

LOCKHEED MARTIN

## FINANCIAL HIGHLIGHTS

In millions, except per share data	2016	2015	2014
Net Sales	<b>\$47,248</b>	\$40,536	\$39,946
Segment Operating Profit	<b>5,100</b>	4,978	5,116
Consolidated Operating Profit	<b>5,549</b>	4,712	5,012
Net Earnings From Continuing Operations	<b>3,753</b>	3,126	3,253
Net Earnings	<b>5,302</b>	3,605	3,614
Diluted Earnings Per Common Share			
Continuing Operations	<b>12.38</b>	9.93	10.09
Net Earnings	<b>17.49</b>	11.46	11.21
Cash Dividends Per Common Share	<b>6.77</b>	6.15	5.49
Average Diluted Common Shares Outstanding	<b>303</b>	315	322
Cash and Cash Equivalents	<b>\$ 1,837</b>	\$ 1,090	\$ 1,446
Total Assets	<b>47,806</b>	49,304	37,190
Total Debt, net	<b>14,282</b>	15,261	6,142
Total Equity	<b>1,606</b>	3,097	3,400
Common Shares Outstanding at Year-End	<b>289</b>	303	314
Net Cash Provided by Operating Activities	<b>\$ 5,189</b>	\$ 5,101	\$ 3,866

NOTE: For additional information regarding the amounts presented above see the Form 10-K portion of this Annual Report. A reconciliation of Segment Operating Profit to Consolidated Operating Profit is included on the page preceding the back cover of this Annual Report.

### On the Cover: The F-35 Lightning II

As the world's only 5th generation multi-variant, multi-role fighter, the F-35 Lightning II provides the U.S. Air Force, Marine Corps and Navy, along with at least 10 other countries, a qualitative advantage against the multitude of 21st century threats.

# DEAFENDING OUR CUSTOMERS:

2016 was an outstanding year for Lockheed Martin.

We continued to put our customers at the center of all that we do. We concentrated on their priorities. We recognized their cost pressures. And we worked to anticipate how their needs might evolve in the years to come.

The strong financial results in all four quarters of 2016  
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We continued to make progress toward our goals of 35 percent lower costs and 25 percent faster delivery on our modernized A2100 satellite platform, resulting in follow-on contracts for several important programs. We have also extended life on products built for our classified programs, which has provided customers with more flexibility to repurpose their funds.

*Integrating Strengths and Enhancing Synergies*

The successful integration of Sikorsky and the resulting teamwork have laid the groundwork to provide significant additional value for our customers.

As an example, we have made steady progress through the testing phase on the CH-53K King Stallion helicopter – the U.S. Marines' Heavy Lift Replacement program. We further demonstrated our enhanced synergies when we unveiled an armed Black Hawk helicopter.

Throughout 2016, the RMS b

To support the growing global demand for missile systems, we restarted our Tactical Missil

first of its 90 F-35As. In addition, Denmark selected the Lightning

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

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**Daniel F. Akerson**

Retired Vice Chairman  
The Carlyle Group

**Nolan D. Archibald**

Retired Chairman, President  
and Chief Executive Officer  
The Black & Decker Corporation

**Rosalind G. Brewer**

Retired President and  
Chief Executive Officer  
Sam's Club





**Lockheed Martin Corporation**

**PART I**

**ITEM 1. Business.**

**General**

## *Aeronautics*

In 2016, our Aeronautics business segment generated net sales of \$17.8 billion, which represented 38% of our total consolidated net sales. Aeronautics' customers include the military services and various other government agencies of the U.S. and other countries. In 2016, U.S. Government customers accounted for 66% and international customers accounted for 34% of Aeronautics' net sales. Net sales from Aeronautics' combat aircraft products and services represented 28% of our total consolidated net sales in both 2016 and 2015, and 26% in 2014.

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

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 Skunk Works<sup>®</sup>, 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 we continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design, development and production.

### *Missiles and Fire Control*

In 2016, our MFC business segment generated net sales of \$6.6 billion, which represented 14% 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 other countries, as well as commercial and other customers. In 2016, U.S. Government customers accounted for



## **Competition**

Our broad portfolio of products and services competes both domestically and internationally against products and services of other large aerospace and defense companies, as well as numerous smaller competitors. We often form teams with our competitors in efforts to provide our customers with the best mix of capabilities to address specific requirements. In some areas of our business, customer requirements are changing to encourage expanded competition and increasingly what would have previously been competed as a single large procurement is being broken into multiple smaller procurements. Principal factors of competition include the value of our products and services to the customer; technical and management capability; the ability to develop and implement complex, integrated system architectures; total cost of ownership; our

regulate our international efforts. Additionally, our commercial aircraft products are required to comply with U.S. and international regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety.

We must comply with, and are affected by, laws and regulations relating to the formation, administration and performance of U.S. Government and other governments' 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, the allocability of costs, and otherwise govern our right to reimbursement under certain U.S. Government and foreign contracts;
- require specific security controls to protect U.S. Government controlled unclassified information and 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 System; (ii) Estimating System; (iii) Earned Value Management System, for managing cost and schedule performance on certain complex programs; (iv) Purchasing System; (v) Material Management and Accounting System, for planning, controlling and accounting for the acquisition, use, issuing and disposition of material; and (vi) Property Management System.

The U.S. Government and other governments may terminate any of our government contracts and subcontracts either at its convenience or for default based on our performance. If a contract is terminated for convenience, we generally are protected by provisions covering reimbursement for costs incurred on the contract and profit on those costs. If a contract is terminated for default, we generally are entitled to payments for our work that has been accepted by the U.S. Government or other governments; however, the U.S. Government and other governments could make claims to reduce the contract value or recover its procurement costs and could assess other special penalties. For more information regarding the U.S. Government's and other governments' right to terminate our contracts, see Item 1A – Risk Factors. For more information regarding government contracting laws and regulations, see Item 1A – Risk Factors as well as “Critical Accounting Policies – Contract Accounting / Sales Recognition” in Management's Discussion and Analysis of Financial Condition and Results of Operations. For more information on the risks of doing work internationally, see Item 1A – Risk Factors. Additionally, the U.S. Government may also enter into unilateral contract actions, which they recently did on the F-35 program. This can affect our ability to negotiate mutually agreeable contract terms.

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

Our operations are subject to and affected by various federal, state, local and foreign environmental protection laws and regulations regarding the discharge of materials into the environment or otherwise regulating the protection of the environment. While the extent of our financial exposure cannot in all cases be reasonably estimated, the costs of environmental compliance have not had, and we do not expect that these costs will have, a material adverse effect on our earnings, financial position and cash flow, primarily because most of our environmental costs are allowable in establishing the price of our products and services under our contracts with the U.S. Government. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent that they are probable and estimable, see “Critical Accounting Policies – Environmental Matters” in Management's Discussion and Analysis of Financial Condition and Results of Operations and “Note 14 – Legal Proceedings, Commitments and Contingencies” included in our Notes to Consolidated Financial Statements. See also the discussion of environmental matters



Our backlog includes both funded (firm orders for our products and services for which funding has been both authorized and appropriated by the customer) and unfunded (firm orders for which funding has not been appropriated) amounts. We do not include unexercised options or potential orders under indefinite-delivery, indefinite-quantity agreements in our backlog. If any of our contracts with firm orders were to be terminated, our backlog would be reduced by the expected value of the unfilled orders of such contracts. Funded backlog was \$66.0 billion at December 31, 2016, as compared to \$67.6 billion at December 31, 2015. Funded backlog at December 31, 2015 excludes \$3.1 billion related to the IS&GS business, which we divested in 2016. 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.

### **Research and Development**

We conduct research and development (R&D) activities under customer-sponsored contracts and with our own independent R&D funds. Our independent R&D 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 R&D 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 R&D costs charged to cost of sales were \$988 million in 2016, \$817 million in 2015, and \$733 million in 2014. See “Research and development and similar costs” in “Note 1 – Significant Accounting Policies” included in our Notes to Consolidated Financial Statements.

### **Employees**



**We are subject to a number of procurement laws and regulations. Our business and our reputation could be adversely**

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

Other contracts in backlog are for the transition from development to production (e.g., LRIP contracts), which includes the challenge of starting and stabilizing a manufacturing production and test line while the final design is being validated. These generally are cost-reimbursable or fixed-price incentive-fee contracts. Under a fixed-price incentive-fee contract, the allowable costs incurred are eligible for reimbursement but are subject to a cost-share arrangement, which affects profitability. Generally, if our costs exceed the contract target cost or are not allowable under the applicable regulations, we may not be able to obtain reimbursement for all costs and may have our fees reduced or eliminated.

There are also contracts for production, as well as operations and maintenance of the delivered products, that have the challenge of achieving a stable production and delivery rate, while maintaining operability of the product after delivery.

effect of reduced U.S. Government budgets. To remain competitive, we consistently must maintain strong customer relationships and provide superior performance, advanced technology solutions and service at an affordable cost and with the agility that our customers require to satisfy their mission objectives.

A substantial portion of our business is awarded through competitive bidding. The U.S. Government increasingly has relied upon competitive contract award types, including indefinite-delivery, indefinite-quantity and other multi-award contracts, which have the potential to create pricing pressure and increase our cost by requiring that we submit multiple bids and proposals. In addition, multi-award contracts require that we make sustained efforts to obtain task orders under the contract. The competitive bidding process entails substantial costs and managerial time to prepare bids and proposals for









systems, cybersecurity, homeland security and training programs. In some but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through U.S. Government indemnifications under Public Law 85-804 or the Price-Anderson Act, qualification of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, contractual provisions or otherwise. We endeavor to obtain insurance coverage from established insurance carriers to cover these risks and liabilities. The amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities. Existing coverage may be





**ITEM 2. Properties.**

Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines or penalties being imposed upon us, suspension, proposed debarment, debarment from eligibility for future U.S. Government contracting, or suspension of export privileges. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. Government. U.S. Government investigations often take years to complete and many result in no adverse action against us. We also provide products and services to customers outside of the U.S., which are subject to U.S. and foreign laws and regulations and foreign procurement policies and practices. Our compliance with local regulations or applicable U.S. Government regulations also may be audited or investigated.

**ITEM 4. Mine Safety Disclosures.**

Not applicable.

**ITEM 4(a). Executive Officers of the Registrant.**

Our executive officers as of February 9, 2017 are listed below, with their ages on that date, positions and offices currently held, and principal occupation and business experience during at least the last five years. There were no family relationships among any of our executive officers and directors. All officers serve at the discretion of the Board of Directors.

**Richard F. Ambrose (age 58), Executive Vice President – Space Systems**

Mr. Ambrose has served as Executive Vice President of Space Systems since April 2013. He previously served as Vice President and Deputy, Space Systems from July 2012 to March 2013; and President, Information Systems & Global Solutions – Security from January 2011 to June 2012.

**Dale P. Bennett (age 60), Executive Vice President – Rotary and Mission Systems**

Mr. Bennett has served as Executive Vice President of Rotary and Mission Systems since December 2012. He previously served as President, Mission Systems & Sensors from August 2011 to December 2012.

**Orlando P. Carvalho (age 58), Executive Vice President – Aeronautics**

Mr. Carvalho has served as Executive Vice President of Aeronautics since March 2013. He previously served as Executive Vice President and General Manager, F-35 Program from March 2012 to March 2013; Vice President and Deputy, F-35 Program from August 2011 to March 2012.

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## PART II

### ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

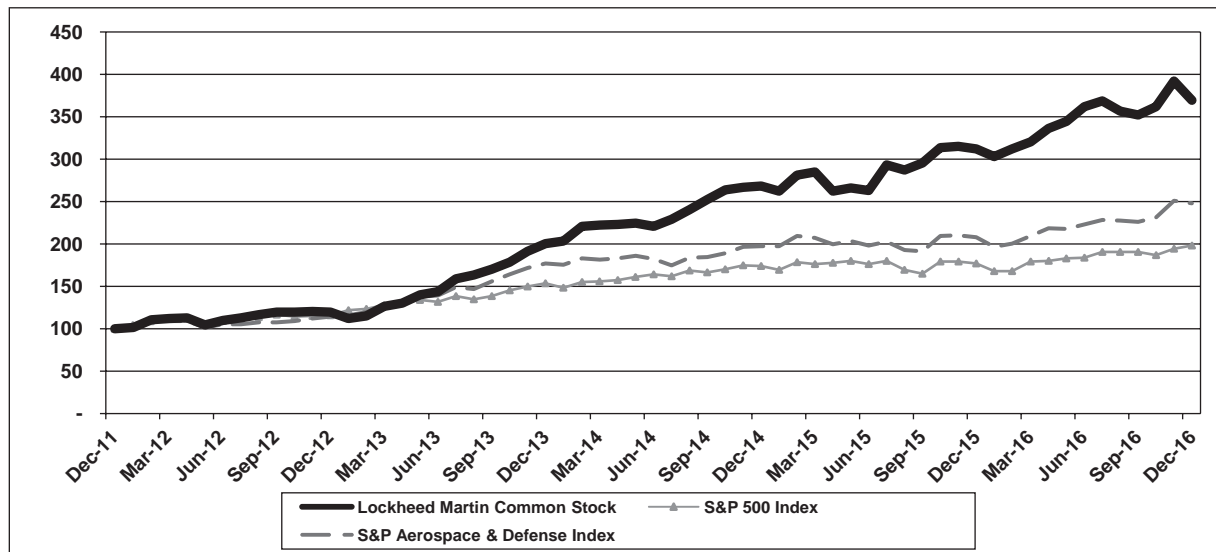
At January 27, 2017, we had 28,697 holders of record of our common stock, par value \$1 per share. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol LMT. Information concerning the high and low reported sales prices of Lockheed Martin common stock and dividends paid during the past two years is as follows:

#### Common Stock – Dividends Paid Per Share and Market Prices

Quarter	Dividends Paid Per Share		Stock Prices (High-Low)	
	2016	2015	2016	2015
First	\$1.65	\$1.50	\$223.19 - \$200.47	\$207.06 - \$186.01
Second	1.65	1.50	245.37 - 218.34	206.19 - 185.65
Third	1.65	1.50	266.93 - 235.28	213.34 - 181.91
Fourth	1.82	1.65	269.90 - 228.50	227.91 - 199.01
Year	\$6.77	\$6.15	\$269.90 - \$200.47	\$227.91 - \$181.91

#### Stockholder Return Performance Graph

The following graph compares the total return on a cumulative basis of \$100 invested in Lockheed Martin common stock on December 31, 2011 to the Standard and Poor’s (S&P) 500 Index and the S&P Aerospace & Defense (S&P Aero) Index.



