2006 FINANCIAL HIGHLIGHTS[1]

(In millions, except per share data)	**2006**	2005	2004
Net sales	**$39,620**	$37,213	$35,526
Operating profit from business segments	**4,048**	3,432	2,976
Consolidated operating profit	**3,953**	2,986	2,089
Net earnings	**2,529**	1,825	1,266
Earnings per diluted share	**5.80**	4.10	2.83
Average diluted common shares outstanding	**436.4**	445.7	447.1
Net cash provided by operating activities	**$ 3,783**	$ 3,194	$ 2,924
Cash dividends per common share	**1.25**	1.05	0.91
Cash, cash equivalents and short-term investments	**2,293**	2,673	1,456
Total assets	**28,231**	27,744	25,554
Total debt	**4,439**	4,986	5,119
Stockholders' equity	**6,884**	7,867	7,021
Common shares outstanding at year-end	**421**	432	438
Debt-to-total-capital ratio	**39%**	39%	42%
Return on invested capital[2]	**19.2%**	14.5%	10.8%

NOTES:

[1] *For a discussion of matters affecting comparability of the information presented above, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 32 through 55 of our 2006 Form 10-K included in this Annual Report.*

[2] *For additional information concerning return on invested capital, including its definition, use and method of calculation, see Note (f) to the Consolidated Financial Data—Five Year Summary on page 31 of our 2006 Form 10-K included in this Annual Report.*

Dear Fellow Stockholders,

Corporate Directory

[illegible]

Board of Directors

[illegible]

Executive Officers

[illegible]

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

Form 10-K

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

For the fiscal year ended December 31, 2006

Commission file number 1-11437

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

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

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

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

Title of Each Class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange, Inc.

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second quarter.

Approximately $30.4 billion as of June 30, 2006.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. Common Stock, $1 par value, 422,481,655 shares outstanding as of January 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Lockheed Martin Corporation's 2007 Definitive Proxy Statement are incorporated by reference in Part III of this Form 10-K.

LOCKHEED MARTIN CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2006

CONTENTS

PART I

ITEM 1. BUSINESS

[illegible]

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

In 2006, 84% of our net sales were made to the U.S. Government, either as a prime contractor or as a subcontractor. Our U.S. Government sales were made to both Department of Defense (DoD) and non-DoD agencies. Sales to foreign governments (including foreign military sales funded, in whole or in part, by the U.S. Government) amounted to 13% of net sales in 2006, while 3% of our net sales were made to commercial and other customers.

Our principal executive offices are located at 6801 Rockledge Drive, Bethesda, Maryland 20817-1877. Our telephone number is (301) 897-6000. Our website home page on the Internet is www.lockheedmartin.com. We make our website

Aeronautics

Aeronautics is engaged in the design, research and development, systems integration, production, sustainment, support

Nighthawk, the world’s first operational low observable (stealth) fighter. During 2006, the F-117 fleet marked its 25th year of operational service and 250,000th flight hour milestone with the U.S. Air Force.

Air Mobility

In Air Mobility, we design, develop, produce and provide full system support and sustainment of tactical and strategic airlift aircraft. Our major programs include production, support and sustainment of the C-130J Super Hercules, support of the legacy C-130 fleet, support of the existing C-5A/B/C fleet and development, installation and support of the emerging C-5M Super Galaxy fleet.

C-130J

The C-130J Super Hercules is an advanced technology, tactical transport aircraft offering improved performance and reliability, and reduced operating and support cost, compared to earlier C-130 models. The C-130J incorporates state-of-the-art cockpit design and avionics, a more powerful and efficient propulsion system and other innovations into a

Maritime Systems & Sensors

Maritime Systems & Sensors (MS2) provides ship systems integration services, surface ship and submarine combat systems, sea-based missile defense systems, sensors, tactical avionics, port traffic management systems, missile launching systems, aerostat surveillance systems, and supply chain management programs and systems.

The AEGIS weapon system is a fleet defense system and the sea-based element of the U.S. missile defense system. It is a radar and missile system, integrated with its own command and control system, intended to defend against advanced air, surface and subsurface threats. The AEGIS program encompasses activities in development, production, ship integration and test and lifetime support for ships at sea. We manufacture major portions of the AEGIS weapon system for the U.S. Navy and international customers. We test and integrate weapon systems for the U.S. Navy’s Ticonderoga class cruiser and Arleigh Burke class destroyer, along with the Kongo class destroyer for Japan, the F100 and F105 class frigates for Spain, the Fridtjof Nansen class frigate for Norway, the KDX class destroyer for Korea and the Hobart class air warfare destroyer for Australia. Since program inception in 1978, MS2 has received contracts for 111 AEGIS weapons systems, including 27 for the Ticonderoga class cruiser, 62 for the Arleigh Burke class destroyer and 22 for other systems. We delivered the 100th AEGIS weapon system to the U.S. Navy in November 2006.

In 2006, the U.S. Army awarded MS2 a contract to provide five prototype units of the EQ-36 Counterfire Target Acquisition Radar. We successfully launched the USS Freedom, the first in a new class of Littoral Combat Ships (LCS) that are designed to give the U.S. Navy added flexibility to operate in coastal waters. In June, the U.S. Navy exercised an option to purchase the third LCS, the second from Lockheed Martin. The third ship is currently under a 90-day stop work order issued by the U.S. Navy on January 12, 2007, to allow the Navy time to assess the total cost of the LCS ships.

Additionally, in 2006 the Deepwater contract that we co-lead for the U.S. Coast Guard through a joint venture was awarded an extension of an additional 43 months beyond the base-term contract completion date of June 2007. We perform work related to air domain and command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) on the Deepwater program.

Missiles & Fire Control

Missiles & Fire Control develops and produces land-based, air, and theater missile defense systems, tactical battlefield missiles, electro-optical systems, fire control and sensor systems, and precision-guided weapons and munitions.

The THAAD program is a transportable defensive missile system designed to engage targets both inside and outside of the Earth’s atmosphere. The THAAD system is comprised of the THAAD fire control and communication units, missiles, radars, launchers and ground support equipment. The program, currently in the development phase, has conducted three successful test flights in three attempts. During 2006, we secured the initial THAAD production contract for two fire units.

The PAC-3 missile is an advanced defensive missile designed to intercept incoming airborne threats. We were awarded a fourth U.S. production contract in April 2006 for 112 PAC-3 missiles and a fifth U.S. production contract in December 2006 for 112 PAC-3 missiles.

The Arrowhead fire control system provides modernized targeting and piloting capabilities to the U.S. Army and other international customers for Apache helicopter crews, continuing our over 20-year legacy of providing pilot night-vision sensors and targeting capabilities for the Apache. More than 1,000 sensor systems have been delivered to the U.S. Army and foreign military customers since 1983. The Arrowhead kits will replace certain legacy hardware on the U.S. Army and other international customers’ Apache helicopters to provide a modernized sensor for safer flight in day, night and bad weather missions and improved weapons targeting capability. The initial Arrowhead production contract was awarded in 2003, with major new awards received in 2006 for Arrowhead Lot 3 from the U.S. Army and for United Kingdom production from Westland Helicopters Limited.

Missiles & Fire Control received a number of new contracts and follow-on orders and achieved key program milestones in 2006. We lead a multinational venture that is developing the Medium Extended Air Defense System (MEADS), a mobile air defense system designed to replace Patriot systems used by the United States and Germany and Nike Hercules systems in Italy. The Small Diameter Bomb II Seeker Risk Reduction award was received to develop and demonstrate a multimode seeker capability for the F-35 and F-22 aircraft. A competitive down select is planned in 2009 for SDD, limited rate initial production and full rate production of up to 12,000 units. The Joint Air-to-Surface Standoff Missile (JASSM) secured its first international customer, Australia, in 2006. JASSM is an autonomous, long-range, conventional, air-to-ground precision standoff missile for the U.S. Air Force and Navy.

Our Platform, Training & Transportation Systems (PT&TS) business integrates mission-specific applications for fixed and rotary-wing platforms, develops and integrates postal automation and material handling systems, and provides information management solutions for government customers. PT&TS also provides simulation, training and support services, integrates advanced air traffic control systems and develops homeland security systems and products.

The segment is heavily dependent on both DoD and non-DoD agencies of the U.S. Government as customers. In 2006, U.S. Government customers accounted for approximately 92% of the segment's total net sales.

I

Our Information Technology business provides IT support to federal, state and local government agencies. Our customers include the U.S. Social Security Administration, FAA, U.S. Environmental Protection Agency (EPA), DoD, Department of Energy (DoE), NASA, and the Departments of Justice and Health and Human Services. We provide program management, business process management and consulting, complex systems development and maintenance, complete life-cycle software support, information assurance, managed services and enterprise solutions. Much of the work we perform is contracted through task order vehicles (indefinite-delivery/indefinite-quantity contracts) or a Government Services Administration schedule. In 2006, IT contracts we were awarded included FBI Sentinel, Army Corps of Engineers IT outsourcing and the Army's Information Technology and Enterprise Services program.

D

Our Defense business provides a wide range of professional, engineering and technical solutions and services for DoD, DHS, the U.S. intelligence community and several foreign governments. We provide solutions for IT-related programs, training and simulation, document management and supply chain management. We perform aircraft and aircraft-engine maintenance, modifications, repair and overhaul. In addition, we manage mission critical infrastructure and systems. We provide operation management, integration and assembly, maintenance, logistics and engineering functions for a wide array of military systems. These include aircrew training, and flight-simulator engineering support and assembly. We install, integrate, upgrade and perform repair services for a variety of aircraft, computer, communications, command and control, radar, target, simulation and surveillance systems. We also provide facility support, field teams, spacecraft transportation, "clean-room"- based satellite processing, launch pad activation, satellite early-orbit test and checkout, satellite mission operations, ground systems development and sustainment and post-processing information analysis and related ground systems sustainment.

With the acquisition of Pacific Architects and Engineers, Inc. in September 2006, we provide peacekeeping, nation-building and military readiness services throughout the world for the DoD, Department of State, allied governments and international agencies. These services include base camp construction, logistics, democratization services and management of embassies, air terminals, base camps and other facilities.

