HIGHLIGHTS



Dear Fellow Stockholders

Our 100th year was one of our best ever, and stands as a testament to the strength of our performance, the breadth of our portfolio, and the innovative spirit of our people.

We achieved record performance – setting all-time highs for sales, segment operating rtqŁv."gctpkpiu"rgt"ujctg"cpf"dcemnqi"ó"fgurkvg"ukipkŁecpv"jgcfykpfu."cpf"yg"fkf"uq"d{" applying a strategy that has served this company well for a century: delivering on our commitments, anticipating customer needs, and adapting to change.

Cnvjqwij"yg"mpqy"ejcnngpigu"nkg"cjgcf."yg"ctg"eqpŁfgpv"cpf"qrvkokuvke"cdqwv"vjg"hwvwtg0" Yg"dgnkgxg"qwt"uvtcvgi{"eqodkpgf"ykvj"qwt"rgqrng."rgthqtocpeg"cpf"rqtvhqnkq"yknn"mggr" this company strong for decades to come.

Hgy"eqorcpkgu"ocmg"kv"vq"vjg"egpvwt{"octm0"Ygøtg"rtqwf"qh"vjcv"oknguvqpg."cpf"kvøu" qpn{"vjg"dgikppkpi0"Qwt"iqcn"ku"vq"hqtig"c"eqorcp{"vjcvøu"pqv"lwuv"dwknv"vq"ncuv"ó"kvøu" built to lead.

Our Leadership Team: From left to right: Joanne M. Maguire, Executive Vice President, Space Systems (stepping down April 1 and retiring May 1); Richard F. Ambrose, Executive Vice President, Space Systems (effective April 1); Richard H. Edwards, Executive Vice President, Missiles and Fire Control; Dtweg"N0"Vcppgt."Gzgewvkxg"Xkeg"Rtgukfgpv"cpf"Ejkgh"Hkpcpekcn"QhŁegt="Fcng"R0"Dgppgvv."Gzgewvkxg"Xkeg"Rtgukfgpv."Okuukqp"U{uvgou"cpf"Vtckpkpi=" Octkn{p"C0"Jgyuqp."Ejkgh"Gzgewvkxg"QhŁegt"cpf"Rtgukfgpv="Ncttg{"C0"Ncyuqp."Gzgewvkxg"Xkeg"Rtgukfgpv."Cgtqpcwvkeu="Uqpftc"N0"Dctdqwt."Gzgewvkxg" Vice President, Information Systems & Global Solutions (effective April 1); Linda R. Gooden, Executive Vice President, Information Systems & Global Solutions (stepping down April 1 and retiring May 1).

Vjku"ngvvgt"kpenwfgu"tghgtgpegu"vq"ugiogpv"qrgtcvkpi"rtqŁv"cpf"htgg"ecuj"Łqy."yjkej"ctg"pqp/ICCR"Łpcpekcn"ogcuwtgu0"Hqt"tgeqpeknkcvkqpu"dgvyggp"qwt" pqp/ICCR"ogcuwtgu"cpf"vjg"pgctguv"ICCR"ogcuwtgu."rngcug"tghgt"vq"vjg"Hqto"32/M"rqtvkqp"qh"vjku"Cppwcn"Tgrqtv0

Delivering On Our Commitments

a wide range of critical cyber missions and strengthen our information technology portfolio.

Wpocppgf"U{uvgou< Building upon our core capabilities in unmanned systems, and addressing growth opportunities in critical technology areas, we ceswktgf"vjtgg"Łtou"ykvj"uvtcvgike."wpocppgf"u{uvgou" vgejpqnqi{0"Rtqegtwu"Vgejpqnqikgu."EjcpfngtlOc{." Kpe0."cpf"EFN"U{uvgou"cff"gzrgtvkug"cpf"vgejpqnqi{" in managing and controlling unmanned systems, particularly the smaller, tactical drones that feed vital intelligence to ground troops and play a crucial role in special operations. These acquisitions complement and strengthen our existing portfolio of unmanned air cpf"itqwpf"xgjkengu."cpf"ctg"cnkipgf"ykvj"vjg"Fghgpug" Fgrctvogpvøu"uvtcvgike"rtkqtkvkgu0

Kortqxkpi"Gzkuvkpi"Rncvhqtou<" Ygøtg"ftkxkpi"itgcvgt" value for our customers for their existing platforms through focused investments in innovation. We writcfgf"qwt"Cgiku"Dcnnkuvke"Okuukng"Fghgpug"U{uvgo" vq"c"pgy"ugv"qh"ecrcdknkvkgu"mpqyp"cu"Dcugnkpg";."cpf" uweeguuhwnn{"eqorngvgf"hqwt"oclqt"vguvu0"Yg"ygtg" awarded a contract to provide 200 upgraded digital eqemrkvu"cpf"okuukqp"u{uvgou"hqt"vjg"W0U0"Pcx{øu"OJ/ 82T"cpf"OJ/82U"jgnkeqrvgtu0"Cpf"qwt"Vtkfgpv"KK"F7" Fleet Ballistic Missile conducted its 143rd consecutive successful test, an unmatched record of enduring performance for a system that has dramatically evolved and improved over the last half-century. These are all examples of our ability to extend and expand vjg"xcnwg"qh"vqfc{øu"u{uvgou."cpf"rqukvkqp"vjgo"vq" oggv"vqoqttqyøu"ejcnngpigu0

Adapting to Change

As we write this letter, the U.S. government is in vjg"okfuv"qh"cffguukpi"ukipkŁecpv"Łuecn"ejcnngpigu" and mounting national debt, potentially through sequestration, which is a set of across-the-board fkuetgvkqpct{"dwfigv"ewvu"vjcv"ctg"uncvgf"vq"vcmg"ghhgev" Octej"30"Ygøtg"enqugn{"hqnnqykpi"vjg"iqxgtpogpvøu" efforts to eliminate sequestration and instead put in place a plan aligned with the strategic goals for our pcvkqpøu"fghgpug0"Yg"mpqy."jqygxgt."vjcv"yg"ctg"pqv" immune to future budget reductions in the U.S., and that the environment for 2013 and beyond will prove challenging.

Cpf"ygøtg"cntgcf{"vcmkpi"cevkqp"vq"cfcrv"kp"vjku" dynamic environment:

*Itqykpi"Qwt"Kpvgtpcvkqpcn"Rqtvhqnkq<"*Seventeen percent of 2012 sales were from international customers, and we expect it to grow in the coming {gctu0"Kp"4234."Fgpoctm"ugngevgf"qwt"vgco"vq"fgnkxgt" pkpg"OJ/82T"jgnkeqrvgtu."lqkpkpi"Cwuvtcnkc"kp"c" growing list of international MH-60R customers. We yqp"c"eqpvtcev"vq"writcfg"Vckycpøu"H/38u0"Vjg"WCG." Qatar and Kuwait have all expressed interest in our okuukng"fghgpug"ecrcdknkvkgu."kpenwfkpi"VJCCF"cpf" RCE/50"Yg"fgnkxgtgf"vjg"Łtuv"E/352Lu"vq"Ktcs"cpf" Oman. The Royal Jordanian Air Force selected us to modernize their national air command, control and communications infrastructure.

Ftkxkpi"Chhqtfcdknkv{< Our efforts to reduce costs and improve value for our customers are yielding strong results. We invested in innovations aimed at improving ghŁekgpe{"cpf"equv"ucxkpiu"hqt"qwt"ewuvqogtu."cpf" trained engineers across the company on engineering hqt"chhqtfcdknkv{0"Ygøxg"uvtgconkpgf"vjg"qticpk|cvkqpcn" structure in our business areas and at our corporate jgcfswctvgtu0"Yg"cnuq"wpfgtvqqm"rckphwn"dwv"pgeguuct{" tgfwevkqpu"kp"hqteg"vq"dgvvgt"cnkip"qwt"yqtmhqteg" ykvj"vqfc{øu"dwfigvu"cpf"qwt"ewuvqogtuø"hwvwtg" requirements. These are tough but critical steps in our efforts to adapt to a changing environment.

Dwknfkpi"C"Uwuvckpcdng"Hwvwtg<" Yg"ctg"vcmkpi" eqpetgvg"cpf"rtqcevkxg"uvgru"vq"ocmg"Nqemjggf" Martin an industry leader in sustainability. We view sustainability through three lenses: environmental tgurqpukdknkv{."eqtrqtcvg"ekvk|gpujkr"cpf"yqtmhqteg" development.

- É"Environmental Responsibility: In April, we announced we had met or exceeded all of our Łxg/{gct"iqcnu"hqt"tgfwekpi"ectdqp"gokuukqpu." ycuvg/vq/ncpfŁnn"cpf"ycvgt"wug"d{"47"rgtegpv."cpf" in September, we set forward-leaning goals for an even greener future. By 2020, we are aiming to reduce carbon emissions by 35 percent, facility gpgti{"wug"d{"42"rgtegpv."ycuvg/vq/ncpfŁnnu"d{"57" percent and water use by 10 percent.

- É"Corporate Citizenship: As a corporation, we continued to invest in science, technology, engineering and math (STEM) education, as showcased by our partnership with the USA Science and Engineering Festival, the largest STEM celebration in the U.S. We gave $25.2 million in philanthropic donations to groups furthering the cause of STEM, veteran and military families support, and our local communities.

É"Yqtmhqteg"Fgxgnqrogpv<"Yg"mpqy"qwt"go rnq{ggu"

CORPORATE DIRECTORY

(’ ’ ,)

BOARD OF DIRECTORS

Nolan D. Archibald
Executive Chairman
of the Board
Stanley Black & Decker, Inc.