The S&P Aero Index comprises Arconic Inc., General Dynamics Corporation, L3 Technologies, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company, Rockwell Collins, Inc., Textron Inc., The Boeing Company, Transdigm Group Inc., and United Technologies Corporation. The stockholder return performance indicated on the graph is not a guarantee of future performance.

This graph is not deemed to be “filed” with the U.S. Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933 or the Exchange Act.

## Purchases of Equity Securities

The following table provides information about our repurchases of our common stock registered pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2016.

Period <sup>(a)</sup>	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(b)</sup>	Amount Available for Future Share Repurchases Under the Plans or Programs <sup>(b)</sup>  (in millions)
September 26, 2016 – October 30, 2016	1,294,018	\$235.56	1,293,734	\$4,015
October 31, 2016 – November 27, 2016	712,100	\$254.42	711,974	\$3,834
November 28, 2016 – December 31, 2016	1,281,651	\$259.81	1,270,668	\$3,504
Total	3,287,769 <sup>(c)</sup>	\$249.09	3,276,376	

<sup>(a)</sup> We close our books and records on the last Sunday of each month to align our financial closing with our business processes, except for the month of December, as our fiscal year ends on December 31. As a result, our fiscal months often differ from the calendar months. For example, September 26, 2016 was the first day of our October 2016 fiscal month.

<sup>(b)</sup> In October 2010, our Board of Directors approved a share repurchase program pursuant to which we are authorized to repurchase our common stock in privately negotiated transactions or in the open market at prices per share not exceeding the then-current market prices. On September 22, 2016, our Board of Directors authorized a \$2.0 billion increase to the program. Under the program, management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. This includes purchases pursuant to Rule 10b5-1 plans. The program does not have an expiration date.

<sup>(c)</sup> During the quarter ended December 31, 2016, the total number of shares purchased included 11,393 shares that were transferred to us by employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units. These purchases were made pursuant to a separate authorization by our Board of Directors and are not included within the program.



**ITEM 6. Selected Financial Data.**

The operating results of the IS&GS business have been classified as discontinued operations for all periods presented and the assets and liabilities of the IS&GS business have been classified as assets and liabilities of discontinued operations

(d) Certain prior period amounts have been reclassified to conform to current year presentation.

(e)

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### ***Business Overview***

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. We serve both U.S. 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 2016, 71% of our \$47.2 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 59% from the Department of Defense (DoD)), 27% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 2% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity.

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space Systems. We organize our business segments based on the nature of products and services offered.

We operate in an environment characterized by both increasing complexity in global security and 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 security capability quickly into the hands of our U.S. and international customers at affordable prices. Recognizing that our customers are resource constrained, we are endeavoring to develop and extend our portfolio domestically in a disciplined manner with a

## ***Business Developments***

### **Acquisition of Sikorsky Aircraft Corporation**

On November 6, 2015, pursuant to a Stock Purchase Agreement, dated as of July 19, 2015 by and between us and United Technologies Corporation (UTC) and certain wholly-owned subsidiaries of UTC, we completed the acquisition of Sikorsky Aircraft Corporation (Sikorsky) for \$9.0 billion, net of cash acquired. Sikorsky, a global company primarily engaged in the design, manufacture, service and support of military and commercial helicopters, has become a wholly-owned subsidiary of ours, aligned under the RMS business segment. We funded the acquisition with new debt issuances, commercial paper and cash on hand. We and UTC made a joint election under Section 338(h)(10) of the Internal Revenue Code, which treats the transaction as an asset purchase for tax purposes. Calculated using the Federal Statutory income tax rate, this election generates a cash tax benefit with an estimated net present value at the date of acquisition of \$1.9 billion for us and our stockholders. The 2015 financial results of the acquired Sikorsky business have been included in our consolidated results of operations from the November 6, 2015 acquisition date through December 31, 2015. Accordingly, the consolidated financial results for the year ended December 31, 2015 do not reflect a full year of Sikorsky's operations. See "Capital Structure, Resources and Other" included within "Liquidity and Cash Flows" discussion below and "Note 10 – Debt" included in our Notes to Consolidated Financial Statements for a discussion of the debt we incurred in connection with the Sikorsky acquisition.

### **Divestiture of the Information Systems & Global Solutions Business**

On August 16, 2016, we completed the previously announced divestiture of the IS&GS business, which merged with a subsidiary of Leidos, in a Reverse Morris Trust transaction (the "Transaction"). The Transaction was completed in a multi-step pursuant to which we contributed

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based on the 100% ownership of the merged entity. The divestiture was completed in a multi-step pursuant to which we contributed the cash and debt to the new entity. The divestiture was completed in a multi-step pursuant to which we contributed

and control its operations and board of directors. Accordingly, we are required to consolidate AWE, which has been aligned under our Space Systems business segment since August 24, 2016. Space Systems' operating results include 100% of AWE's net sales and 51% of AWE's operating profit. Previously, we accounted for our investment in AWE using the equity method of accounting. Under the equity method, none of AWE's net sales and only 33% of AWE's net earnings were included in operating profit of the Space Systems business segment.

Additionally, we paid \$898 million during 2014 for acquisitions of businesses and investments in affiliates, net of cash acquired, primarily related to the following acquisitions:

- Systems Made Simple – a provider of health information technology solutions, which was included in our divestiture of the IS&GS business;
- Zeta Associates, Inc. – a designer of systems that enable collection, processing, safeguarding and dissemination of information for intelligence and defense communities, which is included in our Space Systems business segment; and
- Industrial Defender – a provider of cybersecurity solutions for control systems in the oil and gas, utility and chemical industries, which was included in our divestiture of the IS&GS business.

For additional information, see “Note 3 – Acquisitions and Divestitures” included in our Notes to Consolidated Financial Statements.

### ***Industry Considerations***

#### **U.S. Government Funding Constraints**

as well as expressions of interest from other countries. The U.S. Government and the eight partner countries continue to work together on the design, testing, production and sustainment of the F-35. The international commitment to the program continues to grow. For example, Denmark formally committed in 2016 to 27 F-35A variant aircraft. Japan received its first F-35A variant and two F-35A variant aircraft arrived in Israel. Additionally in 2016, Aeronautics received an undefinitized contract modification to the Low Rate Initial Production (LRIP) 10 advance acquisition contract, which included 35 international orders.

Other areas of international expansion at our Aeronautics business segment include the F-16 and C-130J programs. Aeronautics received a contract in 2016 with Korea for F-16 upgrades, extending work beyond 2020. The C-130J Super Hercules aircraft continued to draw interest from various international customers, including contracts in 2016 from France and Israel.

Our MFC business segment continues to generate significant international interest, most notably in the air and missile defense product line, which produces the Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD) systems. The PAC-3 is an advanced missile defense system designed to intercept incoming airborne threats. During 2016, we received orders for PAC-3 systems from Qatar, the Republic of Korea, the Kingdom of Saudi Arabia, Taiwan and the United Arab Emirates (UAE). THAAD is an integrated system designed to protect against short- and intermediate-range ballistic missiles. UAE is an international customer for THAAD, and other countries in the Middle East, Europe and the Asia-Pacific region have also expressed interest in our air and missile defense systems. Additionally, we continue to see international demand for our tactical missile and fire control products. In 2016, Poland became the first international customer for the Joint Air-to-Surface Standoff Missile-Extended Range (JASSM-ER), a long range, conventional air-to-ground, precision-guided standoff missile. Other MFC international customers include Japan, Germany,

certain terms and conditions of the contract. However, certain key terms remained under negotiation, including the amount of cost to perform the contract, price and payment terms. We will continue to execute on the F-35 program and are evaluating our options and path forward. Although the amount at issue on the LRIP 9 contract is not a significant percentage of the overall contract value, the unilateral contract action could negatively affect profit and cash flows on the LRIP 9 and LRIP 10 (which remains undefinitized) contracts, and establish a precedent for future F-35 production contracts.

There is also uncertainty regarding actions that may be taken by the new Presidential Administration in light of recent

Our consolidated results of operations were as follows (in millions, except per share data):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net sales	<b>\$ 47,248</b>	\$ 40,536	\$ 39,946
Cost of sales	<b>(42,186)</b>	(36,044)	(35,263)
Gross profit	<b>5,062</b>	4,492	4,683
Other income, net	<b>487</b>		

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Product sales decreased \$116 million, or less than 1%, in 2015 as compared to 2014. Lower product sales of about

to account for the acquisition in the fourth quarter of 2015. Higher product costs at Aeronautics were attributable to the



## Income Tax Expense

Our effective income tax rate from continuing operations was 23.2% for 2016, 27.3% for 2015, and 30.4% for 2014. The rates for all periods benefited from tax deductions for U.S. manufacturing activities, deductions for dividends paid to our defined contribution plans with an employee stock ownership plan feature, and the U.S. research and development (R&D) tax credit. The U.S. manufacturing deduction benefit for 2016, 2015, and 2014 reduced our effective tax rate by 2.4, 2.9, and 2.6 percentage points, respectively. The rate for 2016 also benefited from the nontaxable gain recorded in connection with the consolidation of AWE.

In addition, the rate for 2016 benefited from the additional tax benefits related to employee share-based payment awards, which are now recorded in earnings as income tax benefit or expense, effective with the adoption of an accounting standard update during the second quarter of 2016. As a result, we are required to report the impacts as though the accounting standard update had been adopted on January 1, 2016. Accordingly, we recognized additional income tax benefits of \$152 million during the year ended December 31, 2016, which reduced our effective income tax rate by 3.1 percentage points. The adjustment for the year ended December 31, 2016 includes second, third, and fourth quarter impacts and the reclassification of income tax benefits of \$104 million originally recognized in additional paid-in capital in the first quarter of 2016.

In 2016, the R&D tax credit reduced our effective tax rate by 2.2 percentage points. In December 2015, the R&D tax credit was permanently extended and reinstated, retroactive to the beginning of 2015, which reduced our effective income tax rate by 1.6 percentage points. In 2014, the R&D tax credit was temporarily reinstated for one year, retroactive to the beginning of 2014, which reduced our effective tax rate by 0.9 percentage point.

As a result of a decision in 2015 to divest our LMCFT business in 2016, we recorded an asset impairment charge of approximately \$90 million. This charge was partially offset by a net deferred tax benefit of about \$80 million. The net impact of the resulting tax benefit reduced our effective income tax rate by 1.2 percentage points in 2015.