Our Defense business also manages two large laboratory facilities in the U.S. for the DoE and participates in the management of a large facility in the United Kingdom. The Knolls Atomic Power Laboratory designs nuclear reactors for the U.S. Navy. It also supports the existing fleet of nuclear powered ships and trains the U.S. Navy personnel who operate those ships. Sandia National Laboratories supports the stewardship of the U.S. nuclear weapons stockpile, developing sophisticated research and technology in the areas of engineering sciences, materials and processes, pulsed power, micro-electronics and photonics, micro-robotics, and computational and information sciences. In the United Kingdom, we own one-third of a joint venture that manages the Atomic Weapons Establishment program.

In 2006, we received a number of new and follow-on contracts, including awards from the U.S. Air Force of a one-year award term extension of our aircraft engine maintenance program at Kelly Aviation Center, from the U.S. Army for the Strategic Services Sourcing contract, from the Defense Logistics Agency for the Integration Prime Vendor program, from DHS for the National Exercise Program and from classified agencies for the Infrastructure Support Services contract and Facility, Security and Logistics Support contracts.

A A

For NASA, we provide engineering, science and information services at several NASA centers. We perform or provide mission operations, flight hardware and payload development and integration, engineering and technical support for life sciences, IT engineering design and support services, and software design, development and process control. This line of business has been decreasing in size in recent years. In 2006, we received a follow-on contract from NASA for mission support at Johnson Space Center.

C

IT&GS competes against other aerospace and defense firms, IT service providers and other service companies. The competitive landscape is highly fragmented with no single company or small group of companies in dominant positions. Customer contracts are often awarded on an indefinite delivery-indefinite quantity (IDIQ) basis. The principal factors of competition include price, technical and management capability, past performance and, increasingly, the ability to develop and implement complex, integrated solutions to meet the challenges facing government customers across their entire enterprise. On some outsourcing procurements, we may also compete with a government-led bidding entity.

Integrated Systems & Solutions

Integrated Systems & Solutions is engaged in the design, research, development, integration and management of net-centric solutions supporting the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) activities of the DoD, intelligence agencies, other federal agencies and allied countries. IS&S

We are the prime contractor for the U.S. Air Force's Integrated Space Command & Control program. Our primary role is to integrate and modernize air, missile and space command and control infrastructure. This program provides for the evolution, sustainment and support of the U.S. Space Command legacy command and control systems into a net-centric, modern system architecture that will provide data in a single common operational picture.

The Range Standardization and Automation program provides support to the U.S. Air Force in the consolidation and automation of critical range telemetry, tracking, safety and management systems for space launch operations at Vandenberg Air Force Base and Kennedy Space Center. This program provides integrated launch data in a common operational picture for the customer.

The range of products and services at IS&S results in competition with other large aerospace, defense and information technology companies, as well as with numerous smaller competitors. The principal competitive discriminators include technical and management capability, the ability to develop and implement complex, integrated system architectures, price and past performance. Program requirements frequently result in the formation of teams such that companies teamed on one program are competitors for another.

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

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

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

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

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

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

Ba .

At December 31, 2006, our total negotiated backlog was $75.9 billion compared with $74.8 billion at the end of 2005. Of our total 2006 year-end backlog, approximately $47.0 billion, or 62%, is not expected to be filled within one year.

These amounts include both funded backlog (unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer – Congress, in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not been appropriated). We do not include unexercised options or potential indefinite-delivery/ indefinite-quantity (IDIQ) orders in our backlog. If any of our contracts are terminated by the U.S. Government, our backlog would be reduced by the expected value of the remaining terms of such contracts. Funded backlog was $40.8 billion at December 31, 2006. The backlog for each of our business segments is provided as part of Management's Discussion and Analysis – "Discussion of Business Segments" on pages 43 through 49 of this Form 10-K.

[illegible]

We conduct research and development activities under customer-funded contracts and with our own independent trained individuals with those skills has not matched demand. As a result, we are competing with other companies with similar needs in hiring skilled employees. Management considers employee relations to be good.

Developing and implementing new technologies entails significant risks and uncertainties and may not be covered by indemnity or insurance.

materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have an adverse effect upon our profitability.

We use estimates in accounting for many of our programs. Changes in our estimates could affect our future financial results.

Contract accounting requires judgment relative to assessing risks, estimating contract sales and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total sales and cost at completion is complicated and subject to many variables. For example, assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, assumptions have to be made regarding the future impacts of efficiency initiatives and cost reduction efforts. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award and incentive fees are also used in estimating sales and profit rates based on actual and anticipated awards.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. For additional information on accounting policies and internal controls we have in place for recognizing sales and profits, see our discussion under Management's Discussion and Analysis – "Critical Accounting Policies – Contract Accounting/ Revenue Recognition" on pages 36 through 38 and "Controls and Procedures" on page 55, and Note 1 – Significant Accounting Policies on pages 63 through 67 of this Form 10-K.

New accounting standards could result in changes to our methods of quantifying and recording accounting transactions, and could affect our financial results and financial position.

Changes to Generally Accepted Accounting Principles in the United States (GAAP) arise from new and revised standards, interpretations and other guidance issued by the Financial Accounting Standards Board, the SEC, and others. In in suspension of our ability to export items from one or more business units or the entire corporation. Depending on the scope of the suspension, this could have a material effect on our ability to perform certain international contracts. There are also U.S. and international regulations relating to investments, exchange controls and repatriation of earnings, as well as varying currency, political and economic risks. Our contracts, however, generally are denominated in U.S. dollars. We also frequently team with international subcontractors and suppliers, and are exposed to similar risks.

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

Some international customers require contractors to comply with industrial cooperation regulations and enter into

Unforeseen environmental costs could impact our future earnings.

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

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

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

In addition, general economic conditions and trends, including interest rates, government budgets and inflation, can and do affect our businesses. For a discussion identifying additional risk factors and important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the preceding discussion of Risk Factors on pages 18 through 24, Government Contracts and Regulation on pages 16 through 17, "Industry Considerations" in Management's Discussion and Analysis on pages 33 through 36, Note 1 – Significant Accounting Policies on pages 63 through 67, and "Critical Accounting Policies" in Management's Discussion and Analysis on pages 36 through 40 of this Form 10-K. Other factors, in addition to those described, may affect our forward-looking statements or actual results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2006, we operated in 500 locations (including, offices, manufacturing plants, warehouses, service centers, laboratories and other facilities) throughout the United States and internationally. Of these, we owned 48 locations various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Environmental Matters" on page 40, and Note 14 – Legal Proceedings, Commitments and Contingencies on pages 82 through 85 of this Form 10-K.

Like many other industrial companies in recent years, we are a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into our premises and certain historical products. We have never mined or produced

Joanne M. Maguire (52), Executive Vice President – Space Systems

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

PART II

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

At January 31, 2007, we had 41,350 holders of record of our common stock, par value $1 per share. Our common stock is traded on the New York Stock Exchange, Inc. under the symbol LMT. Information concerning the stock prices as reported

[illegible]

The following table provides information about our repurchases of common stock during the three-month period ended December 31, 2006.

Period	*Total Number of Shares Purchased*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Program* (1)	*Maximum Number of Shares That May Yet Be Purchased Under the Program* (2)

ITEM 6. SELECTED FINANCIAL DATA

(In millions, except per share data and ratios)	**2006**[a]	2005[b]	2004[c]	2003[d]	2002[e]
OPERATING RESULTS					
Net sales	**$39,620**	$37,213	$35,526	$31,824	$26,578
Cost of sales	**36,186**	34,676	33,558	29,848	24,629
	3,434	2,537	1,968	1,976	1,949
Other income and expenses, net	**519**	449	121	43	(791)
Operating profit	**3,953**	2,986	2,089	2,019	1,158
Interest expense	**361**	370	425	487	581
Earnings from continuing operations before income taxes	**3,592**	2,616	1,664	1,532	577
Income tax expense	**1,063**	791	398	479	44
Earnings from continuing operations	**2,529**	1,825	1,266	1,053	533
Loss from discontinued operations	**—**	—	—	—	(33)
Net earnings	**$ 2,529**	$ 1,825	$ 1,266	$ 1,053	$ 500
EARNINGS (LOSS) PER COMMON SHARE					
Basic:					
Continuing operations	**$ 5.91**	$ 4.15	$ 2.86	$ 2.36	$ 1.20
Discontinued operations	**—**	—	—	—	(0.07)
	$ 5.91	$ 4.15	$ 2.86	$ 2.36	$ 1.13
Diluted:					
Continuing operations	**$ 5.80**	$ 4.10	$ 2.83	$ 2.34	$ 1.18
Discontinued operations	**—**	—	—	—	(0.07)
	$ 5.80	$ 4.10	$ 2.83	$ 2.34	$ 1.11

Notes to Five Year Summary

(a) Includes the effects of items not considered in the assessment of the operating performance of our business segments (see the section, “Results of Operations – Unallocated Corporate (Expense) Income, Net” in Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)) which, on a combined basis, increased earnings from continuing operations before income taxes by $214 million, $139 million after tax ($0.31 per share). Also includes a reduction in income tax expense of $62 million ($0.14 per share) resulting from a tax benefit related to claims we filed for additional extraterritorial income exclusion (ETI) tax benefits. These items increased earnings by $201 million after tax ($0.45 per share).

(b) Includes the effects of items not considered in the assessment of the operating performance of our business segments (see the section, “Results of Operations – Unallocated Corporate (Expense) Income, Net” in MD&A) which, on a combined basis, increased earnings from continuing operations before income taxes by $173 million, $113 million after tax ($0.25 per share).

(c) Includes the effects of items not considered in the assessment of the operating performance of our business segments (see the section, “Results of Operations – Unallocated Corporate (Expense) Income, Net” in MD&A) which, on a combined basis, decreased earnings from continuing operations before income taxes by $215 million, $154 million after tax ($0.34 per share). Also includes a reduction in income tax expense resulting from the closure of an Internal Revenue Service examination of $144 million ($0.32 per share). These items reduced earnings by $10 million after tax ($0.02 per share).