Rosalind G. Brewer
President and
Chief Executive Officer
Sam’s Club

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

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

Thomas J. Falk
Chairman and
Chief Executive Officer
Kimberly-Clark Corporation

Marillyn A. Hewson
Chief Executive Officer and
President
Lockheed Martin Corporation

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

James M. Loy
Senior Counselor
The Cohen Group

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

Joseph W. Ralston
Vice Chairman
The Cohen Group

Anne Stevens
Chairman, Chief Executive
Officer and Principal
SA IT Services

Robert J. Stevens
Executive Chairman and
Strategic Advisor to the
Chief Executive Officer
Lockheed Martin Corporation

EXECUTIVE OFFICERS

Dale P. Bennett
Executive Vice President
Mission Systems and Training

Richard H. Edwards
Executive Vice President
Missiles and Fire Control

Linda R. Gooden
Executive Vice President
Information Systems &
Global Solutions

Christopher J. Gregoire
Vice President and Controller

Marillyn A. Hewson
Chief Executive Officer and
President

Maryanne R. Lavan
Senior Vice President,
General Counsel and
Corporate Secretary

Larry A. Lawson
Executive Vice President
Aeronautics

Joanne M. Maguire
Executive Vice President
Space Systems

Kenneth R. Possenriede
Vice President and Treasurer

Robert J. Stevens
Executive Chairman and
Strategic Advisor to the
Chief Executive Officer

Bruce L. Tanner
Executive Vice President and
Chief Financial Officer

For the fiscal year ended December 31, 2012

Commission file number 1-11437

(Exact name of registrant as specified in its charter)

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

(Address and telephone number of principal executive offices)

Title of each class	Name of each exchange on which 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 ☒

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the last sales price of such stock, as of the last business day of the registrant's most recently completed second fiscal quarter, which was June 22, 2012, was approximately $27.5 billion.

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, 322,583,334 shares outstanding as of January 31, 2013.

Portions of Lockheed Martin Corporation's 2013 Definitive Proxy Statement are incorporated by reference in Part III of this Form 10-K.

10-

1, 2012

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1.

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 2012, 82% of our $47.2 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) contracted through 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 global security, 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 program execution, improving the quality and predictability of the delivery of our products and services, and placing more security capability quickly into the hands of both our domestic and international customers at affordable prices. Recognizing that our customers are resource constrained, we are endeavoring to develop and extend our portfolio in a disciplined manner with a focus on adjacent markets close to our core capabilities. Despite the challenges we face, we expect to continue to invest in technologies to fulfill new mission requirements for our customers, and invest in our people so that we have the technical skills necessary to be successful in this environment, and return cash to investors in the form of dividends and share repurchases.

We are a Maryland corporation and were formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta 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.

We organize our business segments based on the nature of the products and services offered. Effective December 31, 2012, we operate in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST), and Space Systems. This structure reflects the reorganization of our former Electronic Systems business segment into the new MFC and MST business segments in order to streamline our operations and enhance customer alignment. In connection with this reorganization, management layers at our former Electronic Systems business segment and our former Global Training and Logistics (GTL) business were eliminated, and the former GTL business was split between the two new business segments. In addition, operating results for Sandia Corporation, which manages the Sandia National Laboratories for the U.S. Department of Energy, and our equity interest in the U.K. Atomic Weapons Establishment joint venture were transferred from our former Electronic Systems business segment to our Space Systems business segment.

The amounts, discussion, and presentation of our business segments reflect this reorganization for all years presented in this Annual Report on Form 10-K. For more information concerning our segment presentation, including comparative

segment net sales, operating profit, and related financial information for 2012, 2011, and 2010, see “Business Segment Results of Operations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 3 – Information on Business Segments” of our consolidated financial statements.

In 2012, our Aeronautics business segment generated net sales of $15.0 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. In 2012, U.S. Government customers accounted for 78% and international customers accounted for 22% of Aeronautics’ net sales. Net sales from Aeronautics’ combat aircraft products and services represented 21% of our total consolidated net sales in 2012 and 20% of our total consolidated net sales in each of 2011 and 2010.

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’ major programs include:

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

The F-35 program is the largest in our corporation generating 14% of our total consolidated net sales, as well as 45% of Aeronautics’ net sales in 2012. The F-35 program consists of multiple contracts. The development contract is being performed concurrently with the low-rate initial production (LRIP) contracts. Concurrent performance of development and production contracts is used for complex programs to test airplanes, shorten the time to field systems, and achieve overall cost savings. We expect the development portion of the F-35 program will be substantially complete in 2017, with less significant efforts to continue into 2019. Production of the aircraft is expected to continue for many years given the U.S. Government’s current inventory objective of 2,443 aircraft for the Air Force, Marine and Navy variants of the aircraft, commitments from our eight international partners and two international customers, as well as expressions of interest from other countries. For additional information on the F-35 program, see “Status of F-35 Program” and “Industry Considerations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Although production and deliveries of F-22 aircraft were completed in 2012, Aeronautics continues to provide on-going modernization and sustainment activities for the U.S. Air Force’s F-22 aircraft fleet. The modernization program comprises upgrading existing systems requirements, developing new systems requirements, and adding capabilities and enhancing the performance of the weapon systems. The sustainment program consists of sustaining the weapon systems of the F-22 fleet at all operational bases, including training systems, customer support, integrated support planning, supply chain management, aircraft modifications and heavy maintenance, sustained engineering, support products, and systems engineering.

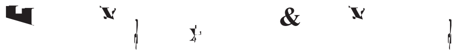
Currently, Aeronautics produces F-16 aircraft for international customers. Aeronautics also provides service-life extension, modernization, and other upgrade programs for our customers’ F-16 aircraft. In 2012, we were awarded a contract to upgrade 145 of Taiwan’s F-16 aircraft.

Aeronautics produces and provides support and sustainment services for the C-130J Super Hercules, as well as upgrades and support services for the legacy C-130 Hercules worldwide fleet. We delivered 34 C-130J aircraft in 2012, including eight to international customers.

Aeronautics also provides support services for the existing U.S. Air Force C-5A/B/C/M Galaxy fleet and a modernization program to convert 49 Galaxy aircraft to the C-5M Super Galaxy configuration. The modernization effort includes avionics upgrades comprised of a new cockpit with a digital, all-weather flight control system and autopilot, a new communications suite, flat-panel displays, and enhanced navigation and safety equipment; as well as installing new engines that will produce more thrust, enabling a shorter takeoff, increased climb rate, an increased cargo load, and longer range. We delivered four C-5M aircraft in 2012.

In addition to the above aircraft programs, Aeronautics is involved in advanced development programs incorporating innovative design and rapid prototype applications. Our Advanced Development Programs (ADP) organization, also known as the Skunk Works®, is focused on future systems, including unmanned aerial systems and next generation capabilities for advanced strike, intelligence, surveillance, reconnaissance, situational awareness, and air mobility. We continue to explore

technology advancement and insertion in our existing aircraft. We also are involved in numerous network-enabled activities that allow separate systems to work together to increase effectiveness, and continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design, development, and production.



In 2012, our IS&GS business segment generated net sales of $8.8 billion, which represented 19% of our total consolidated net sales. IS&GS' customers include the various government agencies of the U.S. and allied countries around the world and military services, as well as commercial and other customers. In 2012, U.S. Government customers accounted for 95%, international customers accounted for 4%, and U.S. commercial and other customers accounted for 1% of IS&GS' net sales. IS&GS has been impacted by the continuing downturn in the federal information technology budgets and the impact of the continuing resolution that was effective on October 1, 2012, the start of the U.S. Government's fiscal year.

IS&GS provides management services, integrated information technology solutions, and advanced technology systems and expertise across a broad spectrum of applications for civil, defense, intelligence, and other government customers. IS&GS supports the needs of customers in cyber-security, health care, energy and environmental protection management, transportation, space exploration, human capital planning, financial services, data protection and sharing, and biometrics. IS&GS provides network-enabled situational 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 is also responsible for various classified systems and services in support of vital national security systems. While IS&GS has a portfolio of many smaller contracts as compared to our other business segments, this business segment's major programs include:

- The Command, 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 manages sites and equipment to enable universities, research institutions, and federal agencies to conduct scientific research in the Antarctic.

In 2012, our MFC business segment generated net sales of $7.5 billion, which represented 16% of our total consolidated net sales. MFC's customers include the military services, principally the U.S. Army, and various government agencies of the U.S. and allied countries, as well as commercial and other customers. In 2012, U.S. Government customers accounted for 70% and international customers accounted for 30% of MFC's net sales.

MFC provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; fire control systems; mission operations support, readiness, engineering support, and integration services; logistics and other technical services; and manned and unmanned ground vehicles. MFC's major programs include:

- 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 and eliminate incoming airborne threats using kinetic energy. 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 Multiple Launch Rocket System (MLRS), Hellfire, Javelin, 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 on rotary and fixed-wing aircraft, which is produced for the U.S. Army, Navy, Marine Corps, and international customers. Javelin is a shoulder-fired anti-armor rocket system, which is produced for the U.S. Army, Marine Corps, and international customers. JASSM is an air-to-ground missile launched from fixed-wing aircraft, which is produced for the U.S. Air Force and international customers.
- The Apache, Sniper®, and Low Altitude Navigation and Targeting Infrared for Night (LANTIRN®) fire control systems programs. The Apache fire control system provides weapons targeting capability for the Apache

helicopter for the U.S. Army and international customers. Sniper® is a targeting system for fixed-wing aircraft, and LANTIRN® is a combined navigation and targeting system for fixed-wing aircraft. Both Sniper® and LANTIRN® are produced for the U.S. Air Force and international customers.

- The Orion Multi-Purpose Crew Vehicle (Orion) program, an advanced crew capsule for the National Aeronautics and Space Administration (NASA) utilizing new technology for human exploration beyond low earth orbit that replaces the Space Shuttle.

Operating results for our Space Systems business segment include our equity interests in United Launch Alliance, which provides expendable launch services for the U.S. Government, United Space Alliance, which provided processing activities for the Space Shuttle program and is winding down following the completion of the last Space Shuttle mission in 2011, and a

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.

Our business is heavily regulated. We contract 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 Services, Transportation, and Energy, the U.S. Postal Service, the Social Security Administration, the Federal Aviation Administration, NASA, and the Environmental Protection Agency. Similar government authorities exist in other countries and regulate our international efforts.

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

- require certification and disclosure of all cost or pricing data in connection with certain types of contract negotiations;
- impose specific and unique cost accounting practices that may differ from U.S. generally accepted accounting principles;
- impose acquisition regulations, which may change or be replaced over time, that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts;
- restrict the use and dissemination of information classified for national security purposes and the export of certain products, services, and technical data; and
- require the review and approval of contractor business systems, defined in the regulations as: (i) Accounting; (ii) Estimating; (iii) Earned Value Management Systems (EVMS, for managing cost and schedule performance on certain complex programs); (iv) Purchasing; (v) Material Management and Accounting System (MMAS, for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material); and (vi) Property Management systems.