Future changes in tax law could significantly impact our provision for income taxes, the amount of taxes payable, and our 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 new tax legislation, with a corresponding material, one-time, non-cash increase in 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, 2016 and 2015 were \$6.6 billion and \$6.1 billion, based on a 35% the Federal statutory income tax rate, and primarily relate to our postretirement benefit plans. If legislation reducing the Federal statutory income tax rate to 15% had been enacted at December 31, 2016, our net deferred tax assets would have been reduced by \$3.8 billion and we would have recorded a corresponding one-time, non-cash increase in income tax expense

## **Business Segment Results of Operations**

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Net sales</b>			
Aeronautics	<b>\$17,769</b>	\$15,570	\$14,920
Missiles and Fire Control	<b>6,608</b>	6,770	7,092
Rotary and Mission Systems	<b>13,462</b>	9,091	8,732
Space Systems	<b>9,409</b>	9,105	9,202
Total net sales	<b>\$47,248</b>	\$40,536	\$39,946
<b>Operating profit</b>			
Aeronautics	<b>\$ 1,887</b>	\$ 1,681	\$ 1,649
Missiles and Fire Control	<b>1,018</b>	1,282	1,344
Rotary and Mission Systems	<b>906</b>	844	936
Space Systems	<b>1,289</b>	1,171	1,187
Total business segment operating profit	<b>5,100</b>	4,978	5,116
Unallocated items			
FAS/CAS pension adjustment			
FAS pension expense <sup>(a)</sup>	<b>(1,019)</b>	(1,127)	(1,099)
Less: CAS pension cost <sup>(a)(b)</sup>	<b>1,921</b>	1,527	1,416
FAS/CAS pension adjustment <sup>(c)</sup>	<b>902</b>	400	317
Severance charges <sup>(a)(d)</sup>	<b>(80)</b>	(82)	—
Stock-based compensation	<b>(149)</b>	(133)	(154)
Other, net <sup>(e)(f)</sup>	<b>(224)</b>	(451)	(267)
Total unallocated, net	<b>449</b>	(266)	(104)
Total consolidated operating profit	<b>\$ 5,549</b>	\$ 4,712	\$ 5,012

<sup>(a)</sup> FAS pension expense, CAS pension costs and severance charges reflect the reclassification for discontinued operations presentation of benefits related to former IS&GS salaried employees (see “Note 11 – Postretirement Plans, 1-355u.6545cl8nc0/24(costs)-8Tf70-355ote(104)”).

a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) and for services would align to the type of work being performed (such as help-desk support). Our contracts generally are cost-based, which allows for the recovery of costs in the pricing of our products and services. Most of our contracts are bid and negotiated with our customers under circumstances in which we are required to disclose our estimated total costs to provide the product or service. This approach for negotiating contracts with our U.S. Government customers generally allows for the recovery of our costs. We also may enter into long-term supply contracts for certain materials or components to coincide with the production schedule of certain products and to ensure their availability at known unit prices.

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead and the estimated costs to fulfill our industrial cooperation agreements required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate.

We have a number of programs that are designated as classified by the U.S. Government which cannot be specifically described. The operating results of these classified programs are included in our consolidated and business segment results and are subjected to the same oversight and internal controls as our other programs.

Our net sales are primarily derived from long-term contracts for products and services provided to the U.S. Government as well as FMS contracted through the U.S. Government. We account for these contracts, as well as product contracts with non-U.S. Government customers, using the percentage-of-completion method of accounting, which represent substantially all of our net sales. We derive our remaining net sales from contracts to provide services to non-U.S. Government customers, which we account for under the services method of accounting.

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

Changes in net sales and operating profit generally are expressed in terms of volume. Changes in volume refer to





delivered in 2015 compared to seven delivered in 2014). The increases were partially offset by lower net sales of approximately \$350 million for the C-130 program due to fewer aircraft deliveries (21 aircraft delivered in 2015, compared to 24 delivered in 2014), lower sustainment activities and aircraft contract mix; approximately \$200 million due to decreased volume and lower risk retirements on various programs; approximately \$195 million for the F-16 program due to fewer deliveries (11 aircraft delivered in 2015, compared to 17 delivered in 2014); and approximately \$190 million for the F-22 program as a result of decreased sustainment activities.

Aeronautics' operating profit in 2015 increased \$32 million, or 2%, compared to 2014. Operating profit increased by approximately \$240 million for F-35 production contracts due to increased volume and risk retirements; and approximately \$40 million for the C-5 program due to increased risk retirements. These increases were offset by lower operating profit of approximately \$90 million for the F-22 program due to lower risk retirements; approximately \$70 million for the C-130 program as a result of the reasons stated above for lower net sales; and approximately \$80 million due to decreased volume and risk retirements on various programs. Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately \$100 million higher in 2015 compared to 2014.

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Backlog increased in 2016 compared to 2015 primarily due to higher orders on F-35 production and sustainment programs. Backlog increased in 2015 compared to 2014 primarily due to higher orders on F-35 and C-130 programs.

We expect Aeronautics' 2017 net sales to increase in the low-double digit percentage range as compared to 2016 due to increased volume on the F-35 program. Operating profit is expected to increase at a slightly lower percentage range, driven by the increased volume on the F-35 program, partially offset by contract mix that results in a slight decrease in operating margins between years.

### **Missiles and Fire Control**

Our MFC business segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike

2015 6, 2014

MFC's net sales in 2015 decreased \$322 million, or 5%, compared to the same period in 2014. The decrease was attributable to lower net sales of approximately \$345 million for air and missile defense programs due to fewer deliveries (primarily PAC-3) and lower volume (primarily THAAD); and approximately \$85 million for tactical missile programs due to fewer deliveries (primarily Guided Multiple Launch Rocket System (GMLRS)) and Joint Air-to-Surface Standoff Missile, partially offset by increased deliveries for s,r667xfe.-272.1(THhee)-3262decrease1(Ter) ahighr iet dfp\$5 cillion for denegy-324(dslumt

and logistics programs due to the divestiture of our LMCFT business, which reported sales through the May 2, 2016

segment includes AWE and our share of earnings for our investment in ULA, which provides expendable launch services to the U.S. Government. Space Systems' operating results included the following (in millions):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net sales	<b>\$ 9,409</b>	\$ 9,105	\$ 9,202
Operating profit	<b>1,289</b>	1,171	1,187
Operating margin	<b>13.7%</b>	12.9%	12.9%
Backlog at year-end	<b>\$18,900</b>	\$17,400	\$20,300

#### 2016 2015

Space Systems' net sales in 2016 increased \$304 million, or 3%, compared to 2015. The increase was attributable to net sales of approximately \$410 million from AWE following the consolidation of this business in the third quarter of 2016; and approximately \$150 million for commercial space transportation programs due to increased launch-related activities; and approximately \$70 million of higher net sales for various programs (primarily Fleet Ballistic Missiles) due to increased volume. These increases were partially offset by a decrease in net sales of approximately \$340 million for government satellite programs due to decreased volume (primarily SBIRS and MUOS) and the wind-down or completion of mission solutions programs.

Space Systems' operating profit in 2016 increased \$118 million, or 10%, compared to 2015. The increase was primarily attributable to a non-cash, pre-tax gain of approximately \$127 million related to the consolidation of AWE; and approximately \$80 million of increased equity earnings from joint ventures (primarily ULA). These increases were partially offset by a decrease of approximately \$105 million for government satellite programs due to lower risk retirements (primarily SBIRS, MUOS and mission solutions programs) and decreased volume. Adjustments not related to volume, including net profit booking rate adjustments, were approximately \$185 million lower in 2016 compared to 2015.

#### 2015 2014

Space Systems' net sales in 2015 decreased \$97 million, or 1%, compared to 2014. The decrease was attributable to approximately \$335 million lower net sales for government satellite programs due to decreased volume (primarily AEHF) and the wind-down or completion of mission solutions programs; and approximately \$55 million for strategic missile and defense systems due to lower volume. These decreases were partially offset by higher net sales of approximately \$235 million for businesses acquired in 2014; and approximately \$75 million for the Orion program due to increased volume.

Space Systems' operating profit in 2015 decreased \$16 million, or 1%, compared to 2014. Operating profit increased approximately \$85 million for government satellite programs due primarily to increased risk retirements. This increase was offset by lower operating profit of approximately \$65 million for commercial satellite programs due to performance matters on certain programs; and approximately \$35 million due to decreased equity earnings in joint ventures. Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately \$105 million higher in 2015 compared to 2014.

#### E

Total equity earnings recognized by Space Systems (primarily ULA) represented approximately \$325 million, \$245 million and \$280 million, or 25%, 21% and 24% of this business segment's operating profit during 2016, 2015 and 2014.

#### B



The majority of our capital expenditures for 2016 and those planned for 2017 are for equipment, facilities infrastructure and information technology. Expenditures for equipment and facilities infrastructure are generally incurred to support new and existing programs across all of our business segments. For example, we have projects underway in our Aeronautics business segment for facilities and equipment to support higher production of the F-35 combat aircraft, and we have projects underway to modernize certain of our facilities. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use software.

and customer advances and amounts in excess of costs incurred) was attributable to an increase in receivables due to timing of customer collections (primarily F-35 contracts) as well as timing of production and billing cycles affecting customer advances and progress payments applied to inventories (primarily C-130 program).

## **Investing Activities**

Net cash used for investing activities decreased \$8.7 billion in 2016 compared to the prior year, primarily due to \$9.0 billion of cash used for acquisition activities in 2015 that did not recur in 2016. Net cash used for investing activities increased \$8.0 billion in 2015 compared to 2014, primarily due to cash used for acquisition activities. Acquisition activities include both the acquisition of businesses and investments in affiliates. We had no acquisitions in 2016. In 2015 we paid \$9.0 billion for the Sikorsky acquisition, net of cash acquired. In 2014, we paid \$898 million for acquisition activities, primarily related to the acquisitions of Zeta, Systems Made Simple, and Industrial Defender (see “Note 3 – Acquisitions and Divestitures” included in our Notes to Consolidated Financial Statements).

Capital expenditures amounted to \$1.1 billion in 2016, \$939 million in 2015 and \$845 million in 2014. The majority of our capital expenditures were for equipment and facilities infrastructure that generally are incurred to support new and existing programs across all of our business segments. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use-software.

Additionally, in 2015, we received cash proceeds of approximately \$165 million related to three properties sold in California.

## **Financing Activities**

Net cash used for financing activities increased \$7.7 billion in 2016 compared to 2015 primarily due to proceeds from the issuance of long-term debt in 2015 which did not recur in 2016, the repayments of long-term debt in 2016, and higher dividend payments, partially offset by the proceeds from the one-time special cash payment of \$1.8 billion from the divestiture of the IS&GS business and a reduction in cash used for repurchases of common stock.

Net cash provided by financing activities increased \$7.6 billion in 2015 compared to 2014 primarily due to proceeds from new debt issuances, partially offset by increased repurchases of common stock and higher dividends paid.

In May 2016, we repaid \$452 million of long-term notes with a fixed interest rate of 7.65% according to their scheduled maturities.

In September 2016, we repaid \$500 million of long-term notes with a fixed interest rate of 2.13% according to their scheduled maturities.

In February 2015, we received net proceeds of \$2.21 billion for the issuance of \$2.25 billion of fixed interest-rate long-term notes. In November 2015, we borrowed \$7.0 billion of fixed interest-rate long-term notes and received net proceeds of \$6.9 billion (the November 2015 Notes). These proceeds were used to repay \$6.0 billion of outstanding borrowings under a 364-day revolving credit facility that was used to finance a portion of the purchase price for the Sikorsky acquisition. Additionally, in the fourth quarter of 2015, to partially finance the Sikorsky acquisition we borrowed and repaid approximately \$1.0 billion under our commercial paper program. See the “Capital Structure, Resources and Other” discussion below and “Note 10 – Debt” included in our Notes to Consolidated Financial Statements for more information about our debt financing activities.

We paid dividends totaling \$2.0 billion (\$6.77 per share) in 2016, \$1.9 billion (\$6.15 per share) in 2015 and \$1.8 billion (\$5.49 per share) in 2014. We have increased our quarterly dividend rate in each of the last three years, including a 10% increase in the quarterly dividend rate in the fourth quarter of 2016. We declared quarterly dividends of \$1.65 per share during each of the first three quarters of 2016 and \$1.82 per share during the fourth quarter of 2016; \$1.50 per share during each of the first three quarters of 2015 and \$1.65 per share during the fourth quarter of 2015; and \$1.33 per share during each of the first three quarters of 2014 and \$1.50 per share during the fourth quarter of 2014.

We paid \$2.1 billion, \$3.1 billion and \$1.9 billion to repurchase 8.9 million, 15.2 million and 11.5 million shares of our common stock during 2016, 2015 and 2014.

Cash received from the issuance of our common stock in connection with employee stock option exercises during 2016, 2015 and 2014 totaled \$106 million, \$174 million and \$308 million. The exercises resulted in the issuance of 1.2 million, 2.2 million and 3.7 million shares of our common stock.







## ***Critical Accounting Policies***

### **Contract Accounting / Sales Recognition**

Substantially all of our net sales are accounted for using the percentage-of-completion method, which requires that significant estimates and assumptions be made in accounting for the contracts. Our remaining net sales are derived from contracts to provide services to non-U.S. Government customers, which we account for under a services accounting model.

We evaluate new or significantly modified contracts with customers other than the U.S. Government, to the extent the contracts include multiple elements, to determine if the individual deliverables should be accounted for as separate units of accounting. When we determine that accounting for the deliverables as separate units is appropriate, we allocate the contract value to the deliverables based on their relative estimated selling prices. The contracts or contract modifications we evaluate for multiple elements typically are long-term in nature and include the provision of both products and services. Based on the nature of our business, we generally account for components of such contracts using the percentage-of-completion accounting model or the services accounting model, as appropriate.

We classify net sales as products or services on our consolidated statements of earnings based on the predominant attributes of the underlying contract. Most of our long-term contracts are denominated in U.S. dollars, including contracts for sales of military products and services to international governments contracted through the U.S. Government.

### ***Contract Types***

Our contracts generally record sales for both products and services under cost-reimbursable, fixed-price and time-and-materials contracts.

Cost-reimbursable contracts, which accounted for about 38%, 42%, and 41% of our sales for the years ended December 31, 2017, 2016, and 2015, respectively.