(d) Includes the effects of items not considered in the assessment of the operating performance of our business segments which, on a combined basis, decreased earnings from continuing operations before income taxes by $153 million, $102 million after tax ($0.22 per share).

(e) Includes the effects of items not considered in the assessment of the operating performance of our business segments which, on a combined basis, decreased earnings from continuing operations before income taxes by $1,112 million, $632 million after tax ($1.40 per share).

(f) We define return on invested capital (ROIC) as net earnings plus after-tax interest expense divided by average invested capital (stockholders’ equity plus debt), after adjusting stockholders’ equity by adding back adjustments related to postretirement benefit plans. We believe that reporting ROIC provides investors with greater visibility into how effectively we use the capital invested in our operations. We use ROIC to evaluate multi-year investment decisions and as a long-term performance measure, and also use it as a factor in evaluating management performance under certain of our incentive compensation plans. ROIC is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. ROIC should not be considered in isolation or as an alternative to net earnings as an indicator of performance. We calculate ROIC as follows:

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

The financial section of our Annual Report includes management's discussion and analysis, our consolidated financial statements, notes to those financial statements and a five-year summary of financial information. We have prepared the following summary, or "roadmap," to assist in your review of the financial section. It is designed to give you an overview of financial statements, information about significant events or transactions that have occurred, discussions about legal proceedings, commitments and contingencies, and selected financial information relating to our business segments. The notes to the financial statements also are prepared in accordance with GAAP.

Highlights

The financial section of our Annual Report describes our ongoing operations, including discussions about particular lines of business or programs, our ability to finance our operating activities, and trends and uncertainties in our industry and how they might affect our future operations. We also discuss those items affecting our results that were not considered in senior management's assessment of the operating performance of our business segments. We separately disclose these items to assist in your evaluation of our overall operating performance and financial condition of our consolidated company. We would like to draw your attention to the following items disclosed in this financial section and where you will find them:

Topic	Location(s)
Critical accounting policies:	
Contract accounting/revenue recognition	Page 36 and page 64
Postretirement benefit plans	Page 38 and page 77
Environmental matters	Page 40, page 64 and page 83
Discussion of business segments	Page 43 and page 85
Liquidity and cash flows	Page 49 and page 63
Capital structure and resources	Page 50, page 60, page 62 and page 74
Legal proceedings, commitments and contingencies	Page 52 and page 82
Stock-based compensation	Page 42, page 66 and page 75

Department of Defense Business

The President's budget proposal for fiscal years 2008-2012 focuses on achieving a balanced budget while addressing the nation's most critical needs and prosecuting the global war on terrorism. The Administration's priorities include a strong national defense, tax relief to support economic growth, enhanced energy security, affordable health care, and further education improvement. Approximately 60% of the budget is devoted to defense and other matters of national security. Customer requirements for defense and related advanced technology systems for 2007 and beyond will continue to be affected by the global war on terrorism through the continued need for military missions and reconstruction efforts in Iraq and Afghanistan and the related fiscal consequences of war.

For fiscal year 2008, the President's budget includes $481.4 billion for the Department of Defense (the DoD), reflecting the Administration's commitment to continued modernization of our Armed Forces while prosecuting the war on terrorism. This amount, called the base budget, excludes any funding for ongoing military operations in Iraq and Afghanistan and the global war on terrorism. These costs, discussed below, are requested as emergency supplemental funding. The fiscal year 2008 DoD base budget is an increase of $45.9 billion, or 10.5% over the fiscal year 2007 base budget. The 2008 DoD base budget includes $101.7 billion for procurement of systems (Procurement) and $75.1 billion for research, development, test, and evaluation (RDT&E), known as the investment accounts. The current year's budget represents a nearly 8% increase in the investment accounts over fiscal year 2007 levels.

The Operations and Maintenance accounts, which contain the bulk of funding for training, logistics, services, and other sustainment activities, total approximately $164.7 billion for fiscal year 2008, an increase of $16.1 billion, or nearly 11%, over fiscal year 2007 levels. The balance of the budget, including amounts for military personnel and military construction, is funded at $139.9 billion, compared to the fiscal year 2007 level of $130.5 billion.

Over the Fiscal Years 2008-2012 Future Years Defense Plan (FYDP), total DoD funding is expected to rise to $538.5 billion in 2012, or 23.7% higher than the fiscal year 2007 budget. Total funding for the DoD over the first four years covered by the fiscal year 2008 FYDP proposal is $2,047 billion, an increase of $100 billion from the corresponding four fiscal years in the fiscal year 2007 plan released one year ago.

In addition to the base DoD budget, the 2008 budget proposal includes $285.1 billion in supplemental funding for those expected to be needed early in fiscal year 2008. In addition, the Administration has included an estimate of $50 billion in the fiscal year 2009 DoD budget projection for continuing costs of the Iraq and Afghanistan deployments.

Spending for procurement of equipment and systems comprises about 24%, or $72.6 billion, of these requested supplemental funds for fiscal year 2007 and 2008, reflecting the Administration's broadened definition of emergency funding related to the global war on terrorism. Supplemental funding enables the DoD to proceed on critical modernization and acquisition programs, versus using amounts available for those programs to pay for the Iraq and Afghanistan missions. While Congress has expressed concern about the size of supplemental budgets, it is unlikely that funding for ongoing operations will be significantly curtailed by Congress and, thus, we do not believe that operations in Iraq and Afghanistan will materially impact the investment accounts in the near term.

We believe our broad mix of programs and capabilities continues to position us favorably to support the current and future needs of the DoD. Our strong positions in air-power projection, precision-strike capability, and air mobility aircraft are strongly supported in the 2008 DoD budget request. Two of our more significant programs are the F-22 Raptor air dominance fighter and the F-35 Lightning II Joint Strike Fighter. The President's fiscal year 2008 budget request includes $4.6 billion for the F-22 program to continue production of the aircraft under a multiyear contract expected to be entered into this year, and $6.1 billion for the F-35 program, including procurement of 12 aircraft. In addition, funding of $420 million is proposed to support the last year of production under the C-130J multiyear contract, with 29 additional aircraft included in the supplemental funding requests. The Air Force budget also supports our contract to upgrade the C-5 strategic airlift aircraft.

We are also represented in almost every aspect of land, sea, air and space-based missile defense, including the AEGIS weapon system program, the Medium Extended Air Defense System (MEADS), the Patriot Advanced Capability (PAC-3) ract toacndo onin46 436
missile program, the Terminal High Altitude Area Defense (THAAD) system, and the Multiple Kill Vehicle (MKV) program. In the areas of space intelligence and information superiority, we have leadership positions on programs such as the TSAT Mission Operations System (TMOS), Mobile User Objective System (MUOS), the Advanced Extremely High Frequency (AEHF) system, and the Space-Based Infrared System-High (SBIRS-H), and in classified programs. We are broadly positioned across (protar)95.1(systemIin)-(seEnneII)3[(reas)-316temmour -4333xtremesurveplet Highacre(ounaSATt)

of the Proton launch vehicle and provider of the related launch services. ILS was a joint venture between LKEI and us to market Atlas and Proton launch vehicles and services. In periods prior to the sale of these interests, we consolidated the results of operations of LKEI and ILS into our financial statements based on our controlling financial interest.

Contracts for Proton launch services usually required substantial advances from the customer prior to launch which were included as a liability on our balance sheet in customer advances and amounts in excess of costs incurred. At December 31, 2005, those advances totaled $315 million. A sizeable percentage of the advances we received from customers for Proton launch services were sent to Khrunichev and included on our balance sheet in inventories for launches under contract. At December 31, 2005, those payments to Khrunichev totaled $190 million. If a contracted launch service was not provided, the related advance would have to be refunded to the customer by LKEI. In the event LKEI did not refund the advance, we would have been responsible for making the payment to certain customers.

Under the sale agreement, we will continue to be responsible to refund advances to certain customers if launch services are not provided and ILS does not refund the advance. Due to this continuing involvement with those customers of ILS, many of the risks related to this business have not been transferred and we did not recognize this transaction as a divestiture for financial reporting purposes. We deferred recognition of a net gain of approximately $60 million that otherwise would have been recognized on the sale of our interests in LKEI and ILS, and have continued to include the related assets and liabilities on our balance sheet. Our ability to realize the deferred net gain is dependent upon Khrunichev providing the contracted launch services and, in the event the launch services are not provided, ILS's ability to refund the advance. Through December 31, 2006, all Proton launch services through LKEI were provided according to contract terms.

Other Business Considerations

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

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Generally, we record long-term, fixed-price design, development and production contracts on a percentage of completion basis using units-of-delivery as the basis to measure progress toward completing the contract and recognizing sales. For example, we use this method of revenue recognition on our C-130J tactical transport aircraft program and Multiple Launch Rocket System program. For certain other long-term, fixed-price development and production contracts that, along with other factors, require us to deliver minimal quantities over a longer period of time or to perform a substantial level of development effort in comparison to the total value of the contract, sales are recorded when we achieve performance milestones or using the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize sales based on the ratio of costs incurred to our estimate of total costs at completion. As examples, we use this methodology for our F-22 Raptor program and the AEGIS Weapon System program. In some instances, long-term production programs may require a significant level of development and/or a low level of initial production units in their early phases, but will ultimately require delivery of increased quantities in later, full rate production stages. In those cases, the revenue recognition methodology may change from the cost-to-cost method to the units-of-delivery method after considering, among other factors, program and production stability. As we incur costs under cost-reimbursement-type

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Revenue under contracts for services other than those associated with design, development or production activities is generally recognized either as services are performed or when a contractually required event has occurred, depending on the contract. This methodology is mainly used by our Information Technology & Global Services segment. Services contracts primarily include operations and maintenance contracts, and outsourcing-type arrangements. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these services contracts are expensed as incurred, except that initial “set-up” costs are capitalized and recognized ratably over the life of the agreement. Operating profit related to such services contracts may fluctuate from period to period, particularly in the earlier phases of the contract. Incentives and award fees related to performance on services contracts are recognized when they are fixed and determinable, generally at the date of award.