For more information regarding government contracting laws and regulations, see Item 1A - Risk Factors as well as "Industry Considerations" and "Critical Accounting Policies – Contract Accounting / Sales Recognition" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A portion of our business is classified by the U.S. Government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements. The business risks associated with classified programs historically have not differed materially from those of our other U.S. Government programs. The internal controls addressing the financial reporting of classified programs are consistent with the internal control practices for non-classified contracts.

At December 31, 2012, our backlog was $82.3 billion compared with $80.7 billion at December 31, 2011. Backlog is converted into sales in future periods as work is performed or deliveries are made. Approximately $35.0 billion, or 43%, of our total 2012 year-end backlog is expected to be converted into sales in 2013.

Our backlog includes both funded (unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer – Congress, in the case of U.S. Government agencies) and unfunded (firm orders for which funding has not been appropriated) amounts. We do not include unexercised options or potential indefinite-delivery, indefinite-quantity orders in our backlog. If any of our contracts were to be terminated, our backlog would be reduced by the expected value of the remaining terms of such contracts. Funded backlog was $54.8 billion at December 31, 2012, as compared to $55.1 billion at December 31, 2011. For backlog related to each of our business segments, see "Business Segment Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

We conduct research and development activities under customer-funded contracts and with our own independent research and development funds. Our independent research and development costs include basic research, applied research,

development, systems, and other concept formulation studies. Generally, these costs are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Costs we incur under customer-sponsored research and development programs pursuant to contracts are included in net sales and cost of sales. Under certain arrangements in which a customer shares in product development costs, our portion of the unreimbursed costs is expensed as incurred in cost of sales. Independent research and development costs charged to costs of sales were $616 million in 2012, $585 million in 2011, and $639 million in 2010. See "Research and development and similar costs" in "Note 1 – Significant Accounting Policies" of our consolidated financial statements.

At December 31, 2012, we had about 120,000 employees, approximately 95% of whom were located in the U.S. We have a continuing need for numerous skilled and professional personnel to meet contract schedules and obtain new and ongoing orders for our products. The majority of our employees possess a security clearance. The demand for workers with

The programs in which we participate must compete with other programs and policy imperatives for consideration during the budget and appropriation process. Concerns about increased deficit spending, along with continued economic challenges, continue to place pressure on U.S. and international customer budgets. While we believe that our programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense, and intelligence priorities, the affordability of our products and services, general economic conditions and developments, and other factors may affect a decision to fund or the level of funding for existing or proposed programs.

In some instances, these laws and regulations impose terms or rights that are different than those typically found in commercial 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 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 the case of termination for default, the U.S. Government

[illegible]

As a leader in defense and global security, we hav number of-434.9programs for whichty,Ttowe are the incumbent contractor. A substantial portion of-4282(our)-282(business)-286(is)-278(awarded)-278(through)-279(competitiv)-4288.1(bidding.)-279(multiple bids proposals. The competitiv 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, may encounter significant expenses, delays, contract modifications, or even loss of-4322(the)-423(contract)-429(if)-424(our)-422(competi must provide superior performance,advanced technology solutions, and servic at an affordable cost and with the agility that our customers require to satisfy their mission objectiv

[illegible]

In 2012, our sales to international customers accounted for 17% of-4327(our)-327(total)-332(consolidated)-3T5.1(net)-328(sales.)-331(As)-324

Our international business is conducted through foreign military sales (FMS) contracted through the U.S. Government or direct commercial sales (DCS) with international customers. In 2012, approximately half of-4382(our)-382(sales)-486(to)-382 customers are subject to U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, taxation, repatriation of-4302(earnings,)-407(exchang)-4404(controls,)-408.1(the) We frequently team with international subcontractors and suppliers who are also exposed to similar risks. While hav stringent policies in to with suchty297(laws)-29.9ind regulations, failure by us, our employees, or working our behalf to with these laws and regulations could result in administrativ civil, or liabilities, including suspension or debarment from government contracts or suspension of our export privileges, whichty381(could)-383(hav)-4382(a documented in local language and, potentially subject to in translation, and frequently hav terms less favorable to us than FAR. Export and import, tax, and currency risk may also be increased for DCS transactions.

Our international business is highly sensitiv to chang in regulations, political environments, or security risks may affect our ability to conduct business in foreign markets, including those regarding investment, procurement, taxation, and repatriation of-4347(earnings.)-452.1(Our)-445(international)-460.1(business)-351(may)-448(also)-449(be)-446(impacted)-454(by)- government budgets and may be further impacted by global economic conditions and fluctuations in foreign currency exchang rates. of-4262(military)-273(products)-266(are)-264(also)-259(affected)-265(by)-255(defense)-261(budgets)-259(policy.

In international sales, we face substantial competition from both domestic manufacturers and foreign manufacturers whose governments sometimes provide researchty349(and)-341(development)-349.1(assistance,)-351.1(marketing)-350(subsidies,)

In conjunction with defense procurements, some international customers require contractors to provide additional incentives or to comply with industrial cooperation regulations, including entering into industrial cooperation agreements, sometimes referred to as offset agreements. Offset agreements may require in-country purchases, technology transfers, local manufacturing support, and financial support projects as an incentive, or as a condition to a contract award. In some

The failure to perform to customer expectations and contract requirements may result in reduced fees or losses 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.

The U.S. Government is currently pursuing and implementing policies that could negatively impact our profitability. Changes in procurement policy favoring more incentive-based fee arrangements, different award fee criteria, or government contract negotiation offers that indicate what our costs should be may affect the predictability of our profit rates. Our

measurement and period assignment of the pension cost allocable to government contracts with the PPA (CAS Harmonization). The cost impact of CAS Harmonization will be phased in beginning in 2013 with the goal of better aligning the CAS cost and ERISA funding requirements being fully achieved in 2017.

For more information on how these factors could impact earnings, financial position, cash flow and stockholders' equity, see "Critical Accounting Policies – Postretirement Benefit Plans" in Management's Discussion and Analysis of Financial Conditions and Results of Operations and "Note 9 – Postretirement Plans" of our consolidated financial statements.

In pursuing our business strategy, we routinely conduct discussions, evaluate targets, and enter into agreements regarding possible acquisitions, divestitures, joint ventures, and equity investments. We seek to identify acquisition or investment opportunities that will expand or complement our existing products and services, or customer base, at attractive valuations. We often compete with others for the same opportunities. To be successful, we must conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete and close complex transactions, and manage post-closing matters (e.g., integrate acquired companies and employees and realize anticipated operating synergies) efficiently and effectively. Acquisition, divestiture, joint venture, and investment transactions often require substantial management resources and have the potential to divert our attention from our existing business. Unidentified pre-closing liabilities could affect our future financial results.

Joint ventures or equity investments operate under shared control with other parties. Under the equity method of accounting for nonconsolidated joint ventures and investments, we recognize our share of the operating results of these ventures in our results of operations. Our operating results may be affected by the performance of businesses over which we do not exercise control. The most significant impact of our equity investments is in our Space Systems business segment where approximately 24% of its 2012 operating profit was derived from its equity investments in three joint ventures (see "Space Systems" above). Management closely monitors the results of operations and cash flows generated by these
(.tales5420(oorybrol)-482(,)]TJ-1.8s (ees54aser(CASunt or equityven-39e(other3)ranttackenera.our ius8.1(by552(di3(op)-365((opha98.

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

We also must manage leadership development and succession planning throughout our business and have processes in place for management transition, which was critical during our recent executive management changes. To the extent that we are unable to attract, develop, retain, and protect leadership talent successfully, we could experience business disruptions and impair our ability to achieve business objectives.

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

[illegible]

The accounting for some of our most significant activities is based on judgments and estimates, which are complex and subject to many variables. For example, accounting for sales using the percentage-of-completion method requires that we assess risks and make assumptions regarding schedule, cost, technical, and performance issues for each of our thousands of contracts, many of which are long-term in nature. Another example is the $10.4 billion of goodwill assets recorded on our Balance Sheet as of December 31, 2012 from previous acquisitions over time, which represent greater than 25% of our total assets, and are subject to annual impairment testing. If we experience changes or factors arise that negatively affect the expected cash flows of a reporting unit, we may be required to write off all or a portion of the related goodwill assets.

Changes in U.S. or foreign tax laws, including possibly with retroactive effect, and audits by tax authorities could result in unanticipated increases in our tax expense and affect profitability and cash flows. For example, recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of the related tax legislation, with a corresponding material, one-time increase to income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Actual financial results could differ from our judgments and estimates. Refer to "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, and "Note 1 – Significant Accounting Policies" of our consolidated financial statements for a complete discussion of our significant accounting policies and use of estimates.

[illegible] 1[illegible]. [illegible]

None.

[illegible] 2. [illegible]

At December 31, 2012, we operated in 523 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 29.0 million square feet, and leased space at 478 locations aggregating approximately 23.7 million square feet. Consistent with our cost reduction initiatives, we reduced our leased space by approximately 1.5 million square feet during 2012. We also manage or occupy various government-owned facilities under leases and various other arrangements. The U.S. Government also furnishes equipment that we use in some of our businesses.

At December 31, 2012, our business segments occupied facilities at the following major locations:

- *[illegible]* – Palmdale, California; Marietta, Georgia; Greenville, South Carolina; and Fort Worth and San Antonio, Texas.
- *[illegible] & [illegible]* – Goodyear, Arizona; Sunnyvale, California; Colorado Springs and Denver, Colorado; Gaithersburg and Rockville, Maryland and other locations within the Washington, D.C. metropolitan area; Valley Forge, Pennsylvania; and Houston, Texas.
- *[illegible]* – Camden, Arkansas; Orlando, Florida; Lexington, Kentucky; and Grand Prairie, Texas.
- *[illegible]* – Orlando, Florida; Baltimore, Maryland; Moorestown/Mt. Laurel, New Jersey; Owego and Syracuse, New York; Akron, Ohio; and Manassas, Virginia.
- *[illegible]* – Huntsville, Alabama; Sunnyvale, California; Denver, Colorado; Albuquerque, New Mexico; and Newtown, Pennsylvania.
- *[illegible]* – Lakeland, Florida and Bethesda, Maryland.