Cost-reimbursable contracts, which accounted for about 38%, 42%, and 41% of our sales

substantial number of similar items without a significant level of development, we record sales and an estimated profit on a percentage-of-completion 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 percentage-of-completion method. Estimates of award fees are based on past

record net sales as services are performed, exclusive of award and incentive fees. Award and incentive fees are recorded when they are fixed or determinable, generally at the date the amount is communicated to us by the customer. This approach results in the recognition of such fees at contractual intervals (typically every six months) throughout the contract and is dependent on the customer's processes for notification of awards and issuance of formal notifications. Costs for all service contracts are expensed as incurred.

### **Other Contract Accounting Considerations**

The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government. Cost-based pricing is determined under the FAR. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, interest expense and certain advertising and public relations activities are unallowable and, therefore, not recoverable through sales. In addition, we may enter into advance agreements with the U.S. Government that address the subjects of allowability and allocability of costs to contracts for specific matters. For example, most of the environmental costs we incur for environmental remediation related to sites operated in prior years are allocated to our current operations as general and administrative costs under FAR provisions and supporting advance agreements reached with the U.S. Government.

We closely monitor compliance with and the consistent application of our critical accounting policies related to contract accounting. Costs incurred and allocated to contracts are reviewed for compliance with U.S. Government regulations by our personnel and are subject to audit by the Defense Contract Audit Agency.

### **Postretirement Benefit Plans**

#### **Overview**

Many of our employees participate in qualified and nonqualified defined benefit pension plans, retiree medical and life insurance plans and other postemployment plans (collectively, postretirement benefit plans – see “Note 11 – Postretirement Plans” included in our Notes to Consolidated Financial Statements). The majority of our accrued benefit obligations relate to our qualified defined benefit pension plans and retiree medical and life insurance plans. We recognize on a plan-by-plan basis the net funded status of these postretirement benefit plans under GAAP as either an asset or a liability on our consolidated balance sheets. There is a corresponding non-cash adjustment to accumulated other comprehensive loss, net of tax benefits recorded as deferred tax assets, in stockholders' equity. The GAAP funded status represents the difference between the fair value of each plan's assets and the benefit obligation of the plan. The GAAP benefit obligation represents the present value of the estimated future benefits we currently expect to pay to plan participants based on past service.

In June 2014, we amended certain of our qualified and nonqualified defined benefit pension plans for non-union employees to freeze future retirement benefits. The freeze will take effect in two stages. Beginning on January 1, 2016, the pay-based component of the formula used to determine retirement benefits was frozen so that future pay increases, annual incentive bonuses or other amounts earned for or related to periods after December 31, 2015 will not be used to calculate retirement benefits. On January 1, 2020, the service-based component of the formula used to determine retirement benefits for participants with service on or after January 1, 2016 will be frozen. The frozen components of the formula will be applied to the benefit obligation of the plan as of January 1, 2016 and January 1, 2020, respectively. The unfrozen components of the formula will continue to be applied to the benefit obligation of the plan as of January 1, 2016 and January 1, 2020, respectively. The unfrozen components of the formula will be applied to the benefit obligation of the plan as of January 1, 2016 and January 1, 2020, respectively. The unfrozen components of the formula will be applied to the benefit obligation of the plan as of January 1, 2016 and January 1, 2020, respectively.

The plan assets and obligations are valued as of the end of each reporting period. The actuarial valuations are dependent on assumptions such as the expected future return on plan assets, the mortality rates, the discount rate, the expected future salary increases, the expected future cost of medical and dental benefits, and the expected future cost of life insurance. The actuarial valuations are dependent on assumptions such as the expected future return on plan assets, the mortality rates, the discount rate, the expected future salary increases, the expected future cost of medical and dental benefits, and the expected future cost of life insurance.



Each year, differences between the actual plan asset return and the expected long-term rate of return on plan assets impacts the measurement of the following year's FAS expense. Every 100 basis points difference in return during 2016 between our

term rate of return on plan assets of 7.50% at December 31, 2016 versus 8.00% at December 31, 2015. We expect a



environmental receivable and a charge to earnings. For example, if we were to determine that the liabilities should be increased by \$100 million, the corresponding receivables would be increased by approximately \$87 million, with the



## **Recent Accounting Pronouncements**

See “Note 1 – Significant Accounting Policies” included in our Notes to Consolidated Financial Statements for information under the caption “Recent Accounting Pronouncements” related to new accounting standards.

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We maintain active relationships with a broad and diverse group of U.S. and international financial institutions. We believe that they provide us with sufficient access to the general and trade credit we require to conduct our business. We continue to closely monitor the financial market environment and actively manage counterparty exposure to minimize the potential impact from adverse developments with any single credit provider while ensuring availability of, and access to, sufficient credit resources.

Our main exposure to market risk relates to interest rates, foreign currency exchange rates and market prices on certain equity securities. Our financial instruments that are subject to interest rate risk principally include fixed-rate long-term debt. The estimated fair value of our outstanding debt was \$16.2 billion at December 31, 2016 and the outstanding principal

We maintain a separate trust that includes investments to fund certain of our non-qualified deferred compensation plans. As of December 31, 2016, investments in the trust totaled \$1.2 billion and are reflected at fair value on our consolidated balance sheet in other noncurrent assets. The trust holds investments in marketable equity securities and fixed-income securities that are exposed to price changes and changes in interest rates. A portion of the liabilities associated with the deferred compensation plans supported by the trust is also impacted by changes in the market price of our common stock and certain market indices. Changes in the value of the liabilities have the effect of partially offsetting the impact of changes in the value of the trust. Both the change in the fair value of the trust and the change in the value of the liabilities are recognized on our consolidated statements of earnings in other unallocated, net and were not material for the year ended December 31, 2016.

**ITEM 8. Financial Statements and Supplementary Data.**

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

Board of Directors and Stockholders  
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 9, 2017 expressed an adverse opinion thereon.

A handwritten signature in dark ink, appearing to read "Ernst & Young LLP", with a horizontal line drawn through it.

McLean, Virginia  
February 9, 2017

**Lockheed Martin Corporation**  
**Consolidated Statements of Earnings**  
(in millions, except per share data)

Years Ended December 31,

	2016	2015	2014
<b>Net sales</b>			
Products	\$ 40,365	\$ 34,868	\$ 34,984
Services	6,883	5,668	4,962
Total net sales	47,248	40,536	39,946
<b>Cost of sales</b>			
Products	(36,616)	(31,091)	(30,983)
Services	(6,040)	(4,824)	(4,184)
Severance charges	(80)	(82)	—
Other unallocated, net	550	(47)	(96)
Total cost of sales	(42,186)	(36,044)	(35,263)
Gross profit	5,062	4,493	4,683
Other income, net	487	220	329
<b>Operating profit</b>	5,549	4,712	5,012
Interest expense	(663)	(443)	(340)
Other non-operating income, net	—	30	5
Earnings from continuing operations before income taxes	4,886	4,299	4,677
Income tax expense	(1,133)	(1,253)	(1,257)
		<b>Total 3,126-253(ex3/F)]TJ/F51Tf31.8</b>	

**Lockheed Martin Corporation**  
**Consolidated Statements of Comprehensive Income**  
(in millions)

	<b>Years Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net earnings	<b>\$ 5,302</b>	\$ 3,605	\$ 3,614
Other comprehensive (loss) income, net of tax			
Postretirement benefit plans			
Net other comprehensive loss recognized during the period, net of tax benefit of \$668 million in 2016, \$192 million in 2015 and \$1.5 billion in 2014	<b>(1,232)</b>	(351)	(2,870)
Amounts reclassified from accumulated other comprehensive loss, net of tax expense of \$382 million in 2016, \$464 million in 2015 and \$386 million in 2014	<b>699</b>	850	706
Reclassifications from divestiture of IS&GS business	<b>(134)</b>	—	—
Other, net	<b>9</b>	(73)	(105)
Other comprehensive (loss) income, net of tax	<b>(658)</b>	426	(2,269)
<b>Comprehensive income</b>	<b>\$ 4,644</b>	\$ 4,031	\$ 1,345

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

**Lockheed Martin Corporation**  
**Consolidated Balance Sheets**  
**(in millions, except par value)**

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,837	\$ 1,090
Receivables, net	8,202	7,254
Inventories, net	4,670	4,819
Other current assets	399	441
Assets of discontinued operations	—	969
Total current assets	<b>15,108</b>	14,573
Property, plant and equipment, net	<b>5,549</b>	5,389



**Lockheed Martin Corporation**  
**Consolidated Statements of Cash Flows**  
(in millions)

**Years Ended December 31,**

**2016                      2015                      2014**

<b>Operating activities</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net earnings	<b>\$ 5,302</b>	\$ 3,605	\$ 3,614
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	<b>1,215</b>	1,026	994
Stock-based compensation	<b>149</b>	138	164
Deferred income taxes	<b>(152)</b>	(445)	(401)
Goodwill impairment charges	<b>—</b>	—	119
Severance charges	<b>99</b>	102	—
Gain on divestiture of IS&GS business	<b>(1,242)</b>	—	—
Gain on step acquisition of AWE	<b>(104)</b>	—	—
Changes in assets and liabilities			
Receivables, net	<b>(811)</b>	(256)	28
Inventories, net	<b>(46)</b>	(398)	77
Accounts payable	<b>(188)</b>	(160)	95

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**Lockheed Martin Corporation**  
**Consolidated Statements of Equity**  
(in millions, except per share data)

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Stockholders' Equity</b>	<b>Noncontrolling Interests in Subsidiary</b>	<b>Total Equity</b>
Balance at December 31, 2013	\$ 319	\$ —	\$ 14,200	\$ (9,601)	\$ 4,918	\$ —	\$ 4,918
Net earnings	—	—	3,614	—	3,614	—	3,614
Other comprehensive loss, net of tax	—	—	—	(2,269)	(2,269)	—	(2,269)
Repurchases of common stock	(12)	(792)	(1,096)	—	(1,900)	—	(1,900)
Dividends declared (\$5.49 per share)	—	—	(1,762)	—	(1,762)	—	(1,762)
Stock-based awards and ESOP activity and other	7	792	—	—	799	—	799

**Lockheed Martin Corporation**  
**Notes to Consolidated Financial Statements**

**Note 1 – Significant Accounting Policies**

**Organization** – We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government.

**Basis of presentation** – Our consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if 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. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a “per diluted share” basis. Certain prior period amounts have been reclassified to conform with current year presentation.

The discussion and presentation of the operating results of our business segments have been impacted by the following recent events.

On August 16, 2016, we completed the previously announced divestiture of the Information Systems & Global Solutions (IS&GS) business, which merged with a subsidiary of Leidos Holdings, Inc. (Leidos), in a Reverse Morris Trust transaction (the “Transaction”). This Transaction represents the culmination of the strategic review of our government information technology infrastructure services business and our technical services business performed in 2015 to explore whether the IS&GS business could achieve greater growth and create more value for customers and stockholders outside of Lockheed Martin. As a result of the divestiture, the operating results of the IS&GS business have been classified as discontinued operations in the consolidated statements of earnings for all periods presented and the assets and liabilities of the IS&GS business have been classified as assets and liabilities of discontinued operations in the consolidated balance sheet as of December 31, 2015. However, the cash flows of the IS&GS business have not been reclassified in our consolidated statements of cash flows as we retained the cash as part of the Transaction. See “Note 3 – Acquisitions and Divestitures” for additional information about the divestiture of the IS&GS business.

On August 24, 2016, our ownership interest in the AWE Management Limited (AWE) venture, which operates the United Kingdom’s nuclear deterrent program, increased by 18%. As a result of the increase, we now hold a 51% controlling interest in AWE and are required to consolidate the AWE venture in our consolidated financial statements. Accordingly, the operating results and cash flows of AWE have been included in our consolidated statements of earnings and consolidated statements of cash flows since August 24, 2016, the date we obtained a controlling interest, and the assets and liabilities of AWE are included in the consolidated balance sheet as of December 31, 2016. Previously, we accounted for our investment in AWE using the equity method of accounting. See “Note 3 – Acquisitions and Divestitures” for additional information about the change in ownership of AWE.

During the third quarter of 2016, the business segment formerly known as Mission Systems and Training (MST) was renamed Rotary and Missions Systems (RMS) to better reflect a broader range of products and capabilities subsequent to the



In addition, comparability of our business segment sales, operating profit and operating margins may be impacted by changes in profit booking rates on our contracts accounted for using the percentage-of-completion method of accounting. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated total costs to complete and a reduction in the profit booking rate. Increases or

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

On occasion, customers may seek financing for the purchase of our products. In connection with these transactions, we may enter into arrangements along with our customers with unrelated third-party financial institutions to facilitate the non-recourse sale of customer receivables. For accounting purposes, these transactions are treated as a sale of receivables and the sale proceeds from the banks are reflected in our operating cash flows on the statement of cash flows. During 2016, there was no significant activity related to sales of customer receivables.

**Inventories** – We record inventories at the lower of cost or estimated net realizable value. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production or contract-specific facilities and equipment, allocable operating overhead, advances to suppliers and, in the case of contracts with the U.S. Government and substantially all other governments, 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 percentage-of-completion 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.