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The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under long-term bonds at the end of 2006, and how those yields might apply to our projected pension cash flows, we increased our discount rate assumption to 5.875% at December 31, 2006, compared to 5.625% used at the end of 2005. This change, together with other factors such as the effects of the actual return on plan assets over the past few years, resulted in our projecting that the amount of pension expense for 2007 will decrease by approximately 25% as compared to 2006 expense.

Environmental Matters

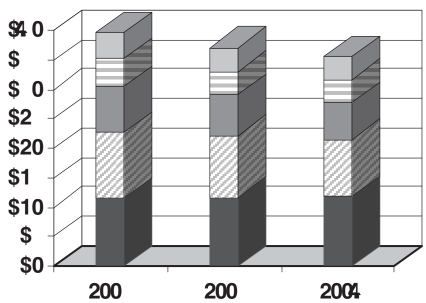
We are a party to various agreements, proceedings and potential proceedings for environmental cleanup issues, including matters at various sites where we have been designated a potentially responsible party (PRP) by the EPA or by a state agency. We record financial statement accruals for environmental matters in the period that it becomes probable that a liability has been incurred and the amounts can be reasonably estimated (see the discussion under “Environmental Matters” in Note 1 to the financial statements). Judgment is required when we develop assumptions and estimate costs expected to be

- 16 million of our Inmarsat plc shares for $89 million. In addition, primarily as a result of a successful initial public offering by Inmarsat, we recognized a gain of $42 million which had previously been deferred. Together, these transactions resulted in gains, net of state income taxes, totaling $126 million in other income and expenses, and increased net earnings by $82 million ($0.18 per share); and
- Our 25% interest in Intelsat, Ltd., which resulted in a gain, net of state income taxes, of $47 million in other income and expenses, and increased net earnings by $31 million ($0.07 per share).

In 2004, we sold our shares of New Skies Satellites, N.V. (New Skies) which resulted in a gain, net of state income taxes, of $91 million in other income and expenses, and an increase in net earnings of $59 million ($0.13 per share).

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

Net Sales
(In billions)



State income taxes are included in our operations as general and administrative costs and, under U.S. Government

In the following table of financial data, total operating profit of the business segments is reconciled to the corresponding consolidated amount. The reconciling item “Net unallocated Corporate expense” includes the FAS/CAS pension adjustment

Aeronautics

Aeronautics' operating results included the following:

(In millions)	***2006***	*2005*	*2004*
Net sales	**$11,401**	$11,672	$11,785
Operating profit	**1,170**	994	899
Backlog at year-end	**25,464**	29,580	30,489

Net sales for Aeronautics decreased by 2% in 2006 compared to 2005. The anticipated decline in net sales was due to a decline in Air Mobility sales that was partially offset by an increase in Combat Aircraft sales. Air Mobility sales declined by $524 million primarily due to C-130J deliveries (12 in 2006 compared to 15 in 2005) and lower volume on the C-5 program. Combat Aircraft sales increased by $279 million mainly due to higher F-35 and F-22 volume, partially offset by reduced volume on F-16 programs.

Net sales for Aeronautics decreased by 1% in 2005 compared to 2004. The decrease was mainly due to anticipated declines in Combat Aircraft, which were partially offset by growth in Air Mobility. Combat Aircraft sales decreased by $480 million for the year primarily due to declines in F-16 volume, which more than offset higher F-35 and F-22 volume. The sales growth in Air Mobility was due to additional C-130J deliveries (15 in 2005 compared to 13 in 2004) and higher volume

December 1, 2006, the date of closing. We accounted for the transfer at net book value, with no gain or loss recognized. If our proportionate share of ULA's net assets exceeds the book value of our investment, we would recognize the difference ratably over the next 10 years in other income and expenses. We currently anticipate that our 50% ownership share of ULA's net assets will exceed the book value of our investment in ULA, but that amount remains subject to adjustment based on the final working capital and value of other assets which we and Boeing contributed to ULA. In addition, under our agreement with Boeing, we could be required to make an additional cash contribution to ULA based on changes in the working capital of the business and other assets contributed. Any additional capital contribution would have the effect of increasing our investment and decreasing the difference between our investment and our share of ULA's net assets. This would decrease the amount that we would amortize and recognize in other income and expenses in the future. We currently estimate that the amount by which our share of ULA's net assets will exceed our investment will be between $200 million and $300 million. Both we and Boeing also have agreed to provide approximately $225 million in additional funding to ULA. As of December 31, 2006, we had provided $3 million of additional funding to ULA (see Note 14). The formation of ULA did not have a material impact on our consolidated results of operations or financial position for 2006.

We sold our ownership interests in LKEI and ILS in October 2006 (see related discussion on our "Space Business" under "Industry Considerations"). LKEI is a joint venture we had with Russian government-owned space firms which has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton family of rockets. In periods prior to the sale of these interests, we consolidated the results of operations of LKEI and ILS into our financial statements based on our controlling financial interest. In 2006, we recorded sales related to Proton launch services totaling approximately $110 million.

Net sales for IS&S increased by 6% in 2006 as compared to 2005 and by 7% in 2005 as compared to 2004. For both comparative periods, the sales increases were primarily attributable to a higher volume of intelligence, defense and information assurance activities.

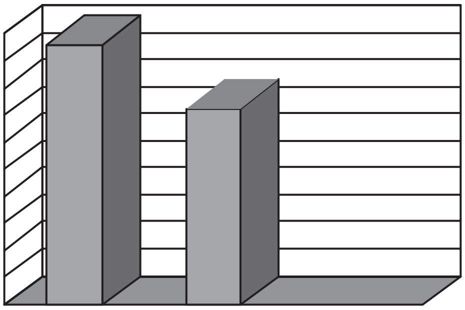
Operating profit for the segment increased 11% in 2006 as compared to 2005 and by 9% in 2005 as compared to 2004. The increases in operating profit for both comparative periods were primarily attributable to higher volume and performance improvements on the activities described above.

The increase in backlog during 2006 compared to 2005 was due to order volume in intelligence, defense and information assurance activities.

(In millions, except per share data)	*Operating Profit (Loss)*	*Net Earnings (Loss)*	*Earnings (Loss) Per Share*
Year ended December 31, 2005			
Gains related to Inmarsat transactions	$ 126	$ 82	$ 0.18
Gain on sale of interest in Intelsat	47	31	0.07
Gain on sale of interest in NeuStar	30	19	0.04
Impairment charge related to a satellite	(30)	(19)	(0.04)
	$ 173	$ 113	$ 0.25
Year ended December 31, 2004			
Charge for Pit 9 litigation	$(180)	$(117)	$(0.26)
Charge for early retirement of debt	(154)	(100)	(0.22)

In August 2006, we issued $1.1 billion of new 6.15% Notes due 2036 (the New Notes). The New Notes were issued in exchange for a portion of certain then outstanding debt securities (the Old Notes), and cash consideration of $343 million. Holders also received a cash payment representing accrued and unpaid interest on the Old Notes. We accounted for the transaction as an exchange of debt under EITF 96-19,

Return On Invested Capital Ratio



Long-term debt includes scheduled principal payments only. Generally, our long-term debt obligations are subject to, along with other things, compliance with certain covenants, including covenants limiting our ability and the ability of certain of our subsidiaries to encumber our assets.

Amounts related to other long-term liabilities in the preceding table represent the contractual obligations for certain long-term liabilities recorded as of December 31, 2006. Such amounts mainly include expected payments under deferred compensation plans, non-qualified pension plans, environmental liabilities and business acquisition agreements. Obligations related to environmental liabilities represent our estimate of remediation payment obligations under government consent decrees and agreements, excluding amounts reimbursed by the U.S. Government in its capacity as a potentially responsible party.

Purchase obligations related to operating activities include agreements and requirements contracts that give the supplier recourse to us for cancellation or nonperformance under the contract or contain terms that would subject us to liquidated damages. Such agreements and contracts may, for example, be related to direct materials, obligations to sub-contractors and outsourcing arrangements. Total purchase obligations in the preceding table include approximately $22 billion related to contractual commitments entered into as a result of contracts we have with our U.S. Government customers. However, the U.S. Government would generally be required to pay us for any costs we incur relative to these commitments if they were to terminate the related contracts "for convenience" pursuant to FAR. For example, if we had commitments to purchase goods and services that were entered into as a result of a specific contract we received from our U.S. Government customer and the customer terminated the contract for their convenience, any amounts we would be required to pay to settle the related commitments, as well as amounts previously incurred, would generally be reimbursed by the customer. This would also be true in cases where we perform sub-contract work for a prime contractor under a U.S. Government contract. The termination for convenience language may also be included in contracts with foreign, state and local governments. We also have contracts with customers that do not include termination for convenience provisions, including contracts with commercial customers.

Purchase obligations in the preceding table for capital expenditures generally include amounts for facilities and equipment at various of our locations, related to customer contracts.

We also may enter into industrial participation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. These agreements are designed to enhance the social and economic environment of the foreign country by requiring the contractor to promote investment in the country. Offset agreements may be satisfied through activities that do not require us to use cash, including transferring technology, providing manufacturing and other consulting support to in-country projects, and the purchase by third parties (*e.g.*, our vendors) of supplies from in-country vendors. These agreements may also be satisfied through our use of cash for such activities as purchasing supplies from in-country vendors, providing financial support for in-country projects, and building or leasing facilities for in-country operations. We do not commit to offset agreements until orders for our products or services are definitive. Offset programs generally extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements. No such penalties have been incurred during the last five years. The amounts ultimately applied against our offset agreements are based on negotiations with the customer and generally require cash outlays that represent only a fraction of the original amount in the offset agreement. At December 31, 2006, we had outstanding offset agreements totaling $8.2 billion, primarily related to our Aeronautics segment, that extend through 2016. To the extent we have entered into purchase obligations at December 31, 2006 that also satisfy offset agreements, those amounts are included in the preceding table.