[illegible]

At January 31, 2013, we had 34,400 holders of record of our common stock, par value $1 per share. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol LMT. Information concerning the stock prices based on intra-day trading prices as reported on the NYSE composite transaction tape and dividends paid during the past two years is as follows:

	[illegible]		[illegible]	
Quarter	**2012**	**2011**	**2012**	**2011**
First	**$1.00**	$ .75	**$ 1.01 $ .0**	$82.43 – $69.62
Second	**1.00**	.75	**2.2 0.1**	81.92 – 75.10
Third	**1.00**	.75	**.1**	82.23 – 66.36
Fourth	**1.1**	1.00		

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2012.

				(in millions)
October 1, 2012 – October 28, 2012	842,445	$93.38	842,445	$2,522
October 29, 2012 – November 25, 2012	872,973	90.86	872,973	2,443
November 26, 2012 – December 31, 2012	1,395,288	92.02	1,395,288	2,315
Total	3,110,706	$92.07	3,110,706	$2,315

(a) We repurchased a total of 3.1 million shares of our common$286 during thequarter endedDecember 31, under a share repurchase program that we announced inOctober

(b)

[illegible]

[illegible]	2012	2011	2010	200[illegible]	200[illegible]
[illegible]					
Net sales	$ [illegible]	$46,499	$45,671	$43,867	$41,212
Operating profit [a]	[illegible]	4,020	4,105	4,477	4,829
Net earnings from continuing operations [a][b]	[illegible]	2,667	2,614	2,967	3,127
Net earnings [c]	[illegible]	2,655	2,878	2,973	3,185
[illegible]					
Net earnings from continuing operations					
Basic [a]	$ [illegible]	$ 7.94	$ 7.18	$ 7.71	$ 7.82
Diluted [a]	[illegible]	7.85	7.10	7.63	7.64
Net earnings					
Basic [c]	[illegible]	7.90	7.90	7.73	7.97
Diluted [c]	[illegible]	7.81	7.81	7.64	7.78
[illegible]	$ [illegible]	$ 3.25	$ 2.64	$ 2.34	$ 1.83
[illegible]					
Cash, cash equivalents and short-term investments [d]	$ [illegible]	$ 3,582	$ 2,777	$ 2,737	$ 2,229
Total current assets	[illegible]	14,094	12,893	12,529	10,736
Goodwill	[illegible]	10,148	9,605	9,948	9,526
Total assets [e]	[illegible]	37,908	35,113	35,167	33,495
Total current liabilities	[illegible]	12,130	11,401	10,910	10,702
Long-term debt, net [d]	[illegible]	6,460	5,019	5,052	3,563
Total liabilities [e]	[illegible]	36,907	31,616	31,201	30,742
Stockholders' equity [e]	[illegible]	1,001	3,497	3,966	2,753
[illegible]	[illegible]	321	346	373	393
[illegible]					
Net cash provided by operating activities [f]	$ [illegible]	$ 4,253	$ 3,801	$ 3,487	$ 4,724
Net cash used for investing activities	(1,222)	(813)	(573)	(1,832)	(1,210)
Net cash used for financing activities	[illegible]	(2,119)	(3,358)	(1,432)	(3,994)
[illegible]	$ [illegible]	$80,700	$78,400	$77,300	$80,200

(a) Our operating profit and net earnings from continuing operations included severance charges of $48 million ($31 million or $.09 per share, after tax) in 2012 (Note 13); $136 million ($88 million or $.26 per share, after tax) in 2011 (Note 13); charges for the Voluntary Executive Separation Program and facilities consolidation totaling $220 million ($143 million or $.38 per share, after tax) in 2010 (Note 13); and non-cash FAS/CAS pension adjustment of $(830) million, $(922) million, $(454) million, $(456) million, and $128 million in 2012, 2011, 2010, 2009, and 2008. Earnings per common share benefited from the significant number of shares repurchased under our share repurchase program (Note 10).

(b) Our net earnings from continuing operations included an $89 million reduction in income tax expense in 2011 through the elimination of liabilities for unrecognized tax benefits; tax expense of $96 million in 2010 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; and a $69 million income tax benefit in 2009 for the resolution of certain tax matters (Note 7).

(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) in 2010 on the sale of Enterprise Integration Group, and $73 million ($.20 per share) of benefits in 2010 for certain adjustments related to Pacific Architects and Engineers in 2010 (Note 14).

(d) The decrease in our cash from 2011 to 2012 primarily was due to an increase of $1.4 billion in contributions to our qualified defined benefit pension plans during 2012. 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 8). 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 2011 to 2012 and from 2010 to 2011 primarily was due to the annual remeasurement of the funded status of our postretirement benefit plans at December 31, 2012 and 2011 (Note 9).

(f) The decrease in our net cash provided by operating activities from 2011 to 2012 primarily was due to changes in working capital of $1.7 billion and increased pension contributions of $1.1 billion, net of CAS recoveries. See "Liquidity and Cash Flows" in Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

Business Overview

Sequestration likely would result in significant rescheduling or termination activity with our supplier base. Such activity likely would result in claims from our suppliers, which may include both the amount established in any settlement agreements, the costs of evaluating the supplier settlement proposals, and the costs of negotiating settlement agreements. We expect that these costs would be recovered from our customers.

Lockheed Martin is committed to the fair treatment of its employees and compliance with law. Accordingly, if sequestration or other budget cuts intended to avoid sequestration occur, we will provide affected employees the notice

As with the DoD, all other departments and agencies were impacted by the Budget Act. The result would be that budgets for GFY 2013 and beyond will be reduced further below the GFY 2012 budget. Should sequester go into effect on March 1, 2013, our non-DoD customers will also be significantly affected as the across-the-board reductions will also be applied to their available GFY 2013 discretionary funds. Our businesses with smaller, short-term contracts that work with our non-DoD

In pursuing our business strategies, we have also divested certain businesses over the past three years. Recent divestitures consisted of Savi Technology, Inc. (Savi) in 2012, Pacific Architects and Engineers, Inc. (PAE) in 2011, and Enterprise Integration Group (EIG) in 2010. For additional information, see “Note 14 – Acquisitions and Divestitures” of our consolidated financial statements.

Consolidated Results of Operations

Since our operating cycle is long-term and involves many types of contracts for the design, development, and manufacturing of products and related activities with varying 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 years should be viewed in this context. All per share amounts cited in these discussions are presented on a “per diluted share” basis, unless otherwise noted. Our consolidated results of operations were as follows (in millions, except per share data):

	2012	2011	2010
[illegible]			
Net sales	$,1 2	$ 46,499	$ 45,671
Cost of sales [a]	(2)	(42,755)	(41,827)
Other income, net	2	276	261
Operating profit [a]	,	4,020	4,105
Interest expense	( )	(354)	(345)
Other non-operating income (expense), net [a]	21	(35)	18
Income tax expense	(1, 2)	(964)	(1,164)
Net earnings from continuing operations	2,	2,667	2,614
Net (loss) earnings from discontinued operations		(12)	264
Net earnings	$ 2,	$ 2,655	$ 2,878
[illegible] ( ) [illegible]			
Continuing operations	$.	$ 7.85	$ 7.10
Discontinued operations		(.04)	.71
Total	$.	$ 7.81	$ 7.81

[a] In the fourth quarter of 2012, gains and losses on investments used to fund our deferred compensation plan liabilities were reclassified from other non-operating income (expense), net to other unallocated costs within cost of sales for all years presented on our Statements of Earnings in order to align the classification of changes in the market value of investments held for the plan with changes in the value of the corresponding plan liabilities. The amounts in the above table and all prior year amounts included in Management’s Discussion and Analysis of Financial Condition and Results of Operations reflect, as appropriate, this reclassification. Net gains on these investments in 2012, 2011, and 2010 were $67 million, $40 million, and $56 million.

The following provides an overview of our consolidated results of operations. Product sales are predominantly generated

[illegible]

Our product sales represent about 80% of our net sales for both 2012 and 2011. Product sales increased $892 million, or 2% in 2012 compared to 2011 due to production volume and deliveries, as well as higher risk retirements on certain programs. Product sales increased about $555 million at Aeronautics (e.g., F-35 LRIP contracts, F-16 deliveries); about $510 million at MST (e.g., ship and aviation system programs); about $225 million at Space Systems (e.g., commercial satellites, Orion Multi-Purpose Crew Vehicle (Orion) program); and about $100 million at MFC (e.g., tactical missile programs and air and missile defense programs). These increases partially were offset by lower product sales of about $495 million at IS&GS (e.g., Joint Tactical Radio System (JTRS), U.K. Census).

Our product sales represent about 80% of our net sales for both 2011 and 2010. Product sales increased $545 million, or 1%, in 2011 compared to 2010 due to production volume and deliveries, as well as higher risk retirements on certain programs. Product sales increased about $1.2 billion at Aeronautics (e.g., F-35 LRIP contracts, C-130 programs) and about $320 million at MFC (e.g., air and missile defense programs). These increases partially were offset by lower product sales of about $700 million at IS&GS (e.g., Decennial Response Integration System (DRIS) program that supported the 2010 U.S. census, JTRS); about $260 million at MST (e.g., ship and aviation system programs); and about $60 million at Space Systems (e.g., Orion program and the National Aeronautics and Space Administration (NASA) External Tank program).

[illegible]

Our services sales represent about 20% of our net sales for 2012 and 2011. Our services sales decreased $209 million, or 2%, during 2012 compared to 2011. Services sales at MFC decreased about $105 million primarily due to lower volume and risk retirements on various services programs. Services sales at MST decreased about $60 million primarily due to lower volume on various training services programs. Services sales at IS&GS decreased about $40 million primarily due to the substantial completion of the Outsourcing Desktop Initiative for NASA (ODIN) during 2011 and lower volume on the Hanford Mission Support (Hanford) contract, partially offset by higher net sales from QTC, which was acquired in the fourth quarter of 2011.

Our services sales represent about 20% of our net sales for 2011 and 2010. Our services sales increased $283 million, or 3%, during 2011 compared to 2010. The increase in services sales was attributable to higher services sales at both our MFC and IS&GS business segments. Services sales at MFC increased about $215 million primarily due to growth on the Special Operations Forces Contractor Logistics Support Services (SOF CLSS) program, partially offset by decreased volume on various services programs. Services sales at IS&GS increased about $155 million due to activities on a number of smaller contracts.