**Property, plant and equipment** – 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 \$747 million in 2016, \$716 million in 2015 and \$713 million in 2014.

We review the carrying amounts of long-lived assets for impairment if events or changes in the facts and circumstances indicate that their carrying amounts may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset grouping to its carrying amount. 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 amount.

**Capitalized software** – 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 consolidated 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, 2016 and 2015, capitalized software totaled \$427 million and \$473 million, net of accumulated amortization of \$1.9 billion in each of the years. No amortization expense is recorded until the software is ready for its intended use. Amortization expense related to capitalized software was \$136 million in 2016, \$161 million in 2015 and \$194 million in 2014.

## **Goodwill**



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

**Postretirement benefit plans** – 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). GAAP requires that the amounts we record related to our postretirement benefit plans be computed, based on service to date, using actuarial valuations that are based in part on certain key economic assumptions we make, including the discount rate, the expected



with the operations of the business segment holding the investment. We evaluate our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period. As of December 31, 2016 and 2015, our equity method investments totaled \$1.4 billion and \$1.3 billion, which primarily are composed of our Space Systems business segment's investment in United Launch Alliance (ULA), see "Note 14 – Legal Proceedings, Commitments and Contingencies", and our Aeronautics and RMS business segments' investments in the Advanced Military Maintenance, Repair and Overhaul Center (AMMROC) venture. Our share of net earnings related to our equity method investees was \$443 million in 2016, \$320 million in 2015 and \$327 million in 2014, of which approximately \$325 million, \$245 million and \$280 million related to our Space Systems business segment.

**Derivative financial instruments** – We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exchange rates and interest rates. We do not enter into or hold derivative instruments for speculative trading purposes. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. We designate foreign currency hedges as cash flow hedges. We also are exposed to the impact of interest rate changes primarily through our borrowing activities. For fixed rate borrowings, we may use variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings in order to reduce the amount of interest paid. These swaps are designated as fair value hedges. For variable rate borrowings, we may use fixed interest rate swaps, effectively converting variable rate borrowings to fixed rate borrowings in order to mitigate the impact of interest rate changes on earnings. These swaps are designated as cash flow hedges. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to mitigate certain economic exposures.

We record derivatives at their fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to the effective portion of hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items or reflected net of income taxes in accumulated other comprehensive loss 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 interest rate swaps at December 31, 2016 and 2015 was \$1.2 billion and \$1.5 billion. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2016 and 2015 was \$4.0 billion and \$4.1 billion. Derivative instruments did not have a material impact on net earnings and comprehensive income during 2016, 2015 and 2014. Substantially all of our derivatives are designated for hedge accounting. See "Note 16 – Fair Value Measurements" for more information on the fair value measurements related to our derivative instruments.

**Recent Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606) (the ASU), which will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of the ASU to 2018 for public companies, with an option that would permit companies to adopt the ASU in 2017. Further amendments and technical corrections were made to the ASU during 2016. This ASU may be adopted using the full retrospective method, whereby the ASU would be applied to each prior year presented and the cumulative effect of applying the ASU would be recognized at the beginning of the earliest year presented or the modified retrospective method, whereby the cumulative effect of applying the ASU would be recognized at the beginning of the year of adoption. We will adopt the requirements of the new standard effective January 1, 2018 using the full retrospective transition method.

As the ASU will supersede substantially all existing revenue guidance affecting us under GAAP, it could impact revenue and cost recognition on thousands of contracts across all of our business segments, as well as, our business processes and our information technology systems. As a result, our evaluation of the effect of the ASU will extend through 2017. We have closely monitored the standard setting process, including amendments and technical corrections to the ASU following its issuance in May 2014 and participated in aerospace and defense forums to understand the impact of the ASU on our industry.

We commenced our evaluation of the impact of the ASU in late 2014, by evaluating its impact on selected contracts at each of our business segments. With this baseline understanding, we developed a project plan to evaluate thousands of contracts across our business segments, develop processes and tools to dual report financial results under both GAAP and the

ASU and assess the internal control structure in order to adopt the ASU on January 1, 2018. We have periodically briefed our Audit Committee on our progress made towards adoption. Based on our evaluation to date, we anticipate being able to estimate the impacts of adopting the ASU in the second half of 2017.

We recognize the majority of our revenue using the percentage-of-completion method of accounting, whereby revenue is



We accounted for the acquisition of Sikorsky as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of the net assets acquired is recorded as goodwill. During the fourth quarter of 2016, we completed our appraisals and determined the fair values of the assets acquired and liabilities assumed upon acquisition of Sikorsky. As a result of the completed valuation the significant adjustments to the carrying amounts were as follows: Goodwill, trademarks intangible assets and customer programs intangible assets increased by about \$78 million, \$71 million and \$57 million and inventories, net was decreased by about \$185 million. The measurement period adjustments did not result in a significant adjustment to amortization expense for intangible assets during 2016.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, including the refinements described in the previous paragraph (in millions):

Cash and cash equivalents	\$ 75
Receivables, net	1,924
Inventories, net	1,632
Other current assets	46
Property, plant and equipment	649
Goodwill	2,842
Intangible assets:	
Customer programs	3,184
Trademarks	887
Other noncurrent assets	572
Deferred income taxes, noncurrent	256
<b>Total identifiable assets and goodwill</b>	<b>12,067</b>
Accounts payable	(565)
Customer advances and amounts in excess of costs incurred	(1,197)
Salaries, benefits, and payroll taxes	(105)
Other current liabilities	(430)
Customer contractual obligations <sup>(a)</sup>	(507)
Other noncurrent liabilities	(185)
<b>Total liabilities assumed</b>	<b>(2,989)</b>
<b>Total</b>	<b>(922)</b>

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The income approach indicates value for an asset or liability based on the present value of cash flow projected to be generated over the remaining economic life of the asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected pricing, remaining developmental effort, operational performance including company-specific synergies, aftermarket retention, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. Where appropriate, the net cash flows are adjusted to reflect the uncertainties associated with the underlying assumptions, as well as the risk profile of the net cash flows utilized in the valuation. The adjusted future cash flows are then discounted to present value using an appropriate discount rate. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost, less an allowance for loss in value due to depreciation.

The purchase price allocation resulted in the recognition of \$2.8 billion of goodwill, all of which is expected to be amortizable for tax purposes. Substantially all of the goodwill was assigned to our RMS business. The goodwill recognized is attributable to expected revenue synergies generated by the integration of our products and technologies with those of Sikorsky, costs synergies resulting from the consolidation or elimination of certain functions, and intangible assets that do not qualify for separate recognition, such as the assembled workforce of Sikorsky.

Determining the fair value of assets acquired and liabilities assumed requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The cash flows

adjustments assume the application of fair value adjustments to intangibles and the debt issuance occurred on January 1, 2014 and are approximated as follows: amortization expense of \$125 million and \$150 million in 2015 and 2014, respectively; and interest expense of \$40 million and \$50 million in 2015 and 2014, respectively. In addition, significant nonrecurring adjustments include the elimination of a \$72 million pension curtailment loss, net of tax, recognized in 2015 and the elimination of a \$58 million income tax charge related to historic earnings of foreign subsidiaries recognized by Sikorsky in 2015.

The unaudited supplemental pro forma financial information also reflects an increase in interest expense, net of tax, of approximately \$110 million and approximately \$120 million in 2015 and 2014, respectively. The increase in interest expense is the result of assuming the November 2015 Notes were issued on January 1, 2014. Proceeds of the November 2015 Notes were used to repay all outstanding borrowings under the 364-day Facility used to finance a portion of the purchase price of Sikorsky, as contemplated at the date of acquisition.

The unaudited supplemental pro forma financial information does not reflect the realization of any expected ongoing



The operating results of IS&GS that have been reflected within net earnings from discontinued operations are as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2016<sup>(a)</sup></b>	<b>2015</b>	<b>2014</b>
Net sales	<b>\$ 3,410</b>	\$ 5,596	\$ 5,654
Cost of sales	<b>(2,953)</b>	(4,868)	(4,963)
Goodwill impairment charges	—	—	(119)
Severance charges	<b>(19)</b>	(20)	—
Gross profit	<b>438</b>	708	572
Other income, net	<b>16</b>	16	8
Operating profit	<b>454</b>	724	580
Other non-operating income, net	—	—	1
Earnings from discontinued operations before income taxes	<b>454</b>	724	581
Income tax expense	<b>(147)</b>	(245)	(220)
Net gain on divestiture of discontinued operations	<b>1,242</b>	—	—
Net earnings from discontinued operations	<b>\$ 1,549</b>	\$ 479	\$ 361

<sup>(a)</sup> Operating results for the year ended December 31, 2016 reflect operating results prior to the August 16, 2016 divestiture date, not the full year as shown for the prior years.

The operating profit reflected above does not represent the IS&GS business's historical operating profit, as the results reported within net earnings from discontinued operations only include costs that were directly attributable to the IS&GS business and exclude certain overhead costs that were previously allocated to the IS&GS business for each period. For instance, certain corporate overhead costs and certain defined benefit pension costs that were historically allocated to and included in the operating results of the IS&GS business have been reclassified and included in the results of our continuing operations because we will continue to incur these costs subsequent to the divestiture of the IS&GS business.

Certain corporate overhead costs incurred by us and previously allocated to the IS&GS business were reclassified from the IS&GS business to other unallocated, net in our consolidated statements of earnings. These overhead costs were primarily related to expenses for senior management, legal, human resources, finance, accounting, treasury, tax, information technology, communications, ethics and compliance, corporate employee benefits, incentives and stock-based compensation, shared services processing and administration and depreciation for corporate fixed assets, and were not directly attributable to the IS&GS business. We reclassified \$82 million in 2016, \$165 million in 2015 and \$169 million in 2014 of corporate overhead costs to other unallocated, net. Additionally, we retained all assets and obligations related to the pension benefits earned by current and former IS&GS business salaried employees through the divestiture of the IS&GS business. As a result,



recorded in income tax expense. The net impact reduced net earnings by about \$10 million. LMCFT's financial results are not material and there was no significant impact on our consolidated financial results as a result of completing the sale of our LMCFT business. Accordingly, LMCFT's financial results are not classified in discontinued operations.

**Note 4 – Goodwill and Acquired Intangibles**

Changes in the carrying amount of goodwill by segment were as follows (in millions):

- **Rotary and Mission Systems** – Provides design, manufacture, service and support for a variety of military and civil helicopters; ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship; simulation and training services; and unmanned systems and technologies. In addition, RMS supports the needs of customers in cybersecurity and delivers communications and command and control capability through complex mission solutions for defense applications. The 2015 results of the acquired Sikorsky business have been included in our consolidated results of operations from the November 6, 2015 acquisition date through December 31, 2015. Accordingly, the consolidated results of operations for the year ended December 31, 2015 do not reflect a full year of Sikorsky operations.
- **Space Systems**

## Selected Financial Data by Business Segment

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

	2016	2015	2014
<b>Net sales</b>			
Aeronautics	<b>\$17,769</b>	\$15,570	\$14,920
Missiles and Fire Control	<b>6,608</b>	6,770	7,092
Rotary and Mission Systems	<b>13,462</b>	9,091	8,732
Space Systems	<b>9,409</b>	9,105	9,202
Total net sales	<b>\$47,248</b>	\$40,536	\$39,946
<b>Operating profit</b>			
Aeronautics	<b>\$ 1,887</b>	\$ 1,681	\$ 1,649
Missiles and Fire Control	<b>1,018</b>	1,282	1,344
Rotary and Mission Systems	<b>906</b>	844	936
Space Systems	<b>1,289</b>	1,171	1,187
Total business segment operating profit	<b>5,100</b>	4,978	5,116
Unallocated items			
FAS/CAS pension adjustment			
FAS pension expense <sup>(a)</sup>	<b>(1,019)</b>	(1,127)	(1,099)
Less: CAS pension cost <sup>(a) (b)</sup>	<b>1,921</b>	1,527	1,416
FAS/CAS pension adjustment	<b>902</b>	400	317
Severance charges <sup>(a) (c)</sup>	<b>(80)</b>	(82)	—
Stock-based compensation	<b>(149)</b>	(133)	(154)
Other, net <sup>(d), (e)</sup>	<b>(224)</b>	(451)	(267)
Total unallocated items	<b>449</b>	(266)	(104)
Total consolidated operating profit	<b>\$ 5,549</b>	\$ 4,712	\$ 5,012

<sup>(a)</sup> FAS pension expense, CAS pension costs and severance charges reflect the reclassification for discontinued operations presentation of benefits related to former IS&GS salaried employees (see "Note 11 – Postretirement Plans").