With respect to the formation of ULA, both we and Boeing have committed to provide up to $25 million each as additional capital contributions and $200 million each in other financial support to ULA, as required. The non-capital funding will be made in the form of a revolving credit agreement between us and ULA or guarantees of ULA financing with third parties, in either case, to the extent necessary for ULA to meet its working capital needs. We have agreed to provide this support for at least five years, and would expect to fund our requirements with cash on hand. To satisfy our non-capital contracts. In some cases, we may also guarantee the contractual performance of third parties. At December 31, 2006, we had outstanding letters of credit, surety bonds and guarantees, as follows:

	Commitment Expiration By Period				
(In millions)	*Total Commitment*	*Less Than 1 Year* [(a)]	*1-3 Years* [(a)]	*3-5 Years*	*After 5 Years*
Standby letters of credit	$2,571	$2,421	$ 95	$ 49	$ 6
Surety bonds	502	204	298	—	—
Guarantees	21	—	21	—	—
Total commitments	$3,094	$2,625	$414	$ 49	$ 6

(a) Approximately $2,260 million and $18 million of standby letters of credit in the “Less Than 1 Year” and “1-3 Year” periods, respectively, and approximately $44 million of surety bonds in the “Less Than 1 Year” period, are expected to renew for additional periods until completion of the contractual obligation.

Included in the table above is approximately $180 million representing letter of credit and surety bond amounts for which related obligations or liabilities are also recorded on the balance sheet, either as reductions of inventories, as customer advances and amounts in excess of costs incurred, or as other liabilities. Approximately $2.0 billion of the standby letters of credit in the table above were to secure advance payments received under an F-16 contract from an international customer. These letters of credit are available for draw down in the event of our nonperformance, and the amount available will be reduced as certain events occur throughout the period of performance in accordance with the contract terms. Similar to the letters of credit for the F-16 contract, other letters of credit and surety bonds are available for draw down in the event of our nonperformance.

Under the agreement to sell our ownership interests in LKEI and ILS (see related discussion on our “Space Business” under “Industry Considerations”), we will continue to be responsible to refund customer advances to certain customers if launch services are not provided and ILS does not refund the advance. We expect to recognize the $60 million deferred net gain on the transaction when our responsibility to refund the advances expires, which we generally believe will be in 2008 based on the expected Proton launch schedule, which is subject to change. Our ability to realize the deferred net gain is dependent upon Khrunichev providing the contracted launch services or, in the event the launch services are not provided, ILS’s ability to refund the advance. The amount we could be required to pay is expected to increase over time due to the payment of additional advances by the customers to ILS related to the specific launches we have guaranteed, and will be reduced by the occurrence of those launches. At December 31, 2006, the total amount that could be payable under the guarantees, approximating the total contract value of the guaranteed launches, was $344 million. That amount may be partially mitigated by approximately $70 million of cash we retained that, absent any requirements to make payments under the guarantees, will be paid to the buyer over time as the launches occur. Our balance sheet at December 31, 2006 included current and noncurrent assets relating to LKEI and ILS totaling $265 million, and current and noncurrent liabilities totaling $335 million, both of which will be reduced as the launch services are provided. The assets relate primarily to advances we have made to Khrunichev for future launches, and the liabilities relate primarily to advances we have received from customers for future launches. Any potential earnings impact resulting from our inability to realize the assets we have recorded related to LKEI and ILS would be partially mitigated by our not recognizing the deferred gain on the transaction. Through December 31, 2006, Proton launch services provided through ILS were provided according to contract terms.

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Our main exposure to market risk relates to interest rates and foreign currency exchange rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At December 31, 2006, we had an agreement in place to swap variable interest rates on our $1.0 billion of convertible debentures based on LIBOR for a fixed interest rate through August 15, 2008. With this swap agreement, our long-term debt portfolio effectively bears interest at fixed rates. We have designated the agreement as a cash flow hedge of the forecasted LIBOR-based variable interest payments. Based on our evaluation at the inception of the hedging agreement and in subsequent periods, we expect the hedging relationship to be highly effective in achieving the offsetting cash flows attributable to the hedged variable interest payments, resulting in a fixed net interest expense reported on the statement of earnings. We determined that the hedging relationship remained effective at December 31, 2006. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At December 31, 2006, the fair value of the interest rate swap agreement was not material.

We use forward foreign exchange contracts to manage our exposure to fluctuations in foreign currency exchange rates, and generally do so in ways that qualify for hedge accounting treatment. These exchange contracts hedge the fluctuations in cash flows associated with firm commitments or specific anticipated transactions contracted in foreign currencies, or hedge the exposure to rate changes affecting foreign currency denominated assets or liabilities. Related gains and losses on these contracts, to the extent they are effective hedges, are recognized in income at the same time the hedged transaction is recognized or when the hedged asset or liability is adjusted. To the extent the hedges are ineffective, gains and losses on the contracts are recognized in the current period. At December 31, 2006, the fair value of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year then ended, were not material.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into agreements with those deemed to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties. We do not hold or issue derivative financial instruments for trading or speculative purposes.

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In July 2006, the FASB issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which is effective January 1, 2007. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain income tax positions in accordance with FAS 109, *Accounting for Income Taxes*. The cumulative effect of applying the provisions of this interpretation, which is required to be reported separately as a noncash adjustment to the opening balance

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Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited management's assessment, included in the accompanying Management's Report on the Financial Statements and Internal Control Over Financial Reporting, that Lockheed Martin Corporation maintained effective internal

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Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. 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

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[illegible]

(In millions, except per share data)	Year ended December 31, **2006**	2005	2004
[illegible]			
Products	**$33,863**	$31,518	$30,202
Services	**5,757**	5,695	5,324
	39,620	37,213	35,526
Cost of sales			
Products	**30,572**	28,800	27,879
Services	**5,118**	5,073	4,765
Unallocated Corporate costs	**496**	803	914
	36,186	34,676	33,558
	3,434	2,537	1,968
Other income and expenses, net	**519**	449	121
Operating profit	**3,953**	2,986	2,089
Interest expense	**361**	370	425
Earnings before taxes	**3,592**	2,616	1,664
Income tax expense	**1,063**	791	398
[illegible]	**$ 2,529**	$ 1,825	$ 1,266
[illegible]			
Basic	**$ 5.91**	$ 4.15	$ 2.86
Diluted	**$ 5.80**	$ 4.10	$ 2.83

See accompanying Notes to Consolidated Financial Statements.

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(In millions)	December 31, **2006**	2005
[illegible]		
Current assets		
Cash and cash equivalents	**$ 1,912**	$ 2,244
Short-term investments	**381**	429
Receivables	**4,595**	4,579
Inventories	**1,657**	1,921
Deferred income taxes	**900**	861
Other current assets	**719**	495
Total current assets	**10,164**	10,529
Property, plant and equipment, net	**4,056**	3,924
Goodwill	**9,250**	8,447
Purchased intangibles, net	**605**	560
Prepaid pension asset	**235**	1,360
Deferred income taxes	**1,487**	555
Other assets	**2,434**	2,369
	$28,231	$27,744
[illegible]		
Current liabilities		
Accounts payable	**$ 2,221**	$ 1,998
Customer advances and amounts in excess of costs incurred	**3,856**	4,331
Salaries, benefits and payroll taxes	**1,584**	1,475
Current maturities of long-term debt	**34**	202
Other current liabilities	**1,858**	1,422
Total current liabilities	**9,553**	9,428
Long-term debt, net	**4,405**	4,784
Accrued pension liabilities	**3,025**	2,097
Other postretirement benefit liabilities	**1,496**	1,277
Other liabilities	**2,868**	2,291
Stockholders' equity		
Common stock, $1 par value per share	**421**	432
Additional paid-in capital	**755**	1,724
Retained earnings	**9,269**	7,278
Accumulated other comprehensive loss	**(3,561)**	(1,553)
Other	**—**	(14)
Total stockholders' equity	**6,884**	7,867
	$28,231	$27,744

See accompanying Notes to Consolidated Financial Statements.

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(In millions)	Year ended December 31, 2006	2005	2004
[illegible]			
Net earnings	**$ 2,529**	$ 1,825	$ 1,266
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	**600**	555	511
Amortization of purchased intangibles	**164**	150	145
Deferred income taxes	**75**	24	(58)
Changes in operating assets and liabilities:			
Receivables	**94**	(390)	(87)
Inventories	**(530)**	(39)	519
Accounts payable	**217**	239	288
Customer advances and amounts in excess of costs incurred	**475**	296	(228)
Other	**159**	534	568
Net cash provided by operating activities	**3,783**	3,194	2,924
[illegible]			
Expenditures for property, plant and equipment	**(893)**	(865)	(769)
Acquisition of businesses / investments in affiliates	**(1,122)**	(564)	(91)
Divestitures of businesses / investments in affiliates	**180**	935	279
Sale (purchase) of short-term investments, net	**48**	(33)	(156)
Other	**132**	28	29
Net cash used for investing activities	**(1,655)**	(499)	(708)
[illegible]			
Issuances of common stock and related amounts	**756**	406	164
Repurchases of common stock	**(2,115)**	(1,310)	(673)
Common stock dividends	**(538)**	(462)	(405)
Premium and transaction costs for debt exchange	**(353)**	—	—
Repayments of long-term debt	**(210)**	(133)	(1,089)

(In millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Other	Total Stockholders' Equity	*Compre-hensive Income (Loss)*
Balance at December 31, 2003	$446	$ 2,477	$5,054	$(1,204)	$(17)	$ 6,756	
Net earnings	—	—	1,266	—	—	1,266	$1,266
Common stock dividends declared ($0.91 per share)	—	—	(405)	—	—	(405)	—
Repurchases of common stock	(15)	(757)	—	—	—	(772)	—
Stock-based awards and ESOP activity	7	503	—	—	(6)	504	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	(285)	—	(285)	(285)
Reclassification adjustments related to available-for-sale investments	—	—	—	(56)	—	(56)	(56)
Other	—	—	—	13	—	13	13
Balance at December 31, 2004	438	2,223	5,915	(1,532)	(23)	7,021	$ 938
Net earnings	—	—	1,825	—	—	1,825	$1,825
Common stock dividends declared ($1.05 per share)	—	—	(462)	—	—	(462)	—
Repurchases of common stock	(20)	(1,202)	—	—	—	(1,222)	—
Stock-based awards and ESOP activity	14	703	—	—	9	726	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	(105)	—	(105)	(105)
Net unrealized gain from available-for-sale investments	—	—	—	97	—	97	97
Other	—	—	—	(13)	—	(13)	(13)
Balance at December 31, 2005	432	1,724	7,278	(1,553)	(14)	7,867	$1,804
Net earnings	**—**	**—**	**2,529**	**—**	**—**	**2,529**	**$2,529**
Common stock dividends declared ($1.25 per share)	**—**	**—**	**(538)**				

Minimum6-2105(r4ts)-4172.1(—)-251.1(stock)35(,)-T*[(Co49$)-330545() (1,202) — —$5,054[(Minim

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[illegible]
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Organization – Lockheed Martin Corporation is engaged in the research, design, development, manufacture, integration, operation and sustainment of advanced technology systems and products, and provides a broad range of management, engineering, technical, scientific, logistic and information services. As a leading systems integrator, our products and services range from electronics and information systems, including integrated net-centric solutions, to missiles, aircraft and spacecraft. We serve customers in both domestic and international defense and commercial businesses, with our principal customers being agencies of the U.S. Government.