C[illegible]

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 monitor the nature and amount of costs at the contract level, which form the basis for estimating our total costs at completion of the contract. Our consolidated cost of sales were as follows (in millions):

	2012	2011	2010
[illegible]			
Cost of product sales	$ [illegible]	$32,968	$32,539
% of product sales	[illegible] %	89.3%	89.4%
Cost of services sales	[illegible]	8,514	8,382
% of services sales	[illegible] %	88.9%	90.2%
Severance and other charges	[illegible]	136	220
Other unallocated costs	1,0[illegible]0	1,137	686
Total	$ [illegible]	$42,755	$41,827

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 "Business Segment Results of Operations" section. We have not identified any developing trends in cost of sales that would have a material impact on our future operations.

The increase of $527 million, or 2%, in cost of product sales during 2012 compared to 2011 was attributable to higher cost of product sales at our Aeronautics, MST, and Space Systems business segments, partially offset by lower cost of product sales at our IS&GS and MFC business segments. Cost of product sales at Aeronautics increased by about $520 million primarily due to increased production volume on various programs, including F-35 LRIP contracts, and the impact of additional aircraft deliveries. Cost of product sales at MST increased by about $485 million primarily due to increased volume on ship and aviation system programs partially offset by reserves of about $55 million for contract cost matters on ship and aviation system programs recorded in the fourth quarter of 2011 (including the terminated presidential helicopter program). Cost of product sales at Space Systems increased by about $180 million primarily due to increased volume on commercial satellites programs, Orion, and various strategic and defensive missile programs. Cost of product sales at IS&GS decreased by about $530 million primarily due to the substantial completion of various programs during 2011

During 2011, we recorded severance charges related to various severance actions totaling $136 million, net of state tax

The effective income tax rate for 2012 included a reduction in the income tax benefit of the U.S. manufacturing deduction primarily caused by the $2.5 billion discretionary pension contributions in the fourth quarter of 2012, which increased income tax expense by $59 million ($.18 per share). As a result of the accelerated pension contributions in 2012, we expect to capture most of the reduced manufacturing deduction over the next two years through higher taxable income. The effective income tax rate for 2011 included a reduction to income tax expense of $89 million, or $.26 per diluted share, through the elimination of liabilities for unrecognized tax benefits as a result of the U.S. Congressional Joint Committee on Taxation completing its review of the Internal Revenue Service Appeals Division's resolution of adjustments related to tax years 2003 through 2008. The effective income tax rates for 2011 and 2010 also included the U.S. research and development (R&D) tax credit that expired on December 31, 2011.

On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012, which retroactively reinstates the R&D credit for two years, from January 1, 2012 through December 31, 2013. Since tax law changes are recognized in the period in which new legislation is enacted, the Corporation did not recognize the tax benefit of the R&D tax credit in 2012. The effective tax rate for 2010 was affected by the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which eliminated the tax deduction for company-paid retiree prescription drug expenses to the extent they are reimbursed under Medicare Part D, beginning in 2013. As a result, we recorded additional income tax expense of $96 million in 2010.

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports

Aeronautics business segment’s results of operations discussion. The increase in our consolidated net adjustments for 2011 as compared to 2010 primarily was due to an increase in profit booking rate adjustments at our IS&GS and Aeronautics business segments.

[illegible]

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’ major programs include the F-35 Lightning II Joint Strike Fighter, F-22 Raptor, F-16 Fighting Falcon, C-130 Hercules, and the C-5M Super Galaxy. Aeronautics’ operating results included the following (in millions):

	2012	2011	2010
Net sales	$1 [illegible]		

Aeronautics' operating profit for 2011 increased $132 million, or 9%, 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 development 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. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $90 million higher in 2011 compared to 2010.

Ba

Backlog decreased in 2012 compared to 2011 mainly due to lower orders on F-35 contracts and C-130 programs, partially offset by higher orders on F-16 programs. Backlog increased in 2011 compared to 2010 mainly due to higher orders on F-35 contracts, which partially were offset by higher sales volume on the C-130 programs.

We expect Aeronautics will experience a mid single digit percentage range decline in net sales for 2013 as compared to

2011 [illegible] 2010

MFC's net sales for 2011 increased $533 million, or 8%, compared to 2010. The increase was attributable to higher volume of about $420 million on air and missile defense programs (primarily PAC-3 and THAAD); and about $245 million from fire control systems programs primarily related to the SOF CLSS program, which began late in the third quarter of 2010. Partially offsetting these increases were lower net sales due to decreased volume of approximately $75 million primarily from various services programs and approximately $20 million from tactical missile programs (primarily MLRS and JASSM).

MFC's operating profit for 2011 increased $96 million, or 10%, compared to 2010. The increase was attributable to higher operating profit of about $60 million for air and missile defense programs (primarily PAC-3 and THAAD) as a result of increased volume and retirement of risks; and approximately $25 million for various services programs. Adjustments not related to volume, including net profit rate adjustments described above, were approximately $35 million higher in 2011 compared to 2010.

Ba[illegible]

Backlog increased in 2012 compared to 2011 mainly due to increased orders and lower sales on fire control systems programs (primarily LANTIRN® and Sniper®) and on various services programs, partially offset by lower orders and higher sales volume on tactical missiles programs. Backlog increased in 2011 compared to 2010 primarily due to increased orders on air and missile defense programs (primarily THAAD).

[illegible]

We expect MFC's net sales for 2013 will be comparable with 2012. We expect low double digit percentage growth in air and missile defense programs, offset by an expected decline in volume on logistics services programs. Operating profit and margin are expected to be comparable with 2012 results.

[illegible]

Our MST business segment provides surface ship and submarine combat systems; sea and land-based missile defense systems; radar systems; mission systems and sensors for rotary and fixed-wing aircraft; littoral combat ships; simulation and training services; unmanned technologies and platforms; ship systems integration; and military and commercial training systems. MST's major programs include Aegis, MK-41 Vertical Launching System (VLS), TPQ-53 Radar System, MH-60, LCS, and PTDS. MST's operating results included the following (in millions):

	2012	2011	2010
Net sales	$ [illegible]	$ 7,132	$ 7,443
Operating profit	[illegible]		

2011 a, 2010

MST’s net sales for 2011 decreased $311 million, or 4%, compared to 2010. The decrease was attributable to decreased volume of approximately $390 million for certain ship and aviation system programs (primarily Maritime Patrol Aircraft and PTDS) and approximately $75 million for training and logistics solutions programs. Partially offsetting these decreases was higher sales of about $165 million from production on the LCS program.

MST’s operating profit for 2011 decreased $68 million, or 10%, compared to 2010. The decrease was attributable to decreased operating profit of approximately $55 million as a result of increased reserves for contract cost matters on various ship and aviation system programs (including the terminated presidential helicopter program) and approximately $40 million

foreseeable future. We have financing resources available to fund potential cash outflows that are less predictable or more discretionary, as discussed in the “Capital Structure, Resources, and Other” section. 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 half of the sales we recorded in 2012, as we are authorized to bill as the costs are incurred or work is performed. By way of contrast, we generally do not bill our fixed-price contracts 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 amount of performance-based payments and the related milestones are encompassed in the negotiation of each contract. Such payments may precede our incurrence of costs related to our contract performance, thereby increasing our cash flows.

The U.S. Government has indicated that it would consider progress payments as the baseline for negotiating payment terms on fixed-price contracts, rather than performance-based payments. In contrast to negotiated performance-based payment terms, progress payment provisions correspond to a percentaga

inventories. Additionally, growth in accounts receivable, primarily due to the timing of finalizing contract negotiations on the F-35 LRIP contracts in the fourth quarter of 2012, which delayed our billings, as well as the impact of U.S. Government withholdings on the F-35 program reduced the cash provided by operating activities.

2011 a 2010

Net cash provided by operating activities increased by $452 million in 2011 as compared to 2010 primarily due to

Our long-term debt, net of unamortized discounts, amounted to $6.2 billion, and mainly is in the form of publicly-issued notes that bear interest at fixed rates. As of December 31, 2012, we were in compliance with all covenants contained in our debt and credit agreements.

In August 2011, we entered into a $1.5 billion revolving credit facility with a group of banks and terminated our existing $1.5 billion revolving credit facility that was to expire in June 2012. The credit facility expires August 2016, and we may request and the banks may grant, at their discretion, an increase to the credit facility by an additional amount up to $500 million. There were no borrowings outstanding under either facility through December 31, 2012. Borrowings under the 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 credit facility. Each bank's obligation to make loans under the credit facility is subject to, among other things, our compliance with various representations, warranties and covenants, including covenants limiting our ability and certain

Contractual Commitments and Off-Balance Sheet Arrangements

inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional

Contract Types

Cost-reimbursable contracts, which accounted for about 45%, 50%, and 60% of our total net sales in 2012, 2011, and 2010, 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.

Under fixed-price contracts, which accounted for about 50%, 45%, and 35% of our total net sales in 2012, 2011, and 2010, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit, or could incur a loss. Some fixed-price contracts have a performance-based component under which we may earn incentive payments or incur financial penalties based on our performance.

Under time-and-materials contracts, which accounted for about 5% of our total net sales in each of 2012, 2011, and 2010, we are paid a fixed hourly rate for each direct labor hour expended, and we are reimbursed for allowable material costs and allowable out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, or could incur a loss.

POC Method of Accounting

We record net sales and an estimated profit on a POC basis for cost-reimbursable and fixed-price contracts for product and services contracts with the U.S. Government.

The POC method for product contracts depends on the nature of the products provided under the contract. For example, for contracts that require us to perform a significant level of development effort in comparison to the total value of the contract and/or to deliver minimal quantities, sales are recorded using the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize sales and an 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 and incentive fees, 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 sales and costs (including estimating award and incentive fees and penalties related to performance), and making assumptions for schedule and technical issues. Due to the number of years it may take to complete many of our contracts and the scope and nature of the work required to be performed on those contracts, the estimation of total sales and cost at completion is complicated and subject to many variables.

Contract costs include material, labor, and subcontracting costs, as well as an allocation of indirect costs. Our estimates of costs at completion of the contract are based on assumptions we make for variables such as labor productivity and

Overview

Many of our employees are covered by defined benefit pension plans, and we provide certain health care and life insurance benefits to eligible retirees (collectively, postretirement benefit plans – see Note 9). In recent years, we have taken certain actions to mitigate the effect of our defined benefit pension plans on our financial results, including no longer offering

discount rate, including results from cash flow models, quoted rates from long-term bond indices, and changes in long-term bond rates over the past year. As part of our evaluation, we calculate the approximate average yields on corporate bonds rated AA or better that were selected to match our projected postretirement benefit plan cash flows.