<sup>(b)</sup>

**Selected Financial Data by Business Segment (continued)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Intersegment sales</b>			
Aeronautics	\$ 137	\$ 102	\$ 103
Missiles and Fire Control	305	315	256
Rotary and Mission Systems	1,816	1,533	1,245
Space Systems	110	146	137
Total intersegment sales	<b>\$2,368</b>	\$2,096	\$1,741
<b>Depreciation and amortization</b>			
Aeronautics	\$ 299	\$ 317	\$ 322
Missiles and Fire Control	105	99	99
Rotary and Mission Systems	476	211	167
Space Systems	212	220	232
Total business segment depreciation and amortization	<b>1,092</b>	847	820
Corporate activities	75	98	107
Total depreciation and amortization <sup>(a)</sup>	<b>\$1,167</b>	\$ 945	\$ 927
<b>Capital expenditures</b>			
Aeronautics	\$ 358	\$ 387	\$ 283
Missiles and Fire Control	167	120	142
Rotary and Mission Systems	271	169	164
Space Systems	183	172	172
Total business segment capital expenditures	<b>979</b>	848	761
Corporate activities	75	60	66
Total capital expenditures <sup>(b)</sup>	<b>\$1,054</b>	\$ 908	\$ 827

<sup>(a)</sup> Total depreciation and amortization in the table above excludes \$48 million, \$81 million and \$67 million for the years ended December 31, 2016, 2015 and 2014 related to the former IS&GS business segment. These amounts are included in depreciation and amortization in our consolidated statements of cash flows as we did not reclassify our cash flows to exclude the IS&GS business segment. See "Note 3 – Acquisitions and Divestitures" for more information.

<sup>(b)</sup> Total capital expenditures in the table above excludes \$9 million, \$31 million and \$18 million for the years ended December 31, 2016, 2015 and 2014 related to the former IS&GS business segment. These amounts are included in capital expenditures in our consolidated statements of cash flows as we did not reclassify our cash flows to exclude the IS&GS business segment. See "Note 3 – Acquisitions and Divestitures" for more information.

**Selected Financial Data by Business Segment (continued)**

**Net Sales by Customer Category**

**Note 6 – Receivables, net**

Receivables, net consisted of the following (in millions):

	<b>2016</b>	<b>2015</b>
U.S. Government		
Amounts billed	\$ 792	\$ 1,205
Unbilled costs and accrued profits	6,877	5,243
Less: customer advances and progress payments	(1,346)	(1,193)
<b>Total U.S. Government receivables, net</b>	<b>6,323</b>	<b>5,255</b>
Other governments and commercial		
Amounts billed	546	704
Unbilled costs and accrued profits	1,847	1,888
Less: customer advances	(514)	(593)
<b>Total other governments and commercial receivables, net</b>	<b>1,879</b>	<b>1,999</b>
<b>Total receivables, net</b>	<b>\$ 8,202</b>	<b>\$ 7,254</b>

We expect to bill substantially all of the December 31, 2016 unbilled costs and accrued profits during 2017.

**Note 7 – Inventories, net**

Inventories, net consisted of the following (in millions):

	<b>2016</b>	<b>2015</b>
Work-in-process, primarily related to long-term contracts and programs in progress	\$ 7,864	\$ 8,081
Spare parts, used aircraft and general stock materials	833	1,030
Other inventories	719	740
<b>Total inventories</b>	<b>9,416</b>	<b>9,851</b>
Less: customer advances and progress payments	(4,746)	(5,032)
<b>Total inventories, net</b>	<b>\$ 4,670</b>	<b>\$ 4,819</b>

Work-in-process inventories at December 31, 2016 and 2015 included general and administrative costs of \$529 million and \$565 million. General and administrative costs incurred and recorded in inventories totaled \$3.3 billion in 2016, \$2.7 billion in 2015 and \$2.5 billion in 2014. General and administrative costs charged to cost of sales from inventories totaled \$3.3 billion in 2016, \$2.8 billion in 2015 and \$2.5 billion in 2014.

**Note 8 – Property, Plant and Equipment, net**

Property, plant and equipment, net consisted of the following (in millions):

	<b>2016</b>	<b>2015</b>
Land	\$ 127	\$ 112
Buildings	6,385	6,007
Machinery and equipment	7,389	7,261
Construction in progress	976	886
<b>Total property, plant and equipment</b>	<b>14,877</b>	<b>14,266</b>
Less: accumulated depreciation and amortization	(9,328)	(8,877)
<b>Total property, plant and equipment, net</b>	<b>\$ 5,549</b>	<b>\$ 5,389</b>

**Note 9 – Income Taxes**

Our provision for federal and foreign income tax expense for continuing operations consisted of the following (in millions):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Federal income tax expense (benefit):			
Current	<b>\$1,327</b>	\$1,573	\$1,770-251,337

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

	<b>2016</b>	<b>2015</b>
Deferred tax assets related to:		
Accrued compensation and benefits	<b>\$1,012</b>	\$ 919
Pensions <sup>(a)</sup>	<b>5,197</b>	4,462
Other postretirement benefit obligations	<b>302</b>	375
Contract accounting methods	<b>878</b>	1,039
Foreign company operating losses and credits	<b>30</b>	62
Other	<b>327</b>	418
Valuation allowance <sup>(b)</sup>	<b>(15)</b>	(73)
Deferred tax assets, net	<b>7,731</b>	7,202
Deferred tax liabilities related to:		
Goodwill and purchased intangibles	<b>378</b>	274
Property, plant and equipment	<b>346</b>	457
Exchanged debt securities and other <sup>(c)</sup>	<b>418</b>	408
Deferred tax liabilities	<b>1,142</b>	1,139
Net deferred tax assets	<b>\$6,589</b>	\$6,063

<sup>(a)</sup> The increase in 2016 was primarily due to the reduction in the discount rate used to measure our postretirement benefit plans (see “Note 11 – Postretirement Plans”).

<sup>(b)</sup>



## Note 10 – Debt

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

	December 31,	
	2016	2015
<b>Notes</b>		
2.13% and 7.65% due 2016	\$ —	\$ 952
1.85% due 2018	750	750
4.25% due 2019	900	900
2.50% due 2020	1,250	1,250
3.35% due 2021	900	900
3.10% due 2023	500	500
2.90% due 2025	750	750
3.55% due 2026	2,000	2,000
3.60% due 2035	500	500
4.50% and 6.15% due 2036	1,152	1,152
4.85% due 2041	600	600
4.07% due 2042	1,336	1,336
3.80% due 2045	1,000	1,000
4.70% due 2046	2,000	2,000
Other notes with rates from 5.50% to 8.50%, due 2023 to 2040	1,656	1,706
Total debt	15,294	16,296
Less: unamortized discounts and issuance costs	(1,012)	(1,035)
Total debt, net	14,282	15,261
Less: current portion	—	(956)
Long-term debt, net	\$14,282	\$14,305

### Revolving Credit Facilities

On October 9, 2015, we entered into a new \$2.5 billion revolving credit facility (the 5-year Facility) with various banks and concurrently terminated our existing \$1.5 billion revolving credit facility, which was scheduled to expire in August 2019. The 5-year Facility was amended in October 2016 to extend its expiration date by one year from October 9, 2020 to October 9, 2021. The 5-year Facility is available to us in the amount of \$2.5 billion, of which \$1.5 billion was drawn as of December 31, 2015.

In May 2016, we repaid \$452 million of long-term notes with a fixed interest rate of 7.65% according to their scheduled maturities. We also had related variable interest rate swaps with a notional amount of \$450 million mature, which did not

Beginning on January 1, 2016, the pay-based component of the formula used to determine retirement benefits was frozen so that future pay increases, annual incentive bonuses or other amounts earned for or related to periods after December 31, 2015 are not used to calculate retirement benefits. On January 1, 2020, the service-based component of the formula used to determine retirement benefits will also be frozen so that participants will no longer earn further credited service for any period after December 31, 2019. When the freeze is complete, the majority of our salaried employees will have transitioned to an enhanced defined contribution retirement savings plan. As part of the November 6, 2015 acquisition of Sikorsky, we established a new defined benefit pension plan for Sikorsky's union workforce that provides benefits for their prospective service with us. The Sikorsky salaried employees participate in a defined contribution plan. We did not assume any legacy pension liability from UTC.

We have made contributions to trusts established to pay future benefits to eligible retirees and dependents, including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans. We use December 31 as the measurement date. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net periodic benefit cost is based on assumptions in effect at the end of the respective preceding year.

The rules related to accounting for postretirement benefit plans under GAAP require us to recognize on a plan-by-plan basis the funded status of our postretirement benefit plans as either an asset or a liability on our consolidated balance sheets. There is a corresponding non-cash adjustment to accumulated other comprehensive loss, net of tax benefits recorded as deferred tax assets, in stockholders' equity. The funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan.

The net periodic benefit cost recognized each year included the following (in millions):

	Qualified Defined Benefit Pension Plans <sup>(a)</sup>			Retiree Medical and Life Insurance Plans		
	2016	2015	2014	2016	2015	2014
Service cost	\$ 827	\$ 836	\$ 841	\$ 24	\$ 21	\$ 22
Interest cost	1,861	1,791	1,912	119	110	123
Expected return on plan assets	(2,666)	(2,734)	(2,693)	(138)	(147)	(146)
Recognized net actuarial losses	1,359	1,599	1,173	34	43	23
Amortization of net prior service (credit) cost <sup>(b)</sup>	(362)	(365)	(134)	22	4	4
<b>Total net periodic benefit cost</b>	<b>\$ 1,019</b>	<b>\$ 1,127</b>	<b>\$ 1,099</b>	<b>\$ 61</b>	<b>\$ 31</b>	<b>\$ 26</b>

<sup>(a)</sup> Total net periodic benefit cost associated with our qualified defined benefit plans represents pension expense calculated in accordance with GAAP (FAS pension expense). We are required to calculate pension expense in accordance with both GAAP and CAS rules, each of which results in a different calculated amount of pension expense. The CAS pension cost is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in our financial statements. The CAS pension cost is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in our financial statements. The CAS pension cost is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in our financial statements. The CAS pension cost is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in our financial statements.

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

	Qualified Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	2016	2015	2016	2015
<b>Change in benefit obligation</b>				
Beginning balance	\$ 43,702	\$ 45,882	\$ 2,883	\$ 3,034
Service cost	827	836	24	21
Interest cost	1,861	1,791	119	110
Benefits paid	(2,172)	(2,055)	(222)	(307)
Actuarial losses (gains)	1,402	(1,988)	(135)	(170)
New longevity assumptions <sup>(a)</sup>	(687)	(834)	(53)	(77)
Plan amendments and acquisitions <sup>(b)</sup>	110	31	(32)	

The accumulated benefit obligation (ABO) for all qualified defined benefit pension plans was \$44.9 billion and \$43.5 billion at December 31, 2016 and 2015, of which \$44.8 billion and \$43.4 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, 2016 and 2015 is as follows (in millions):

	2016	2015
<b>Plans where ABO was in excess of plan assets</b>		
Projected benefit obligation	\$ 44,946	\$ 43,575
Less: fair value of plan assets	31,091	31,768
Unfunded status of plans <sup>(a)</sup>	(13,855)	(11,807)
<b>Plans where ABO was less than plan assets</b>		
Projected benefit obligation	118	127
Less: fair value of plan assets	326	328
Funded status of plans <sup>(b)</sup>	\$ 208	\$ 201

(a) Represents accrued pension liabilities, which are included on our consolidated balance sheets.

(b) Represents prepaid pension assets, which are included on our consolidated balance sheets in other noncurrent assets.

We also sponsor nonqualified defined benefit plans to provide benefits in excess of qualified plan limits. The aggregate liabilities for these plans at December 31, 2016 and 2015 were \$1.2 billion, which also represent the plans' unfunded status. We have set aside certain assets totaling \$460 million and \$421 million as of December 31, 2016 and 2015 in a separate trust which we expect to be used to pay obligations under our nonqualified defined benefit plans. In accordance with GAAP, those assets may not be used to offset the amount of the benefit obligation similar to the postretirement benefit plans in the table above. The unrecognized net actuarial losses at December 31, 2016 and 2015 were \$642 million and \$632 million. The unrecognized prior service credit at December 31, 2016 was \$74 million and was \$95 million at December 31, 2015. The expense associated with these plans totaled \$125 million in 2016, \$117 million in 2015 and \$115 million in 2014. We also sponsor a small number of other postemployment plans and foreign benefit plans. The aggregate liability for the other postemployment plans was \$63 million and \$70 million as of December 31, 2016 and 2015. The expense for the other postemployment plans, as well as the liability and expense associated with the foreign benefit plans, was not material to our results of operations, financial position or cash flows. The actuarial assumptions used to determine the benefit obligations and expense associated with our nonqualified defined benefit plans and postemployment plans are similar to those assumptions used to determine the benefit obligations and expense related to our qualified defined benefit pension plans and retiree medical and life insurance plans as described below.