Basis of consolidation and classifications – Our consolidated financial statements include the accounts of wholly-owned subsidiaries and other entities which we control. We eliminate intercompany balances and transactions in consolidation. Our receivables, inventories and customer advances are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, we include these items in current assets.

We have reclassified certain amounts for prior years to conform with the 2006 presentation.

Use of estimates – We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP). In doing so, we are required to make estimates and assumptions, including estimates of anticipated contract costs and revenues utilized in the earnings recognition process, that affect the reported amounts in the financial statements and accompanying notes. Due to the size and nature of many of our programs, the estimation of total revenues and cost at completion is subject to a wide range of variables, including assumptions for schedule and technical issues. Our actual results may differ from those estimates.

Cash and cash equivalents – Cash equivalents include highly liquid instruments with original maturities of 90 days or less. Due to the short maturity of these instruments, the carrying value on our consolidated balance sheet approximates fair value.

Short-term investments – Our short-term investments include marketable securities that are categorized as available-for-sale securities as defined by Statement of Financial Accounting Standards (FAS) 115, *Accounting for Certain Investments in Debt and Equity Securities*. We record realized gains and losses in other income and expenses. For purposes of computing realized gains and losses, we determine cost on a specific identification basis. The fair values of our marketable securities are estimated based on quoted market prices for the respective securities.

We record short-term investments at fair value. At year end, our investment portfolio included the following:

	December 31,	
	2006	*2005*

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

We record revenue under contracts for services other than those associated with design, development or production activities either as services are performed or when a contractually required event has occurred, depending on the contract. This methodology is primarily used by our Information Technology & Global Services (IT&GS) segment (formerly our Information & Technology Services segment). We generally record revenue under such services contracts on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs we incur under these services contracts are expensed as incurred, except that we capitalize and recognize initial "set-up" costs over the life of the agreement. Incentives and award fees related to our performance on services contracts are recognized when they are fixed and determinable, generally at the date of award.

Research and development and similar costs – Costs for research and development we sponsor primarily include independent research and development and bid and proposal efforts related to government products and services. Except for certain arrangements described below, we generally include these costs as part of the general and administrative costs that are allocated among all of our contracts and programs in progress under U.S. Government contractual arrangements. Costs for product development initiatives we sponsor that are not otherwise allocable are charged to expense when incurred. Under some arrangements in which a customer shares in product development costs, our portion of unreimbursed costs is generally expensed as incurred. Total independent research and development costs charged to cost of sales in 2006, 2005 and 2004, including costs related to bid and proposal efforts, totaled $1,139 million in 2006, $1,042 million in 2005 and $984 million in 2004. Costs we incur under customer-sponsored research and development programs pursuant to contracts are accounted for as sales and cost of sales under the contract.

Restructuring activities – Under existing U.S. Government regulations, certain costs we incur for consolidation or restructuring activities that we can demonstrate will result in savings in excess of the cost to implement those actions can be deferred and amortized for government contracting purposes and included as allowable costs in future pricing of our products and services to agencies of the U.S. Government. Assets recorded at December 31, 2006 and 2005 for deferred costs related to various consolidation actions were not material.

corresponding adjustments related to the fair values of the hedged items, or reflected net of income taxes in accumulated other comprehensive income (loss) until the hedged transaction occurs and the entire transaction is recognized in earnings. We immediately recognize changes in fair value of the ineffective portion of a hedge in earnings.

We designate interest rate swap agreements as effective hedges of the fair value of debt instruments to which they relate in cases where we swap fixed rates for variable rates, and as effective hedges of the cash flows of forecasted variable interest payments in cases where we swap variable rates for fixed rates. Our forward currency exchange contracts generally qualify as hedges of the fluctuations in cash flows associated with firm commitments or specific anticipated transactions contracted in foreign currencies, or as hedges of the exposure to rate changes affecting foreign currency denominated assets or liabilities. At December 31, 2006, the fair value of our outstanding interest rate swap agreement was not material, and the fair value of forward currency exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material.

Stock-based compensation – Effective January 1, 2006, we adopted FAS 123(R), *Share-Based Payments*, and the related SEC rules included in Staff Accounting Bulletin No. 107, on a modified prospective basis (see Note 11). Under this method, we recognize compensation cost beginning January 1, 2006 for costs related to 1) all share-based payments (stock options and restricted stock awards) granted before but not yet vested as of January 1, 2006 based on the grant-date fair value estimated under the original provisions of FAS 123, *Accounting for Stock-Based Compensation*, and 2) all share-based payments (stock options and restricted stock units) granted after December 31, 2005 based on the grant-date fair value estimated under the provisions of FAS 123(R).

To account for the tax effects of stock based compensation, FAS 123(R) requires a calculation to establish the beginning pool of excess tax benefits, or the additional paid-in capital (APIC) pool, available to absorb any tax deficiencies recognized after its adoption. Tax deficiencies arise when the actual tax benefit for the tax deduction for share-based compensation at the statutory tax rate is less than the related deferred tax asset recognized in the financial statements. We have elected the alternative transition method for calculating the APIC pool as described in FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.*

Prior to January 1, 2006, we measured compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, but disclosed the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based on the fair value-based method at the date of grant for stock options awarded consistent with the provisions of FAS 123. Reported and pro forma earnings per share information for the years ended December 31, 2005 and 2004 are included in Note 11.

Income taxes – We periodically assess our tax filing exposures related to periods that are open to examination. Based on the latest available information, we include in our consolidated financial statements our best estimate of the tax liability and interest for those exposures where it is probable that an adjustment will be sustained. In 2004, the IRS closed its examination of our tax returns through December 31, 2002. The IRS commenced its examination of our 2003 and 2004 Federal tax returns in 2005. The audit is expected to be completed in the first half of 2007.

Comprehensive income – Comprehensive income consists primarily of net earnings and the after-tax impact of the adjustment to the minimum pension liability. The remaining components include a reclassification adjustment related to the sale of an available-for-sale investment and activities related to hedging and foreign currency translation. We generally record income taxes related to components of other comprehensive income based on a tax rate, including the effects of federal and state taxes, of 36%.

The accumulated balance of $3,561 million of other comprehensive loss at December 31, 2006 included $3,512 million pertaining to our postretirement benefit plans and resulting primarily from the adoption of FAS 158, *Employers' Accounting* to be reported separately as an adjustment to our opening balance of retained earnings in 2007, is currently not expected to have a material impact on our results of operation, financial position or cash flows.

Effective December 31, 2006, we adopted FAS 158, which requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize the funded status of their postretirement benefit plans on the balance sheet, measure the fair value of plan assets and benefit obligations as of the balance sheet date and provide additional disclosures. The effect of adopting the statement on our financial condition at December 31, 2006 has been reflected in these financial statements.

Divestitures

During 2006, 2005 and 2004, we completed the following transactions:

B

In October 2006, we sold our ownership interests in Lockheed Khrunichev Energia International, Inc. (LKEI) and ILS International Launch Services, Inc. (ILS). LKEI was a joint venture we had with Russian government-owned space firms which has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton family of

In November 2004, a private equity firm purchased the outstanding shares of New Skies Satellites, N.V. (New Skies). We sold our shares for $148 million. The transaction resulted in a gain, net of state income taxes, of $91 million in other income and expenses, and an increase in net earnings of $59 million ($0.13 per share).

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

United Launch Alliance

On December 1, 2006, we completed a transaction with The Boeing Company (Boeing) that resulted in the formation of United Launch Alliance, LLC (ULA), a joint venture which combines the production, engineering, test and launch operations associated with U.S. Government launches of our Atlas launch vehicles and Boeing's Delta launch vehicles. Under the terms of the joint venture master agreement, Atlas and Delta expendable launch vehicles will continue to be available as alternatives on individual launch missions. The joint venture is a limited liability company in which we and Boeing each own 50%. We are accounting for our investment in ULA under the equity method of accounting. We contributed assets to ULA, and ULA assumed liabilities of our Atlas business in exchange for our 50% ownership interest. The net book value of the assets contributed and liabilities assumed was approximately $200 million at December 1, 2006, the date of closing.

We accounted for the transfer at net book value, with no gain or loss recognized. If our proportionate share of ULA's net assets exceeds the book value of our investment, we would recognize the difference ratably over the next 10 years in outstanding for diluted earnings per share computations. The number of shares included in the computations for 2006 was not material, and no such shares were included in the computations in 2005 or 2004, as the conversion obligations were not in excess of the accreted principal amount in those periods.

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

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

(In millions, except per share data)	***2006***	*2005*	*2004*
Net earnings for basic and diluted computations	**$2,529**	$1,825	$1,266
Weighted average common shares outstanding:			
Average number of common shares outstanding for basic computations	**428.1**	440.3	443.1
Dilutive stock options, restricted stock and convertible securities	**8.3**	5.4	4.0
Average number of common shares outstanding for diluted computations	**436.4**	445.7	447.1
Earnings per common share			
Basic			

Note 6 Property, Plant and Equipment

(In millions)	**2006**	2005
Land	**$ 121**	$ 112
Buildings	**4,258**	3,828
Machinery and equipment	**5,250**	5,384
	9,629	9,324
Less accumulated depreciation and amortization	**(5,573)**	(5,400)
	$ 4,056	$ 3,924

During the year ended December 31, 2006, we wrote off $247 million related to certain plant and equipment that had been fully depreciated or amortized.