We concluded that 8.00% was a reasonable estimate for the expected long-term rate of return on plan assets assumption at December 31, 2012, consistent with the rate used at December 31, 2011, and we used 8.50% at December 31, 2010. The long-term rate of return assumption represents the expected average rate of earnings on the funds invested, or to be invested,

contracts with the accelerated funding requirements of the PPA. The CAS Harmonization rules increase our CAS cost beginning in 2013. There is a transition period during which the cost impact of the new rules is phased in, with the full impact occurring in 2017. The incremental impact of CAS Harmonization in 2013 is a very modest CAS cost increase, and we expect much larger increases will occur successively in years 2014 through 2017.

Based upon current assumptions which may change, we expect that the increase in CAS costs caused by CAS Harmonization should result in increased earnings a few years from now, as our CAS costs would be in excess of the pension expense we record under GAAP. Accordingly, we expect our non-cash FAS/CAS pension adjustment, discussed further in the "Business Segment Results of Operations" section above, will soon increase earnings rather than decrease earnings as it has the past few years. In addition, we expect that our future CAS pension recoveries will soon be equal to or greater than our required pension contributions, which should increase our cash flow from operations.

We are a party to various agreements, proceedings, and potential proceedings for environmental cleanup issues, including matters at various sites where we have been designated a potentially responsible party (PRP) by the EPA or by a state agency. At December 31, 2012 and 2011, the total amount of liabilities recorded on our Balance Sheet for environmental matters was $950 million and $932 million. We have recorded receivables totaling $821 million and $808 million at December 31, 2012 and 2011 for the portion of environmental costs that are probable of future recovery in

discount rates utilized in the DCF analysis are based on our weighted average cost of capital (WACC), which takes into account the relative weights of each component of capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider the risk inherent in future cash flows of the respective reporting unit.

In the fourth quarter of 2012 we tested goodwill for impairment for each of our reporting units, including the reporting units of our former Electronic Systems business segment and the reporting units of our new MFC and MST business segments. The results of our 2012 annual impairment tests of goodwill indicated that the estimated fair values of our reporting units exceeded their carrying values and, as such, no impairment existed. The fair value of each reporting unit was premised on the assumption that sequestration does not occur as it remains difficult to determine when and how sequestration would be implemented; that the U.S. Government continues to support and fund our programs, which is consistent with the continuing resolution funding measure through March 27, 2013; and that Congress approves defense budget legislation for the U.S. Government's fiscal year 2013 at a level consistent with the President's proposed defense budget for the second half of the U.S. Government's fiscal year 2013. While the specific effects of sequestration cannot be determined, we expect that across-the-board reductions would cause our sales, profits, and cash flows to be lower than our current projections. Such circumstances could eventually result in an impairment of our goodwill. Certain of our businesses with smaller, short-term contracts are the most susceptible to the impacts of budget reductions, such as our IS&GS business segment and certain services businesses within our MFC and MST business segments. However, we currently do not believe that any of our reporting units are at risk of failing a goodwill impairment test in the near-term, as their fair values are significantly greater than their carrying values.

Impairment assessments inherently involve management judgments regarding assumptions about expected future sales, profits, and cash flows and the impact of market conditions on those assumptions. Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

We calculate our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, as well as from operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Future changes in tax law could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Recent proposals to lower the U.S. corporate income tax rate would require us to reduce our net deferred tax assets upon enactment of the related tax legislation, with a corresponding material, one-time increase to income tax expense, but our income tax expense and payments would be materially reduced in subsequent years. Our net deferred tax assets as of December 31, 2012 and 2011 were $6.1 billion and $5.7 billion, based on a 35% Federal statutory income tax rate, and primarily relate to our postretirement benefit plans. If the Federal statutory income tax rate had been lowered to 25% at December 31, 2012, our net deferred tax assets would have been reduced by $1.7 billion, and we would have recorded a corresponding, one time increase in income tax expense of $1.7 billion. The amount of net deferred

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

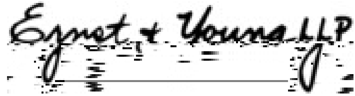
Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in [illegible] issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.



McLean, Virginia
February 28, 2013

[illegible]		[illegible] 1,	
	2012	**2011**	**2010**
[illegible]			
Products	[illegible]	$ 36,925	$ 36,380
Services	[illegible]	9,574	9,291
Total net sales	[illegible]	46,499	45,671
[illegible]			
Products	[illegible]	(32,968)	(32,539)
Services	[illegible]	(8,514)	(8,382)
Severance and other charges	[illegible]	(136)	(220)
Other unallocated costs	[illegible]	(1,137)	(686)
Total cost of sales	[illegible]	(42,755)	(41,827)
Gross profit	[illegible]	3,744	3,844
Other income, net	[illegible]	276	261
[illegible]	[illegible]	4,020	4,105
Interest expense	[illegible]	(354)	(345)
Other non-operating income (expense), net	**21**	(35)	18
Earnings from continuing operations before income taxes	[illegible]	3,631	3,778
Income tax expense	[illegible]	(964)	(1,164)
Net earnings from continuing operations	[illegible]	2,667	2,614
Net (loss) earnings from discontinued operations		(12)	264
[illegible]	[illegible]	$ 2,655	$ 2,878
[illegible]			
Basic			
Continuing operations	[illegible]	$ 7.94	$ 7.18
Discontinued operations		(.04)	.72
Basic earnings per common share	[illegible]	$ 7.90	$ 7.90
Diluted			
Continuing operations	[illegible]		

[illegible]

	[illegible]		[illegible] 1,
	2012	**2011**	**2010**
Net earnings	**$ 2,[illegible]**	$ 2,655	$2,878
Other comprehensive (loss) income, net of tax			
Postretirement benefit plans:			
Unrecognized amounts in 2012, 2011, and 2010, net of tax benefit of $1.8 billion, $1.6 billion, and $531 million	**([illegible],20[illegible])**	(2,858)	(983)
Recognition of previously deferred amounts in 2012, 2011, and 2010, net of tax expense of $469 million, $364 million, and $304 million	[illegible]	666	553
Other, net	**110**	(55)	15
Other comprehensive loss, net of tax	**(2,2[illegible])**	(2,247)	(415)
Comprehensive income	**$ [illegible]0[illegible]**	$ 408	$2,463

The accompanying notes are an integral part of these consolidated financial statements.

	1,	
	2012	**2011**
Current assets		
Cash and cash equivalents	**$ 1,**	$ 3,582
Receivables, net	**,**	6,064
Inventories, net	**2**	2,481
Deferred income taxes	**1,2**	1,339
Other current assets	**1,1**	628
Total current assets	**1 ,**	14,094
Property, plant, and equipment, net	**,**	4,611
Goodwill	**10, 0**	10,148
Deferred income taxes	**, 0**	4,388
Other noncurrent assets		4,667
Total -1.5TD[(Total)-254(cw0010TD(449A8.21Tf0-1.25(1Tf4.58m5TD)w0010TD(449A8.21Tf0-1.l851TD)w00e1eceivab54(-1.l		

	2012	2011	2010
[illegible]			
Net earnings	[illegible]	$ 2,655	$ 2,878
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	[illegible]	1,008	1,052
Stock-based compensation	[illegible]	157	168
Deferred income taxes	[illegible]	(2)	452
Severance and other charges	[illegible]	136	220
Reduction in tax expense from resolution of certain tax matters		(89)	(10)
Tax expense related to Medicare Part D reimbursement		—	96
Net adjustments related to discontinued operations		(16)	(257)
Changes in operating assets and liabilities:			
Receivables, net	[illegible]	(363)	3
Inventories, net	[illegible]	(74)	(207)
Accounts payable	[illegible]	609	(364)
Customer advances and amounts in excess of costs incurred	[illegible]	502	706
Postretirement benefit plans	[illegible]	(393)	(1,027)
Income taxes	[illegible]	304	70
Other, net	[illegible]	(181)	21
Net cash provided by operating activities	[illegible]	4,253	3,801
[illegible]			
Capital expenditures	[illegible]	(987)	(1,074)
Acquisitions of businesses / investments in affiliates	[illegible]	(649)	(148)
Net proceeds from sale of EIG		—	798
Net cash provided by (used for) short-term investment transactions		510	(171)
Other, net	[illegible]	313	22
Net cash used for investing activities	**(1,222)**	(813)	(573)
[illegible]			
Repurchases of common stock	[illegible]	(2,465)	(2,420)
Proceeds from stock option exercises	[illegible]	116	59
Dividends paid	[illegible]	(1,095)	(969)
Premium paid on debt exchange	[illegible]	—	—
Issuance of long-term debt, net of related costs	[illegible]		
	—)		

[illegible]

1

– 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.

– Our consolidated financial statements include the accounts of subsidiaries we control, and we consolidate all variable interest 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.

– 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. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, sales and cost recognition, postretirement benefit plans, environmental receivables and liabilities, evaluation of goodwill and other assets for impairment, income taxes including deferred tax assets, fair value measurements, and contingencies.

– Cash equivalents include highly liquid instruments with original maturities of 90 days or less.

– 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 for contracts that we account for on a percentage-of-completion (POC) basis using the cost-to-cost method to measure progress towards completion.

– 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 for contracts that we account for on a POC basis using units-of-delivery as the basis to measure progress toward completing the contract. We determine the costs of other product and supply inventories by the first-in first-out or average cost methods.

– We record property, plant, and equipment 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 $715 million in 2012, $712 million in 2011, and $749 million in 2010.

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.

– We capitalize certain costs associated with the development or purchase of internal-use software. The amounts capitalized are included in other noncurrent assets on our Balance Sheets and are amortized on a straight-line basis over the estimated useful life of the resulting software, which ranges from two to six years. As of December 31, 2012 and 2011, capitalized software totaled $809 million and $864 million, net of accumulated amortization of $1.5 billion and $1.3 billion. No amortization expense is recorded until the software is ready for its intended use. Amortization expense related to capitalized software was $217 million in 2012, $211 million in 2011, and $211 million in 2010.

