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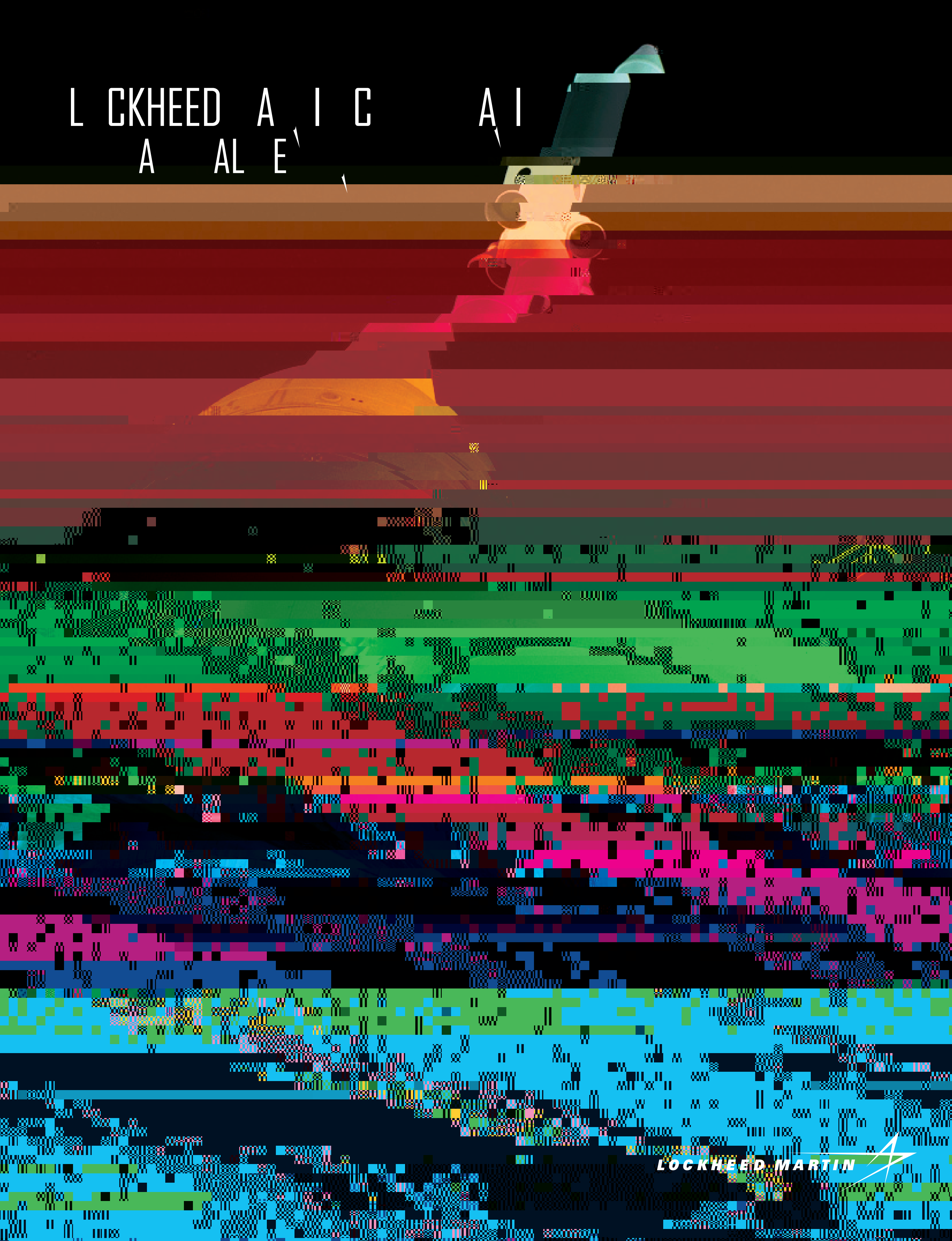