Note 7 Debt

The Corporation's long-term debt is primarily in the form of publicly issued notes and debentures, as follows:

(In millions)	Interest rate %	**2006**	2005
Notes due 05/15/2006	7.25	**$ —**	$ 193
Medium Term Notes due 2006-2007	7.70 – 8.66	**32**	41
Notes due 06/15/2008	7.70	**103**	103
Notes due 12/01/2009	8.20	**241**	246
Debentures due 04/15/2013	7.375	**150**	150
Debentures due 05/01/2016	7.65	**600**	600
Debentures due 01/15/2023	8.375	**3**	100
Debentures due 09/15/2023	7.0	**200**	200
Notes due 06/15/2024	8.375	**167**	216
Debentures due 06/15/2025	7.625	**150**	150
Debentures due 05/01/2026	7.75	**423**	423
Debentures due 12/01/2029	8.5	**317**	1,250
Convertible Debentures due 08/15/2033	LIBOR –0.25	**1,000**	1,000
Debentures due 05/01/2036	7.20	**300**	300
Notes due 09/01/2036	6.15	**1,079**	—
Discount on Notes due 09/01/2036	N/A	**(345)**	—
Other	Various	**19**	14
		4,439	4,986
Less current maturities		**34**	202
		$4,405	$4,784

In August 2006, we issued $1,079 million of new 6.15% Notes due 2036 (the New Notes). The New Notes were issued in exchange for a portion of our then outstanding debt securities listed in the following table (the Old Notes), and cash consideration of $343 million. Holders also received a cash payment representing accrued and unpaid interest on the Old Notes.

(In millions)	Principal Amount Exchanged
Old Notes exchanged—	
8.50% Debentures due 2029	$ 933
8.375% Senior Debentures due 2023	97
8.375% Senior Debentures due 2024	49
	$ 1,079

We accounted for the transaction as an exchange of debt under Emerging Issues Task Force (EITF) Issue 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*. The cash consideration of $343 million, which is included in the statement of cash flows in financing activities, will be amortized over the life of the New Notes as a discount, using the effective interest method, and recorded in interest expense. Accordingly, the New Notes are included on our

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

(In millions)	***2006***	*2005*
Deferred tax assets related to:		
Contract accounting methods	**$ 643**	$ 594
Accrued compensation and benefits	**580**	516
Accumulated postretirement benefit obligations	**417**	

and outstanding, 421 million shares were considered outstanding for balance sheet presentation purposes; the remaining shares were held in trusts we established to pay future benefits to eligible retirees and dependents under certain benefit plans. No preferred stock shares were issued and outstanding at December 31, 2006.

In October 2002, we announced a share repurchase program for the repurchase of up to 23 million shares of our common stock from time-to-time. Under the program, we have discretion to determine the number and price of the shares to be repurchased, and the timing of any repurchases in compliance with applicable law and regulation. Since the program's

Our stockholders have approved the Award Plan and the Directors Plan, as well as the number of shares of our common stock authorized for issuance under these plans. At December 31, 2006, we had 42 million shares reserved for issuance under our stock option and award plans, of which 17 million remained available for grant under the plans. We issue new shares upon the exercise of stock options or vesting of RSUs.

2006 Activity

The following table summarizes stock option activity during the year ended December 31, 2006:

	Number of Stock Options *(In thousands)*	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life *(In years)*	Aggregate Intrinsic Value *(In millions)*
Outstanding at December 31, 2005	34,138	$47.64		
Granted	3,847	67.83		
Exercised	(13,594)	46.13		
Terminated	(201)	53.95		
Outstanding at December 31, 2006	**24,190**	**51.65**	**6.3**	**$977.9**
Vested and unvested expected to vest at December 31, 2006	**24,019**	**51.56**	**6.3**	**973.1**
Exercisable at December 31, 2006	**14,074**	**45.88**	**5.0**	**650.1**

Stock options granted vest over three years and have 10-year terms. Exercise prices of stock options awarded for all periods were equal to the market price of the stock on the date of grant. The weighted-average grant-date fair value of stock options granted during the year ended December 31, 2006 was $17.64. In addition, the aggregate fair value of all the stock options that vested during the year was $103 million, while the aggregate intrinsic value of all of the stock options that were exercised was $389 million.

We estimate the fair value for stock options at the date of grant using the Black-Scholes option pricing model, which requires us to make certain assumptions. We estimate volatility based on the historical volatility of our stock price over the past five years. We base the average expected life on the contractual term of the stock option, historical trends in employee exercise activity and post-vesting employment termination trends. We base the risk-free interest rate on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. We estimate forfeitures at the date of grant based on historical experience. Prior to adopting FAS 123(R), we recorded forfeitures as they occurred for purposes of estimating pro forma compensation expense under FAS 123. The impact of forfeitures is not material.

We used the following weighted average assumptions in the Black-Scholes option pricing model to determine the fair values of stock-based compensation awards during the years ended December 31, 2006, 2005 and 2004:

	2006	*2005*	*2004*
Risk-free interest rate	**4.50%**	3.70%	3.19%
Dividend yield	**1.80%**	1.73%	1.50%
Volatility factors	**0.260**	0.259	0.365
Expected option life	**5 years**	5 years	5 years

A A

The following table summarizes activity related to nonvested RSUs and RSAs during the year ended December 31, 2006:

	Number of RSUs / RSAs *(In thousands)*	Weighted Average Grant-Date Fair Value Per Share
Nonvested at December 31, 2005	577	$46.04
Granted	1,328	68.48
Vested	(59)	52.84
Terminated	(59)	55.61
Nonvested at December 31, 2006	1,787	62.27

million related to certain of our nonqualified and foreign benefit plans. The amount of unrecognized prior service cost related to those plans was not material. The prior service cost and actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2007 is $66 million

The medical trend rates used in measuring the postretirement benefit obligation were 11.0% in 2006 and 10.2% in 2005, and were assumed to ultimately decrease to 5.0% by the year 2013. An increase or decrease of one percentage point in the assumed medical trend rates would result in a change in the postretirement benefit obligation of 5% and (4)%, respectively, at December 31, 2006, and a change in the 2006 postretirement service cost plus interest cost of 5% and (4)%, respectively. The medical trend rate for 2007 is 11.0%.

The asset allocations of our plans at December 31, 2006 and 2005, by asset category, were as follows:

	Defined Benefit Pension Plans		*Retiree Medical and Life Insurance Plans*	
	2006	*2005*	***2006***	*2005*
Asset category:				
Equity securities	**63%**	61%	**63%**	66%
Debt securities	**31**	34	**35**	33
Other	**6**	5	**2**	1
	100%	100%	**100%**	100%

Lockheed Martin Investment Management Company (LMIMCO), our wholly-owned subsidiary, has the fiduciary responsibility for making investment decisions related to the assets of our defined benefit pension plans and retiree medical and life insurance plans. LMIMCO’s investment objectives for the assets of the defined benefit pension plans are to minimize

discount the recorded liabilities, as the timing of cash payments is not fixed or cannot be reliably determined. We have recorded assets totaling $386 million and $353 million at December 31, 2006 and December 31, 2005, respectively, for the portion of environmental costs that are probable of future recovery in the pricing of our products and services for U.S. Government businesses.

In cases where a date to complete activities at a particular environmental site cannot be estimated by reference to agreements or otherwise, we project costs over an appropriate time frame not to exceed 20 years. We cannot reasonably determine the extent of our financial exposure in all cases at this time. We also are pursuing claims for contribution to site contracts. We believe ULA will be able to fully perform its obligations and that it will not be necessary to make payments under the cross-indemnities.

[illegible] 15 [illegible]

We operate in five business segments: Aeronautics, Electronic Systems, Space Systems, Information Technology & Global Services (IT&GS) and Integrated Systems & Solutions (IS&S). The name of our IT&GS segment, formerly known as Information & Technology Services, was changed to better reflect the segment's capabilities and service offerings following the growth experienced by our information technology and business process services businesses and through recent acquisitions. The business segments have been organized based on the nature of the products and services they offer. In the following tables of financial data, the total of the operating results of these business segments is reconciled, as appropriate, to the corresponding consolidated amount. With respect to the caption "Operating profit," the reconciling item "Unallocated Corporate expense, net" includes the FAS/CAS pension adjustment (see discussion below), earnings and losses from equity investments, interest income, costs for certain stock-based compensation programs (including stock-based compensation costs for stock options and restricted stock as discussed in Note 11, the effects of items not considered part of management's evaluation of segment operating performance, Corporate costs not allocated to the operating segments and other miscellaneous Corporate activities. For financial data other than "Operating profit" where amounts are reconciled to launch services using the Atlas V launch vehicle. Through ownership interests in two joint ventures, Space Transportation Systems also includes Space Shuttle processing activities and expendable launch services for the U.S. Government.

- **Information Technology & Global Services** – Engaged in a wide array of information technology (IT), IT-related, and other technology services to federal agencies and other customers. Major product lines include: IT integration and management; enterprise solutions; application development and maintenance; business processing management; consulting on strategic programs for the U.S. Department of Defense (DoD) and civil government agencies; logistics, mission operations and sustaining engineering for military, homeland security, National Aeronautics and Space Administration (NASA) and civilian systems; mission readiness, peacemaking and nation-building services for DoD, Department of State, allied governments and international agencies; and research, development, engineering and science in support of nuclear weapons stewardship and naval reactor programs.