– We test goodwill for impairment at least annually in the fourth quarter or more frequently upon the occurrence of certain events or significant changes in circumstances that indicate the carrying value of goodwill may not be recoverable. Such events or changes in circumstances may include a significant deterioration in overall economic conditions,

[illegible] – We record net sales and estimated profits for substantially all of our contracts using the POC method for cost-reimbursable and fixed-price contracts for products and services with the U.S. Government. Sales are recorded on all time-and-materials contracts as the work is performed based on agreed-upon hourly rates and allowable costs. We account for our services contracts with non-U.S. Government customers using the services method of accounting. We classify net sales as products or services on our Statements of Earnings based on the attributes of the underlying contracts.

[illegible] – The POC method for product contracts depends on the nature of the products provided under the contract. For example, for contracts that require us to perform a significant level of development effort in comparison to the total value of the contract and/or to deliver minimal quantities, sales are recorded using the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize sales and an 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 and incentive fees, 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

A For cost-reimbursable contracts for services to non-U.S. Government customers, we record net sales as services are performed, except for award and incentive fees. Award and incentive fees are recorded when

until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are attributable to the ineffective portion of the hedges, or of derivatives that are not considered to be highly effective hedges, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2012 and 2011 was $1.3 billion and $1.7 billion. The aggregate notional amount of our outstanding interest rate swaps at December 31, 2012 and 2011 was $503 million and $450 million. Derivative instruments did not have a material impact on net earnings and comprehensive income during 2012, 2011, and 2010. Substantially all

2 x x

The financial information in the following tables includes the results of Chandler/May, Inc. (Chandler/May); CDL Systems Ltd. (CDL); and Procerus Technologies, L.C. (Procerus) in the MST business segment information from their

Summary operating results for each of our business segments were as follows (in millions):

	2012	2011	2010
Aeronautics	$1 [illegible]		

[illegible] ([illegible])

Total assets, goodwill, and customer advances and amounts in excess of costs incurred for each of our business segments were as follows (in millions):

	2012	2011
[illegible] [a]		
Aeronautics	**$, 2**	$ 5,752
Information Systems & Global Solutions	**,**	5,838
Missiles and Fire Control	**,1**	4,096
Mission Systems and Training	**, [illegible]**	6,159
Space Systems	**, [illegible]**	3,346
Total business segment assets	**2 , 2**	25,191
Corporate assets [b]	**12,21**	12,717
Total assets	**$, [illegible]**	$37,908
[illegible]		
Aeronautics	**$ 1**	$ 146
Information Systems & Global Solutions	**, [illegible]**	3,749
Missiles and Fire Control	**2,**	2,481
Mission Systems and Training	**,2**	3,065
Space Systems	**[illegible] 0**	707
Total goodwill [c]	**$10, [illegible] 0**	$10,148
[illegible]		
Aeronautics	**$ 2, 2**	$ 2,443
Information Systems & Global Solutions	**2**	350
Missiles and Fire Control	**1[illegible]**	1,888
Mission Systems and Training	**1,**	1,326
Space Systems	**[illegible]**	392
Total customer advances and amounts in excess of costs incurred	**$, 0**	$ 6,399

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

(b) Corporate assets primarily include cash and cash equivalents, deferred income taxes, environmental receivables, and investments held in a separate trust.

(c) [illegible]

Inventories consisted of the following (in millions):

	2012	2011
Work-in-process, primarily related to long-term contracts and programs in progress	$ [illegible],000	

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):

	2012	2011	2010
Income tax expense at the U.S. federal statutory tax rate	**$1,[illegible]2**	$1,271	$1,322
Increase (decrease) in tax expense:			
U.S. manufacturing activity benefit	**(2[illegible])**	(106)	(110)
Tax deductible dividends	**([illegible])**	(62)	(56)
Research and development tax credit		(35)	(43)
IRS appeals and audit resolution		(89)	(10)

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

	2012	**2011**
Deferred tax assets related to:		
Accrued compensation and benefits	$ [illegible]	$ 843
Pensions	[illegible]	4,578
Other postretirement benefit obligations		487
Contract accounting methods		806

Our long-term debt consisted of the following (in millions):

	2012	2011
Notes with rates from 2.13% to 6.15%, due 2016 to 2042	**$, 2**	$5,308
Notes with rates from 7.00% to 7.75%, due 2013 to 2036	**1,0 0**	1,239
Other debt	[illegible]	19
Total long-term debt	**[illegible],200**	6,966
Less: unamortized discounts	**([illegible] 2)**	(506)
Total long-term debt, net of unamortized discounts	**, 0**	6,460
Less: current maturities of long-term debt	**(1 0)**	—
Total long-term debt, net	**$,1**	$6,460

In December 2012, we issued notes totaling $1.3 billion with a fixed interest rate of 4.07% maturing in December 2042 (the New Notes) in exchange for outstanding notes totaling $1.2 billion with interest rates ranging from 5.50% to 8.50% maturing in 2023 to 2040 (the Old Notes). In connection with the exchange, we paid a premium of $393 million, of which $225 million was paid in cash and $168 million was in the form of New Notes. This premium, in addition to $194 million in remaining unamortized discounts related to the Old Notes, will be amortized as additional interest expense over the term of the New Notes using the effective interest method. We may, at our option, redeem some or all of the New Notes at any time by paying the principal amount of notes being redeemed plus a make-whole premium and accrued and unpaid interest. Interest on the New Notes is payable on June 15 and December 15 of each year, beginning on June 15, 2013. The New Notes are unsecured senior obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness.

On September 9, 2011, we issued $2.0 billion of long-term notes in a registered public offering consisting of $500 million maturing in 2016 with a fixed interest rate of 2.13%, $900 million maturing in 2021 with a fixed interest rate of 3.35%, and $600 million maturing in 2041 with a fixed interest rate of 4.85%. We may, at our option, redeem some or all of the notes at any time by paying the principal amount of notes being redeemed plus a make-whole premium and accrued and unpaid interest. Interest on the notes is payable on March 15 and September 15 of each year, beginning on March 15, 2012. In October 2011, we used a portion of the proceeds to redeem all of our $500 million long-term notes maturing in 2013. In 2011, we repurchased $84 million of our long-term notes through open-market purchases. We paid premiums of $48 million in connection with the early extinguishments of debt, which were recognized in other non-operating income (expense), net.

In August 2011, we entered into a $1.5 billion revolving credit facility with a group of banks and terminated our existing $1.5 billion revolving credit facility that was to expire in June 2012. The credit facility expires August 2016, and we may request and the banks may grant, at their discretion, an increase to the credit facility by an additional amount up to $500 million. There were no borrowings outstanding under either facility through December 31, 2012. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on a Eurodollar rate or a Base Rate, as

The accumulated benefit obligation (ABO) for all qualified defined benefit pension plans was $40.4 billion and $35.7 billion at December 31, 2012 and 2011, of which $40.2 billion and $35.5 billion related to plans where the ABO was in excess of plan assets. The ABO represents benefits accrued without assuming future compensation increases to plan participants. Certain key information related to our qualified defined benefit pension plans as of December 31, 2012 and 2011 is as follows (in millions):

	2012	**2011**

We expect that approximately $1.6 billion, or $1.0 billion net of tax, of actuarial losses and prior service cost related to postretirement benefit plans included in accumulated other comprehensive loss at the end of 2012 to be recognized in net periodic benefit cost during 2013. Of this amount, $1.5 billion, or $963 million net of tax, primarily relates to actuarial losses associated with our qualified defined benefit plans and is included in our expected 2013 pension expense of $1.9 billion.

Actuarial Assumptions

The actuarial assumptions used to determine the benefit obligations at December 31 of each year, and to determine the net periodic benefit cost for each subsequent year, were as follows:

	[illegible]			[illegible]		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Discount rate	**.00%**	4.75%	5.50%	**[illegible]%**	4.50%	5.50%
Expected long-term rate of return on assets	**.00%**	8.00%	8.50%	**.00%**	8.00%	8.50%
Rate of increase in future compensation levels	**. 0%**	4.30%	4.40%			
Health care trend rate assumed for next year				**.00%**	9.50%	10.00%
Ultimate health care trend rate				**.00%**	5.00%	5.50%
Year that the ultimate health care trend rate is reached				**202**	2021	2021

The decrease in the discount rate from December 31, 2011 to December 31, 2012 and from December 31, 2010 to December 31, 2011 resulted in an increase in the projected benefit obligations of our qualified defined benefit pension plans of approximately $4.5 billion and $3.8 billion at December 31, 2012 and 2011.

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. That assumption is based on several factors including

– 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 (in millions) 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

– 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

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At December 31, 2012, 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 a separate trust. No preferred stock shares were issued and outstanding at December 31, 2012.

During 2012, 2011, and 2010, we repurchased 11.3 million, 31.8 million, and 33.0 million shares of our common stock for $1.0 billion, $2.4 billion, and $2.5 billion. We paid cash totaling $990 million for share repurchases during 2012, of which 0.2 million shares purchased for $18 million were settled and paid for in January 2013. We paid cash totaling $2.5 billion for share repurchases during 2011, which included $63 million for shares we repurchased in December 2010 but were settled and paid for in January 2011. Our share repurchase program provides for the repurchase of our common stock from time-to-time, up to a total authorized amount of $6.5 billion. 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. As of December 31, 2012, we had repurchased a total of 54.3 million shares of our common stock under the program for $4.2 billion, and had remaining authorization of $2.3 billion for future share repurchases.

As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the excess 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 $108 million and $1.8 billion recorded as a reduction of retained earnings in 2012 and 2011.

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During 2012, 2011, and 2010, we recorded non-cash compensation cost related to stock options and restricted stock units totaling $167 million, $157 million, and $168 million, which is included on our Statements of Earnings in other unallocated costs within cost of sales. The net impact to earnings for the respective years was $108 million, $101 million, and $109 million.

We had two stock-based compensation plans in place at December 31, 2012: 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 units (RSUs), performance stock units (PSUs), or other 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.

Under the Award Plan and the Prior Plan, the exercise price of options to purchase common stock may not be less than the fair market value of our stock on the date of grant. No award of stock options may become fully vested prior to the third anniversary of the grant, and no portion of a stock option grant may become vested in less than one year. The minimum vesting period for restricted stock or stock units payable in stock is three years. Award agreements may provide for shorter or pro-rated vesting periods or vesting following termination of employment in the case of death, disability, divestiture, retirement, change of control, or layoff. Neither the Award Plan nor the Prior Plan imposes any minimum vesting periods on other types of awards. The maximum term of a stock option or any other award is 10 years.