The following table provides the amounts recognized in other comprehensive income (loss) related to postretirement benefit plans, net of tax, for the years ended December 31, 2016, 2015 and 2014 (in millions):

	Incurred but Not Yet Recognized in Net Periodic Benefit Cost			Recognition of Previously Deferred Amounts		
	2016	2015	2014	2016	2015	2014
	Gains (Losses)			(Gains) (Losses)		
<b>Actuarial gains and losses</b>						
Qualified defined benefit pension plans	\$(1,236)	\$(291)	\$(5,505)	\$ 879	\$1,034	\$ 758
Retiree medical and life insurance plans	94	46	(160)	22	28	15
Other plans	(62)	21	(245)	37	47	33
	(1,204)	(224)	(5,910)	938	1,109	806
	Credits (Debits)			(Credits) (Debits)		
<b>Net prior service credit and cost</b>						
Qualified defined benefit pension plans	(54)	(18)	2,959	(235)	(235)	(87)
Retiree medical and life insurance plans	27	(102)	(3)	14	2	3
Other plans	(1)	(7)	84	(9)	(10)	(9)(5)

\$(27)

We expect that approximately \$1.2 billion, or about \$800 million net of tax, of actuarial losses and net prior service credit related to postretirement benefit plans included in accumulated other comprehensive loss at the end of 2016 to be recognized in net periodic benefit cost during 2017. Of this amount, \$1.1 billion, or \$743 million net of tax, relates to our qualified defined benefit plans and is included in our expected 2017 pension expense of \$1.4 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:

	<b>Qualified Defined Benefit Pension Plans</b>			<b>Retiree Medical and Life Insurance Plans</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Weighted average discount rate	<b>4.125%</b>	4.375%	4.00%	<b>4.00%</b>	4.25%	3.75%
Expected long-term rate of return on assets	<b>7.50%</b>	8.00%	8.00%	<b>7.50%</b>	8.00%	8.00%
Rate of increase in future compensation levels (for applicable bargained pension plans)	<b>4.50%</b>	4.50%	4.30%			
Health care trend rate assumed for next year				<b>8.75%</b>	9.00%	8.50%
Ultimate health care trend rate				<b>5.00%</b>	5.00%	5.00%
Year that the ultimate health care trend rate is reached				<b>2032</b>	2032	2029

**Fair value measurements** – The rules related to accounting for postretirement benefit plans under GAAP require certain fair value disclosures related to postretirement benefit plan assets, even though those assets are not included on our consolidated 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 three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets, Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs. Certain other investments are measured at fair value using their Net Asset Value (NAV) per share and do not have readily determined values and are thus not subject to leveling in the fair value hierarchy. The NAV is the total value of the fund divided by the number of shares outstanding.

	December 31, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Investments measured at fair value</b>								
Cash and cash equivalents <sup>(a)</sup>	\$ 2,301	\$ 2,301	\$ —	\$ —	\$ 2,658	\$ 2,658	\$ —	\$ —
Equity <sup>(a)</sup> :								
U.S. equity securities	4,166	4,139	23	4	4,790	4,771	19	—
International equity securities	3,971	3,927	40	4	6,121	6,087	24	10
Commingled equity funds	2,332	788	1,544	—	1,794	614	1,180	—
Fixed income <sup>(a)</sup> :								
Corporate debt securities	4,333	—	4,316	17	3,929	—	3,914	15
U.S. Government securities	6,811	—	6,811	—	5,069	—	5,069	—
U.S. Government-sponsored enterprise securities	919	—	919	—	1,377	—	1,377	—
Other fixed income investments	2,215	—	2,214	1	3,252	—	3,246	6
Alternative investments:								
Hedge funds	33	—	33	—	57	—	57	—
Private equity funds	—	—	—	—	200	—	—	200
Commodities <sup>(a)</sup>	523	525	(2)	—	(26)	1	(27)	—
<b>Total</b>	<b>\$27,604</b>	<b>\$11,680</b>	<b>\$15,898</b>	<b>\$ 26</b>	<b>\$29,221</b>	<b>\$14,131</b>	<b>\$14,859</b>	<b>\$ 231</b>
<b>Investments measured at NAV <sup>(b)</sup></b>								
Commingled equity funds	60				141			
Private equity funds	3,614				2,931			
Real estate funds	1,411				1,108			
Hedge funds	462				465			
<b>Total investments measured at NAV</b>	<b>5,547</b>				<b>4,645</b>			
Receivables, net	53				43			
<b>Total</b>	<b>\$33,204</b>				<b>\$33,909</b>			

<sup>(a)</sup> Cash and cash equivalents, equity securities, fixed income securities and commodities included derivative assets and liabilities whose fair values were not material as of December 31, 2016 and 2015. LMIMCo's investment policies restrict the use of derivatives to either establish long exposures for purposes of expediency or capital efficiency or to hedge risks to the extent of a plan's current exposure to such risks. Most derivative transactions are settled on a daily basis.

<sup>(b)</sup>

The following table presents the changes during 2016 and 2015 in the fair value of plan assets categorized as Level 3 in the preceding table (in millions):

	<b>Private Equity Funds</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2015	\$ —	\$ 61	\$ 61
Actual return on plan assets:			
Realized losses, net	—	(12)	(12)
Unrealized gains, net	—	7	7
Purchases, sales and settlements, net	—	(22)	(22)
Transfers into (out of) Level 3, net	200	(3)	197
Balance at December 31, 2015	\$200	\$ 31	\$231
Actual return on plan assets:			
Realized losses, net	—	(6)	(6)
Unrealized gains, net	—	3	3
Purchases, sales and settlements, net	(200)	(7)	(207)
Transfers into Level 3, net	—	5	5
Balance at December 31, 2016			



## **Contributions and Expected Benefit Payments**

The funding of our qualified defined benefit pension plans is determined in accordance with ERISA, as amended by the PPA, and in a manner consistent with CAS and Internal Revenue Code rules. There were no contributions to our legacy qualified defined benefit pension plans during 2016. We do not plan to make contributions to our legacy pension plans in 2017 because none are required using current assumptions including investment returns on plan assets. We made \$23 million in contributions during 2016 to our newly established Sikorsky pension plan and expect to make \$45 million in contributions to this plan during 2017.

The following table presents estimated future benefit payments, which reflect expected future employee service, as of December 31, 2016 (in millions):

	2017	2018	2019	2020	2021	2022 – 2026
Qualified defined benefit pension plans	\$2,260	\$2,340	\$2,420	\$2,510	\$2,590	\$13,920
Retiree medical and life insurance plans	180	180	190	190	190	870

## **Defined Contribution Plans**

We maintain a number of defined contribution plans, most with 401(k) features, that cover substantially all of our employees. Under the provisions of our 401(k) plans, we match most employees' eligible contributions at rates specified in the plan documents. Our contributions were \$617 million in 2016, \$393 million in 2015 and \$385 million in 2014, the majority of which were funded in our common stock. Our defined contribution plans held approximately 36.9 million and 40.0 million shares of our common stock as of December 31, 2016 and 2015.

## **Note 12 – Stockholders' Equity**

At December 31, 2016 and 2015, our authorized capital was composed of 1.5 billion shares of common stock and 50 million shares of series preferred stock. Of the 290 million shares of common stock issued and outstanding as of December 31, 2016, 289 million shares were considered outstanding for consolidated balance sheet presentation purposes; the remaining shares were held in a separate trust. Of the 305 million shares of common stock issued and outstanding as of December 31, 2015, 303 million shares were considered outstanding for consolidated balance sheet presentation purposes; the remaining shares were held in a separate trust. No shares of preferred stock were issued and outstanding at December 31, 2016 or 2015.

## **Repurchases of Common Stock**

During 2016, we repurchased 8.9 million shares of our common stock for \$2.1 billion. During 2015 and 2014, we paid \$3.1 billion and \$1.9 billion to repurchase 15.2 million and 11.5 million shares of our common stock.

On September 22, 2016, our Board of Directors approved a \$2.0 billion increase to our share repurchase program. Inclusive of this increase, the total remaining authorization for future common share repurchases under our program was \$3.5 billion as of December 31, 2016. 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 purchase price over par value of \$1.7 billion and \$2.4 billion recorded as a reduction of retained earnings in 2016 and 2015.

We paid dividends totaling \$2.0 billion (\$6.77 per share) in 2016, \$1.9 billion (\$6.15 per share) in 2015 and \$1.8 billion (\$5.49 per share) in 2014. We have increased our quarterly dividend rate in each of the last three years, including a 10% increase in the quarterly dividend rate in the fourth quarter of 2016. We declared quarterly dividends of \$1.65 per share during each of the first three quarters of 2016 and \$1.82 per share during the fourth quarter of 2016; \$1.50 per share during each of the first three quarters of 2015 and \$1.65 per share during the fourth quarter of 2015; and \$1.33 per share during each of the first three quarters of 2014 and \$1.50 per share during the fourth quarter of 2014.

## Accumulated Other Comprehensive Loss

Changes in the balance of AOCL, net of income taxes, consisted of the following (in millions):

	Postretirement Benefit Plans	Other, net	AOCL
Balance at December 31, 2013 <sup>(a)</sup>	\$ (9,649)	\$ 48	\$ (9,601)
Other comprehensive loss before reclassifications	(2,870)	(103)	(2,973)
Amounts reclassified from AOCL			
Recognition of net actuarial losses	806	—	806
Amortization of net prior service credits	(100)	—	(100)
Other	—	(2)	(2)
Total reclassified from AOCL	706	(2)	704
Total other comprehensive loss	(2,164)	(105)	(2,269)
Balance at December 31, 2014 <sup>(a)</sup>	(11,813)	(57)	(11,870)
Other comprehensive loss before reclassifications	(351)	(73)	(424)
Amounts reclassified from AOCL			
Recognition of net actuarial losses	1,109	—	1,109
Amortization of net prior service credits	(259)	—	(259)
Total reclassified from AOCL	850	—	850
Total other comprehensive income (loss)	499	(73)	426
Balance at December 31, 2015 <sup>(a)</sup>	(11,314)	(130)	(11,444)
Other comprehensive loss before reclassifications	(1,232)	—	(1,232)
Amounts reclassified from AOCL			
Recognition of net actuarial losses	938	—	938
Amortization of net prior service credits	(239)	—	(239)
Recognition of net prior service credits from divestiture of IS&GS segment <sup>(b)</sup>	(134)	—	(134)
Other <sup>(b)</sup>	—	9	9
Total reclassified from AOCL	565	9	574
Total other comprehensive (loss) income	(667)	9	(658)
Balance at December 31, 2016 <sup>(a)</sup>	<b>\$(11,981)</b>	<b>\$(121)</b>	<b>\$(12,102)</b>

<sup>(a)</sup>

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. The maximum term of a stock option or any other award is 10 years.

At December 31, 2016, inclusive of the shares reserved for outstanding stock options, RSUs and PSUs, we had approximately 12 million shares reserved for issuance under the plans. At December 31, 2016, approximately six million of the shares reserved for issuance remained available for grant under our stock-based compensation plans. We issue new shares upon the exercise of stock options or when restrictions on RSUs and PSUs have been satisfied.

## RSUs

The following table summarizes activity related to nonvested RSUs:

	Number of RSUs (In thousands)	Weighted Average Grant-Date Fair Value Per Share
Nonvested at December 31, 2013	3,859	\$ 82.42
Granted	745	146.85
Vested	(2,194)	87.66
Forfeited	(84)	91.11
Nonvested at December 31, 2014	2,326	\$ 97.80
Granted	595	192.47
Vested	(1,642)	103.30
Forfeited	(43)	132.28
Nonvested at December 31, 2015	1,236	\$ 134.87
Granted	<b>679</b>	<b>206.69</b>
Vested	<b>(1,009)</b>	<b>137.62</b>
Forfeited	<b>(118)</b>	<b>203.65</b>
Nonvested at December 31, 2016	<b>788</b>	<b>\$ 183.00</b>

In 2016, we granted certain employees approximately 0.7 million restricted stock units (RSUs) with a grant-date fair value of \$206.69 per RSU. The grant-date fair value of these RSUs is equal to the closing market price of our common stock on the grant date less a discount to reflect the delay in payment of dividend-equivalent cash payments that are made only upon vesting, which is generally three years from the grant date. We recognize the grant-date fair value of RSUs, less estimated forfeitures, as compensation expense ratably over the requisite service period, which is shorter than the vesting period if the employee is retirement eligible on the date of grant or will become retirement eligible before the end of the vesting period.

## Stock Options

We generally recognize compensation cost for stock options ratably over the three-year vesting period. At December 31, 2016 and 2015, there were 3.0 million (weighted average exercise price of \$85.82) and 4.2 million (weighted average exercise price of \$86.61) stock options outstanding. All of the stock options outstanding are vested as of December 31, 2016 and have a weighted average remaining contractual life of approximately three years and an aggregate intrinsic value of \$491 million. There were 1.2 million (weighted average exercise price of \$88.61) stock options exercised during 2016. We did not grant stock options to employees during 2016 and 2015.

The following table pertains to stock options granted through 2012, in addition to stock options that vested and were exercised in 2016, 2015 and 2014 (in millions):

	2016	2015	2014
Grant-date fair value of all stock options that vested	\$ —	\$ 8	\$ 18
Intrinsic value of all stock options exercised	<b>172</b>	265	297

In 2012, we estimated the fair value for stock options at the date of grant using the Black-Scholes option pricing model, which required us to make certain assumptions. We used the following weighted average assumptions in the model: risk-free

## PSUs

In 2016, we granted certain employees PSUs with an aggregate target award of approximately 0.1 million shares of our common stock. The PSUs vest three years from the grant date based on continuous service, with the number of shares earned (0% to 200% of the target award) depending upon the extent to which we achieve certain financial and market performance targets measured over the period from January 1, 2016 through December 31, 2018. About half of the PSUs were valued at \$206.37 per PSU in a manner similar to RSUs mentioned above as the financial targets are based on our operating results. We recognize the grant-date fair value of these PSUs, less estimated forfeitures, as compensation expense ratably over the vesting period based on the number of awards expected to vest at each reporting date. The remaining PSUs were valued at \$212.37 per PSU using a Monte Carlo model as the performance target is related to our total shareholder return relative to our peer group. We recognize the grant-date fair value of these awards, less estimated forfeitures, as compensation expense ratably over the vesting period.