- **Integrated Systems & Solutions** – Engaged in the design, research, development, integration and management of net-centric solutions supporting the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) activities of the DoD, intelligence agencies, other federal agencies and allied countries. IS&S provides technology, full life-cycle support and highly specialized talent in the areas of software and systems engineering, including expertise in complex solution areas centered around space, air and ground systems. IS&S serves as our focal point for customers with joint and net-centric operations requiring overarching architectures, horizontal systems integration, software development, and inter-connected capabilities for the gathering, processing, storage and delivery of on-demand information for mission management, modeling and simulation, and large-scale systems integration, and is working to apply our capabilities to the corresponding needs of a broader base of customers such as health care information users. IS&S operates the Center for Innovation, a state-of-the-art facility for modeling and simulation. IS&S also manages Savi Technology, Inc., a wholly owned subsidiary acquired during 2006 that provides radio frequency identification (RFID) solutions.

Selected Financial Data by Business Segment

Selected Financial Data by Business Segment (continued)

(In millions)	***2006***	*2005*	*2004*
Amortization of purchased intangibles			
Aeronautics	**$ 50**	$ 50	$ 50
Electronic Systems	**51**	48	47
Space Systems	**9**	8	8
Information Technology & Global Services	**24**	18	14
Integrated Systems & Solutions	**18**	15	14
Total business segments	**152**	139	133
Corporate activities	**12**	11	12
	$ 164	$ 150	$ 145
Expenditures for property, plant and equipment			
Aeronautics	**$ 215**	$ 190	$ 187
Electronic Systems	**341**	333	248
Space Systems	**226**	192	161
Information Technology & Global Services	**17**	31	44
Integrated Systems & Solutions	**56**	74	60
Total business segments	**855**	820	700
Corporate activities	**38**	45	69
	$ 893	$ 865	$ 769
Assets (c)			
Aeronautics	**$ 2,529**	$ 2,503	$ 2,579
Electronic Systems	**9,172**	9,345	8,853
Space Systems	**2,913**	3,110	3,018
Information Technology & Global Services	**4,158**	2,885	2,170
Integrated Systems & Solutions	**2,550**	2,147	2,138
Total business segments	**21,322**	19,990	18,758
Corporate activities (d)	**6,909**	7,754	6,796
	$28,231	$27,744	$25,554
Goodwill			
Aeronautics	**$ —**	$ —	$ —
Electronic Systems	**5,188**	5,196	5,128
Space Systems	**456**	509	453
Information Technology & Global Services	**2,009**	1,389	994
Integrated Systems & Solutions	**1,597**	1,353	1,317
	$ 9,250	$ 8,447	$ 7,892
Customer advances and amounts in excess of costs incurred			
Aeronautics	**$ 1,798**	$ 1,488	$ 1,526
Electronic Systems	**1,476**	1,549	1,221
Space Systems	**394**	1,128	1,167
Information Technology & Global Services	**93**	81	13
Integrated Systems & Solutions	**95**	85	101
	$ 3,856	$ 4,331	$ 4,028

Selected Financial Data by Business Segment (continued)

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

(In millions)	***2006***	*2005*	*2004*
Electronic Systems	**$ 3**	$ 4	$ 5
Space Systems	**78**	72	71
Information Technology & Global Services	**49**	35	16
Total business segments	**130**	111	92
Corporate activities	**—**	(3)	(25)
	$130	$108	$ 67

(b) Net unallocated Corporate expense includes the following:

(In millions)	***2006***	*2005*	*2004*
FAS/CAS pension adjustment	**$(275)**	$(626)	$(595)
Items not considered in segment operating performance	**214**	173	(215)
Stock-based compensation	**(111)**	—	—
Other	**77**	7	(77)
	$ (95)	$(446)	$(887)

For information regarding the items not considered in management's evaluation of segment operating performance, see Notes 2, 7, 8 and 9 to the consolidated financial statements.

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

(d) Assets primarily include cash, investments, deferred income taxes and the prepaid pension asset.

Net Sales by Customer Category

(In millions)	***2006***	*2005*	*2004*
U.S. Government			
Aeronautics	**$ 8,911**	$ 8,883	$ 7,876
Electronic Systems	**8,651**	8,504	7,909
Space Systems	**7,185**	6,409	5,180
Information Technology & Global Services	**4,237**	3,816	3,589
Integrated Systems & Solutions	**4,269**	4,016	3,742
	$33,253	$31,628	$28,296
Foreign governments (a) (b)			
Aeronautics	**$ 2,477**	$ 2,770	$ 3,896
Electronic Systems	**2,384**	1,917	1,731
Space Systems	**11**	—	4
Information Technology & Global Services	**118**	90	94
Integrated Systems & Solutions	**55**	60	29
	$ 5,045	$ 4,837	$ 5,754
Commercial and Other (b)			
Aeronautics	**$ 13**	$ 19	$ 13
Electronic Systems	**269**	159	89
Space Systems	**727**	411	1,175
Information Technology & Global Services	**250**	104	119
Integrated Systems & Solutions	**63**	55	80
	$ 1,322	$ 748	$ 1,476
	$39,620	$37,213	$35,526

(a) Sales made to foreign governments through the U.S. Government, or "foreign military sales," are included in the foreign governments category.

(b) International sales, including export sales reflected in the foreign governments and commercial categories, were $5.6 billion, $5.1 billion and $6.0 billion in 2006, 2005 and 2004, respectively.

16

	2006 Quarters			
(In millions, except per share data)	**First (b)**	**Second (c)**	**Third (d)**	**Fourth (e)**
Net sales	**$9,214**	**$9,961**	**$9,605**	**$10,840**
Operating profit	**971**	**943**	**905**	**1,134**
Net earnings	**591**	**580**	**629**	**729**
Basic earnings per share				

ITEM 9B. OTHER INFORMATION

We believe that all information that was required to be disclosed in a report on Form 8-K during the fourth quarter of 2006 was reported on a Form 8-K during that period.

In lieu of filing a separate Form 8-K to report the information described below, we have elected to include the following information in this Form 10-K as permitted by SEC rules.

On February 22, 2007, the Board of Directors amended Section 1.04 of the Corporation's Bylaws to permit electronic delivery of proxy materials. A copy of the Bylaws, as amended and restated effective February 22, 2007, is filed as Exhibit 3.2 to this report.

On February 23, 2007, we entered into a Professional Services Agreement with Michael F. Camardo, who previously served as Executive Vice President, Information Technology & Global Services. A copy of the Professional Services Agreement is filed as Exhibit 10.33 to this report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

10.2 Lockheed Martin Corporation Directors Deferred Compensation Plan as amended and restated effective October 27, 2006 (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on November 2, 2006).

10.3 Resolutions relating to Lockheed Martin Corporation Financial Counseling Program and personal liability and accidental death and dismemberment benefits for officers and company presidents, (incorporated by reference to Exhibit 10(g) to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 1997).

10.4 Martin Marietta Corporation Postretirement Death Benefit Plan for Senior Executives, as amended January 1, 1995 (incorporated by reference to Exhibit 10.9 to Lockheed Martin Corporation's Registration Statement on Form S-4 (No. 33-57645) filed with the SEC on February 9, 1995), and as further amended September 26, 1996

10.17 Deferred Performance Payment Plan of Lockheed Martin Corporation Space & Strategic Missiles Sector

10.36	Form of the Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2004-2006 performance period) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.37	Form of Lockheed Martin Corporation Long-Term Incentive Performance Award Agreement (2006-2008 performance period) under the Lockheed Martin Corporation 2003 Incentive Performance Award Plan (incorporated by reference to Exhibit 99.4 of Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 2, 2006).
12	Computation of ratio of earnings to fixed charges for the year ended December 31, 2006.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31.1	Rule 13a-14(a) Certification of Robert J. Stevens.
31.2	Rule 13a-14(a) Certification of Christopher E. Kubasik.
32.1	Certification Pursuant to 18 U.S.C. Section 1350 of Robert J. Stevens.
32.2	Certification Pursuant to 18 U.S.C. Section 1350 of Christopher E. Kubasik.
*	Exhibits 10.1 through 10.25, 10.27 through 10.31 and 10.33 through 10.37 constitute management contracts or compensatory plans or arrangements required to be filed as an Exhibit to this Form pursuant to Item 14(c) of this Form 10-K.

SIGNATURES

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

LOCKHEED MARTIN CORPORATION

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

Date: February 26, 2007

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

		D
/s/ Robert J. Stevens* ROBERT J. STEVENS	Chairman, President, Chief Executive Officer and Director	February 26, 2007
/s/ Christopher E. Kubasik CHRISTOPHER E. KUBASIK	Executive Vice President and Chief Financial Officer	February 26, 2007
/s/ E.C. “Pete” Aldridge, Jr.* E.C. “PETE” ALDRIDGE, JR.	Director	February 26, 2007
/s/ Nolan D. Archibald* NOLAN D. ARCHIBALD	Director	February 26, 2007

Exhibit 31.1

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

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

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

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

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

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

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

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

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

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

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

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

ROBERT J. STEVENS
Chairman, President and Chief Executive Officer

Date: February 23, 2007

Exhibit 31.2

I, Christopher E. Kubasik, Executive Vice President and Chief Financial Officer, certify that:

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

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

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

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

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

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

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

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

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

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

Exhibit 32.1

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

In connection with the Annual Report of Lockheed Martin Corporation (the “Corporation”) on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert J. Stevens, Chairman, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

Exhibit 32.2

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

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GENERAL INFORMATION

December 31, 2006

As of December 31, 2006, there were approximately 41,432 holders of record of Lockheed Martin common stock and 423,517,907 shares outstanding.

TRANSFER AGENT & REGISTRAR

Computershare Trust Company, N.A.
Shareholder Services
P.O. Box 43023
Providence, Rhode Island 02940-3010
Telephone: 1-877-498-8861
TDD for the hearing impaired: 1-800-952-9245
Internet: http://www.computershare.com

DIVIDEND REINVESTMENT PLAN

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

INDEPENDENT AUDITORS

Ernst & Young LLP
621 East Pratt Street
Baltimore, MD 21202

COMMON STOCK

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

2006 FORM 10-K

Our 2006 Form 10-K is included in this Annual Report in its entirety with the exception of certain exhibits. All of the exhibits may be obtained on our Investor Relations homepage at www.lockheedmartin.com/investor by accessing our SEC filings. **In addition, stockholders may obtain a paper copy of any exhibit or a copy of the Form 10-K by writing to:**

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