We generally recognize compensation cost for stock options ratably over the three-year vesting period. For stock options granted prior to 2011 to active employees that are retirement eligible on the date of grant or become retirement eligible

The following table pertains to stock options that were granted, vested, and exercised in 2012, 2011, and 2010 (in millions, except for weighted average grant-date fair value of stock options granted):

At December 31, 2012 and 2011, third-party guarantees totaled $816 million and $907 million, of which approximately 85% related to guarantees of the contractual performance of joint ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the 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, 2012, and that it will not be necessary to make payments under the guarantees. In determining our exposures, we evaluate the reputation, technical capabilities, and credit quality of our current and former joint venture partners.

In connection with our 50% ownership interest of United Launch Alliance, L.L.C. (ULA), we and The Boeing Company (Boeing) have each received distributions totaling $494 million (since ULA's formation in December 2006) which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to 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 $560 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 guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through December 31, 2012, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

Our 50% ownership share of ULA's net assets exceeded the book value of our investment by approximately $395 million, which we are recognizing as income ratably over 10 years through 2016. This yearly amortization and our share of ULA's net earnings are reported as equity in net earnings (losses) of equity investees in other income, net on our Statements of Earnings. Our investment in ULA totaled $572 million and $574 million at December 31, 2012 and 2011.

During 2012, we recorded charges related to certain severance actions totaling $48 million, net of state tax benefits, of which $25 million related to our Aeronautics business segment and $23 million related to the reorganization of our former Electronic Systems business segment (Note 3). These charges reduced our net earnings by $31 million ($.09 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. The severance actions at our Aeronautics business segment resulted from cost reduction initiatives, including the consolidation of selected program support activities among certain Aeronautics locations. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid through the first half of 2013.

During 2011, we recorded severance charges related to various severance actions totaling $136 million, net of state tax benefits, of which $49 million, $48 million, and $39 million related to our Aeronautics business segment, Space Systems business segment, and our IS&GS business segment and Corporate Headquarters. These charges reduced our net earnings by $88 million ($.26 per share) and consisted of severance costs associated with the elimination of certain positions through either voluntary or involuntary actions. 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 either transitioning out of development and into production or are ending. Upon separation, terminated employees received lump-sum severance payments based on years of service. During 2011, we made approximately half of the severance payments associated with these 2011 severance actions, and paid the remaining amounts in 2012.

During 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, $42 million at IS&GS, $17 million at MFC, $21 million at MST, and $41 million at Space Systems. The remaining $32 million was attributable to our Corporate Headquarters. Upon separation, lump-sum special payments were made.

In 2010, our MST 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 of $42 million, net of state tax benefits, which reduced our net earnings 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.

1 [illegible]

[illegible]

We used $304 million in 2012 for acquisition activities including the acquisitions of Chandler/May and CDL both in the fourth quarter of 2012, and Procerus in the first quarter of 2012, and each has been included within our MST business segment. These companies specialize in the design, development, manufacturing, and support of advanced unmanned systems. We used $649 million in 2011 for acquisition activities including the acquisitions of QTC, which provides outsourced medical evaluation services to the U.S. Government, and Sim-Industries, a commercial aviation simulation company, both in the fourth quarter of 2011. QTC has been included within our IS&GS business segment, and Sim-Industries has been included within our MST business segment. Acquisition activities in 2010 were not material.

We have accounted for the acquisitions of businesses under the acquisition method, which required us to measure all of the assets acquired and liabilities assumed at their acquisition-date fair values. Purchase allocations related to the 2012 and 2011 acquisitions above resulted in recording goodwill aggregating $197 million and $547 million, including $69 million and $113 million that will be amortized for tax purposes. Additionally, purchase allocations related to the 2011 acquisitions above resulted in recording $133 million of other intangible assets, primarily relating to the value of customer relationships and trade names we acquired.

[illegible]

Amounts related to discontinued operations in 2012 were not significant and, accordingly, were included in operating profit. Discontinued operations for 2011 include the operating results and other adjustments of Savi Technology, Inc. (Savi), a logistics business that was in our former Electronic Systems business segment sold in the third quarter of 2012, and Pacific Architects and Engineers, Inc. (PAE), a business formerly within our IS&GS business segment sold in the second quarter of 2011. Discontinued operations for 2010 include the operating results of Savi, PAE, and EIG, a business formerly within our IS&GS business segment, through the date of its sale in the fourth quarter of 2010.

As a result of our decisions to sell Savi and PAE, we recorded deferred tax assets to reflect the tax benefit that we expected to realize on the sale of those businesses because our tax bases were higher than our book bases. Accordingly, we recorded a $66 million deferred tax asset in 2011 related to Savi and a $182 million deferred tax asset in 2010 related to PAE. These amounts are included in “Other adjustments” in the table below, which also includes charges associated with Savi and PAE that were incurred in 2011 and a $109 million impairment charge related to PAE in 2010. The impairment charge, which was determined using a Level 3 valuation that was based on inputs and analysis used to estimate the expected

In the following table, we have combined the results of operations of Savi, PAE, and EIG, as the amounts for the

1 ( )

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in [illegible] issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lockheed Martin Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

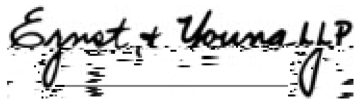
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lockheed Martin Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Lockheed Martin Corporation and our report dated February 28, 2013 expressed an unqualified opinion thereon.



McLean, Virginia
February 28, 2013

(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.

[illegible]

None.

10. ,

The information concerning directors required by Item 401 of Regulation S-K is included under the caption “Proposal 1 -

12.

The information required by this Item 12 is included under the heading “Security Ownership of Management and Certain Beneficial Owners” in the 2013 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

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, 2012.

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

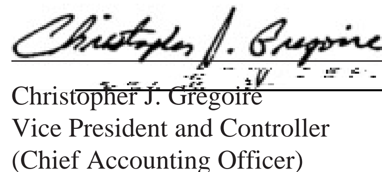
The following financial statements of Lockheed Martin Corporation and consolidated subsidiaries are included in Item 8 of this Form 10-K at the page numbers referenced below:

Consolidated Statements of Earnings – Years ended December 31, 2012, 2011, and 2010	55
Consolidated Statements of Comprehensive Income – Years ended December 31, 2012, 2011, and 2010	56
Consolidated Balance Sheets – At December 31, 2012 and 2011	57
Consolidated Statements of Cash Flows – Years ended December 31, 2012, 2011, and 2010	58
Consolidated Statements of Stockholders' Equity – Years ended December 31, 2012, 2011, and 2010	59
Notes to Consolidated Financial Statements	60

10.35	LTIP award agreement forms as approved on February 24, 2011 (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 25, 2011).
10.36	Amendment to Stock Option Award Agreement (Grant Date: January 31, 2011) (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2011).
10.37	Post-Retirement Consulting Agreement (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2011).
10.38	Form of Restricted Stock Unit Award Agreement, Form of Performance Stock Unit Award Agreement (2013-2015 performance period), and Form of Long-Term Incentive Performance Award Agreement (2013-2015 performance period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibits 10.3, 10.4 and 10.5, respectively, to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
10.39	Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).
10.40	Forms of Long-Term Incentive Performance Award Agreements (2012-2014 performance period), Forms of Stock Option Award Agreements and Forms of Restricted Stock Unit Award Agreements under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.39 of

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.

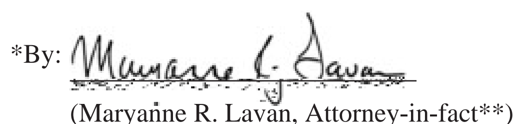
Date: February 28, 2013



Christopher J. Gregoire
Vice President and Controller
(Chief Accounting Officer)

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 capacities and on the dates indicated.

Signatures	***Title***	***Date***
/s/ Marillyn A. Hewson Marillyn A. Hewson	Chief Executive Officer, President, and Director	February 28, 2013
/s/ Bruce L. Tanner Bruce L. Tanner	Executive Vice President and Chief Financial Officer	February 28, 2013
/s/ Christopher J. Gregoire Christopher J. Gregoire	Vice President, Controller (Chief Accounting Officer)	February 28, 2013
/s/ Robert J. Stevens* Robert J. Stevens	Director	February 28, 2013
/s/ Nolan D. Archibald* Nolan D. Archibald	Director	February 28, 2013
/s/ Rosalind G. Brewer* Rosalind G. Brewer	Director	February 28, 2013
/s/ David B. Burritt* David B. Burritt	Director	February 28, 2013
/s/ James O. Ellis Jr.* James O. Ellis Jr.*	Director	February 28, 2013
/s/ Thomas J. Falk* Thomas J. Falk	Director	February 28, 2013
/s/ Gwendolyn S. King* Gwendolyn S. King	Director	February 28, 2013
/s/ James M. Loy* James M. Loy	Director	February 28, 2013
/s/ Douglas H. McCorkindale* Douglas H. McCorkindale	Director	February 28, 2013
/s/ Joseph W. Ralston* Joseph W. Ralston	Director	February 28, 2013
/s/ Anne Stevens* Anne Stevens	Director	February 28, 2013

*By:  February 28, 2013

(Maryanne R. Lavan, Attorney-in-fact**)

** By authority of Powers of Attorney filed with this Annual Report on Form 10-K.

1.1

I, Marillyn A. Hewson, 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

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

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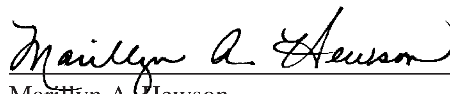
In connection with the Annual Report of Lockheed Martin Corporation (the Corporation) on Form 10-K for the period ended December 31, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Marillyn A. Hewson, Chief Executive Officer and President of the Corporation, and I, Bruce L. Tanner, Executive Vice President and Chief Financial Officer of the Corporation, each 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.



Marillyn A. Hewson
Chief Executive Officer and President

Bruce L. Tanner
Executive Vice President and Chief Financial Officer

Date: February 28, 2013

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 U.S. Securities and Exchange Commission or its staff upon request.

GENERAL INFORMATION

As of December 31, 2012, there were approximately 34,320 holders of record of Lockheed Martin common stock and 322,850,521 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)

2012 FORM 10-K

Our 2012 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 writing to:**

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

The CEO/CFO certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act are included as Exhibits 31.1 and 31.2 to our 2012 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, 2012.

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: 1-877-498-8861.