## Note 14 – Legal Proceedings, Commitments and Contingencies

We are a party to or have property subject to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described below, will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular interim reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress.

Although we cannot predict the outcome of legal or other proceedings with certainty, where there is at least a reasonable possibility that a loss may have been incurred, GAAP requires us to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made. We follow a thorough process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion of legal proceedings, a reasonably possible loss or range of loss associated with any individual legal proceeding cannot be estimated.

### Legal Proceedings

As a result of our acquisition of Sikorsky, we assumed the defense of and any potential liability for the following civil False Claims Act lawsuit. In October 2014, the U.S. Government filed a complaint in the U.S. District Court for the Eastern District of Wisconsin alleging that Sikorsky and two of its wholly-owned subsidiaries, Derco Aerospace (Derco) and Sikorsky Support Services, Inc. (SSSI), violated the civil False Claims Act in connection with a contract that the U.S. Navy awarded to SSSI in June 2006 to support the Navy's T-34 and T-44 fixed-wing turboprop training aircraft. SSSI subcontracted with Derco primarily to procure and manage the spare parts for the training aircraft. The Government alleges that SSSI overbilled the Navy on the contract because Derco added profit and overhead costs to the price of the spare parts that Derco procured and then sold to SSSI. The Government also claims that SSSI submitted false Certificates of Final Indirect Costs in the years 2006 through 2012.

The Government's complaint asserts numerous claims for violations of the False Claims Act, breach of contract and unjust enrichment. The Government seeks damages in excess of \$45 million, subject to trebling, plus statutory penalties. We believe that we have legal and factual defenses to the government's claims. Although we continue to evaluate our liability and exposure, we do not currently believe that it is probable that we will incur a material loss. If, contrary to our expectations, the Government prevails in this matter and proves damages at the high end of the range sought and is successful in having these trebled, the outcome could have an adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

On April 24, 2009, we filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA is in material breach of our agreement based on the MTA's failure to provide access to sites where work must be performed and the customer-furnished equipment necessary to complete the contract. The MTA filed an

answer and counterclaim alleging that we breached the contract and subsequently terminated the contract for alleged default. The primary damages sought by the MTA are the cost to complete the contract and potential re-procurement costs. While we are unable to estimate the cost of another contractor to complete the contract and the costs of re-procurement, we note that our contract with the MTA had a total value of \$323 million, of which \$241 million was paid to us, and that the MTA is seeking damages of approximately \$190 million. We dispute the MTA's allegations and are defending against them. Additionally, following an investigation, our sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA's termination of the contract was improper. Finally, our declaratory judgment action was later amended to include claims for monetary damages against the MTA of approximately \$95 million. This matter was taken under submission by the District Court in December 2014, after a five-week bench trial and the filing of post-trial pleadings by the parties. At this time we are awaiting a decision from the District Court. Although this matter relates to the IS&GS business, we retained it when IS&GS was divested.

### **Environmental Matters**

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste and other environmental matters at several of our current or former facilities or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of

In addition, California is reevaluating its existing drinking water standard of 6 ppb for perchlorate, and the U.S. Environmental Protection Agency (U.S. EPA) is taking steps to regulate perchlorate in drinking water. If substantially lower standards are adopted, in either California or at the federal level for perchlorate or for hexavalent chromium, we expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to not be recoverable under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

### **Operating Leases**

We rent certain equipment and facilities under operating leases. Certain major plant facilities and equipment are furnished by the Government under short-term or cancelable arrangements. Our total rental expense under operating leases

## **Note 15 – Restructuring Charges**

### **2016 Actions**

During 2016, we recorded severance charges totaling approximately \$80 million related to our Aeronautics business segment. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees receive lump-sum severance payments primarily

In connection with the Sikorsky acquisition, we recorded the assets acquired and liabilities assumed at fair value. See “Note 3 – Acquisitions and Divestitures” for further information about the fair values assigned and amounts subject to adjustment.



## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### **ITEM 9A. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2016. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting at Sikorsky Aircraft Corporation which we acquired on November 6, 2015 and which operates as a business unit of our Rotary and Mission Systems business segment.

Notwithstanding the identified material weakness, management, including our CEO (principal executive officer) and CFO (principal financial officer), believes the consolidated financial statements included in this annual report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

#### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013 framework). Based on this assessment, management concluded that a material weakness exists in our internal control over financial reporting as of December 31, 2016. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements could occur but will not be prevented or detected on a timely basis.

Sikorsky was acquired on November 6, 2015 and generated about 10% of our total net sales for the year ended December 31, 2016. Prior to 2016, Sikorsky was not included in assessments of the effectiveness of our internal control over financial reporting as the Securities and Exchange Commission (SEC) rules provide companies one year to assess controls at an acquired entity. Accordingly, within this period, we performed our first comprehensive assessment of the design and effectiveness of internal controls at Sikorsky and determined that Sikorsky's internal control over financial reporting was ineffective as of December 31, 2016. Specifically, Sikorsky did not adequately identify, design and implement appropriate process-level controls for its processes and appropriate information technology controls for its information technology systems, including Sikorsky's contract accounting / sales recognition processes, inventory accounting process and payroll process. There were no material errors in the financial results or balances identified as a result of the control deficiencies, and there was no restatement of prior period financial statements and no change in previously released financial results were required as the result of these control deficiencies.

Our independent registered public accounting firm has issued a report expressing an adverse opinion on the effectiveness of our internal control over financial reporting, which is below.

#### **Remediation Efforts to Address Material Weakness**

Management has and will continue to enhance the risk assessment process and design of internal control over financial reporting at Sikorsky. This includes initiation of compensating controls and enhanced and revised design of existing financial reporting controls, information technology applications and procedures at Sikorsky. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal year 2017.

## **Changes in Internal Control Over Financial Reporting**

Other than with respect to the remediation efforts described above, 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.

**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, 2016, based on criteria established in *Internal Control over Financial Reporting* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management identified a material weakness in the design and operation of internal controls, including information technology controls, within Sikorsky's processes (including the contract accounting / sales recognition processes, inventory accounting process, and payroll process). 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, 2016 and 2015, and the related consolidated statement of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated February 9, 2017, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Lockheed Martin Corporation has not maintained effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.



**ITEM 9B. Other Information.**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information concerning directors required by Item 401 of Regulation S-K is included under the caption “Proposal 1 – Election of Directors” in our definitive Proxy Statement to be filed pursuant to Regulation 14A (the 2017 Proxy Statement), and that information is incorporated by reference in this Form 10-K. Information concerning executive officers required by Item 401 of Regulation S-K is located under Part I, Item 4(a) of this Form 10-K. The information required by Item 405 of Regulation S-K is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2017 Proxy Statement, and that information is incorporated by reference in this Form 10-K. The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is included under the captions “Committees of the Board of Directors – 2016 Membership on Board Committees” and “Committees of the Board of Directors – Audit Committee Report” in the 2017 Proxy Statement, and that information is incorporated by reference in this Form 10-K.





- 2.6 Amendment dated as of June 27, 2016 to Separation Agreement, dated as of January 26, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation (incorporated by reference to Exhibit 2.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2016). The schedules to the amendment have been omitted pursuant to Item 601(b)(2) of Regulation S-K, and such schedules and attachments will be furnished to the SEC upon request.
- 3.1 Charter of Lockheed Martin Corporation, as amended by Articles of Amendment dated April 23, 2009 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-11437)).
- 3.2 Bylaws of Lockheed Martin Corporation, as amended and restated effective September 22, 2016 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 22, 2016).
- 4.1 Indenture, dated May 15, 1996, among Lockheed Martin Corporation, Lockheed Martin Tactical Systems, Inc. and First Trust of Illinois, National Association as Trustee (incorporated by reference to Exhibit 4.A to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 20, 1996 (File No. 001-11437)).
- 4.2 Indenture, dated as of August 30, 2006, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 31, 2006 (File No. 001-11437)).
- 4.3 Indenture, dated as of March 11, 2008, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on March 12, 2008 (File No. 001-11437)).
- 4.4 Indenture, dated as of May 25, 2010, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 25, 2010 (File No. 001-11437)).
- 4.5 Indenture, dated as of September 6, 2011, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 8, 2011 (File No. 001-11437)).
- 4.6 Indenture, dated as of December 14, 2012, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on December 17, 2012).

See also Exhibits 3.1 and 3.2.

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

- 10.1 364-Day Credit Agreement dated as of October 9, 2015, among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on October 13, 2015).
- 10.2 Five-Year Credit Agreement dated as of October 9, 2015, among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on October 13, 2015).
- 10.3 Extension Agreement dated as of October 7, 2016 by and among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on October 7, 2016).
- 10.4 Lockheed Martin Corporation Directors Deferred Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 001-11437)).
- 10.5 Lockheed Martin Corporation Directors Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-11437)).

- 10.6 Martin Marietta Corporation Directors' Life Insurance Program (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation's Registration Statement on Form S-4 (File No. 033-57645) filed with the SEC on February 9, 1995).
- 10.7 Lockheed Martin Corporation Directors Equity 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 November 2, 2006 (File No. 001-11437)).
- 10.8 Lockheed Martin Corporation 2009 Directors Equity Plan (incorporated by reference to Appendix E to Lockheed Martin Corporation's Definitive Proxy Statement on schedule 14A filed with the SEC on March 14, 2008 (File No. 001-11437)).
- 10.9 Lockheed Martin Corporation Supplemental Savings Plan, as amended and restated effective January 1, 2015 (incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015).
- 10.10 Lockheed Martin Corporation Deferred Management Incentive Compensation Plan, as amended and restated effective May 16, 2016 (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2016).
- 10.11 Lockheed Martin Corporation Amended and Restated 2006 Management Incentive Compensation Plan (Performance Based), amended and restated effective January 1, 2016 (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 2, 2016).
- 10.12 Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.17 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-11437)).
- 10.13 Forms of Stock Option Award Agreements under the Lockheed Martin Corporation 2003 Incentive



- 10.23 Form of Restricted Stock Unit Award Agreement, Form of Long-Term Incentive Performance Award Agreement (2015-2017 performance period), and Form of Performance Stock Unit Award Agreement (2015-2017 performance period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.30 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.24 Form of Restricted Stock Unit Award Agreement, Form of Performance Stock Unit Award Agreement (2016-2018 performance period), and Form of Long-Term Incentive Performance Award Agreement (2016-2018 performance period) under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (incorporated by reference to Exhibits 10.2, 10.3 and 10.4, respectively, to Lockheed Martin Corporation's Current Report on Form 8-K filed on February 2, 2016).
- 10.25 Lockheed Martin Corporation Consolidated Supplemental Retirement Benefit Plan.
- 10.26 Lockheed Martin Corporation Executive Severance Plan, as amended and restated effective December 1, 2016.
- 10.27 Amendment to Terms of Outstanding Restricted Stock Unit Awards and Performance Stock Unit Awards under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan Relating to Tax Withholding.
- 12 Computation of ratio of earnings to fixed charges.
- 21 Subsidiaries of Lockheed Martin Corporation.
- 23 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 24 Powers of Attorney.



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**CERTIFICATION OF MARILLYN A. HEWSON PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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 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;

**CERTIFICATION OF BRUCE L. TANNER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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

**CERTIFICATION OF MARILLYN A. HEWSON AND BRUCE L. TANNER PURSUANT TO 18 U.S.C. SECTION  
1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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**NON-GAAP DEFINITION AND RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES**

Our non-GAAP measures are defined as follows: **Adjusted Earnings** is defined as Earnings before interest and taxes, excluding the effect of non-recurring items, and excluding the effect of certain non-recurring items. **Adjusted Earnings** is defined as Earnings before interest and taxes, excluding the effect of non-recurring items, and excluding the effect of certain non-recurring items. **Adjusted Earnings** is defined as Earnings before interest and taxes, excluding the effect of non-recurring items, and excluding the effect of certain non-recurring items.

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	2016	2015	2014
Adjusted Earnings	\$47,248	\$	\$
Adjusted Earnings	\$ 5,549	\$	\$
Adjusted Earnings	449		\$



## **GENERAL INFORMATION**

As of December 31, 2016, there were approximately 28,725 holders of record of Lockheed Martin common stock and 290,304,962 shares outstanding.

### **TRANSFER AGENT & REGISTRAR**

Computershare Trust Company, N.A.

Shareholder Services

P.O. Box 30170

College Station, TX 77842-3170

Telephone: 1-877-498-8861

TDD for the hearing impaired: 1-800-952-9245