FINANCIAL HIGHLIGHTS

In millions, except per share data	2014	2013	2012
Net Sales	$45,600	$45,358	$47,182
Segment Operating Profit	5,588	5,752	5,583
Consolidated Operating Profit	5,592	4,505	4,434
Net Earnings From Continuing Operations	3,614	2,950	2,745
Net Earnings	3,614	2,981	2,745
Diluted Earnings Per Common Share			
Continuing Operations	11.21	9.04	8.36
Net Earnings	11.21	9.13	8.36
Cash Dividends Per Common Share	5.49	4.78	4.15
Average Diluted Common Shares Outstanding	322	327	328
Cash and Cash Equivalents	$ 1,446	$ 2,617	$ 1,898
Total Assets	37,073	36,188	38,657
Total Debt			

DEAR FELLOW STOCKHOLDERS:

[illegible]

[illegible]

[illegible]

Our Leadership Team (from left to right): [illegible]

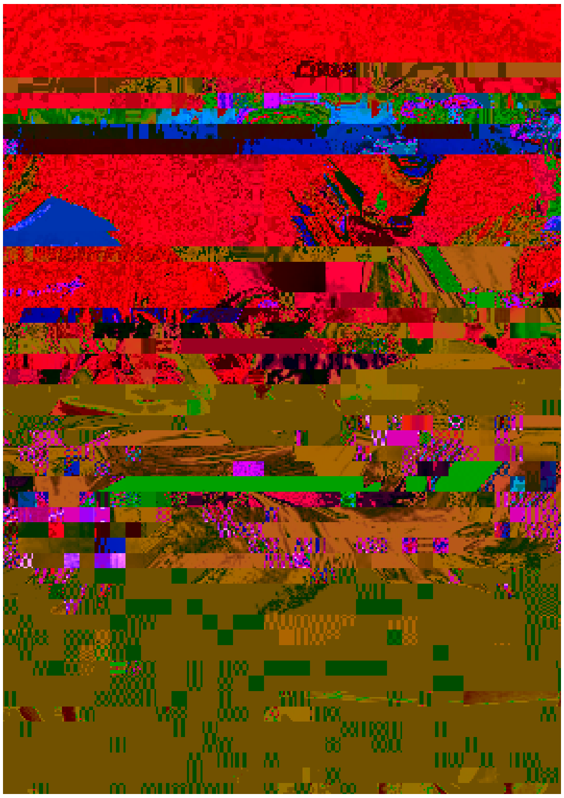
This letter includes references to segment operating profit, segment margin, and free cash flow, which are non-GAAP financial measures. For reconciliations between our non-GAAP measures and the nearest GAAP measures, please refer to the page preceding the back cover of this Annual Report. Additionally, this letter includes statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on Lockheed Martin's current expectations and assumptions. For a discussion identifying important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Corporation's filings with the SEC including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in the Form 10-K portion of this Annual Report.

EXCEPTIONAL VALUE FOR OUR

International Growth

Proven Affordability

Innovation with Purpose:



CULTURE OF PERFORMANCE

CORPORATE DIRECTORY

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BOARD OF DIRECTORS

Daniel F. Akerson
Vice Chairman
The Carlyle Group

Nolan D. Archibald

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Wa , D.C. 20549

F 10-K

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

For the fiscal year ended December 31, 2014

Commission file number 1-11437

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

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

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

S a S 12(b) A :

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

PART I

ITEM 1. B[illegible].

G a

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics and information services. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. In 2014, 79% of our $45.6 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 59% from the Department of Defense (DoD)), 20% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cyber security.

We operate in an environment characterized by both increasing complexity in global security and continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of our products and services, and placing security production aircraft as of December 31, 2014. We have 100 production aircraft in backlog as of December 31, 2014, including orders from our international partners. For additional information on the F-35 program, see “Status of the F-35 Program” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Aeronautics produces and provides support and sustainment services for the C-130J Super Hercules, as well as upgrades and support services for the legacy C-130 Hercules worldwide fleet. We delivered 24 C-130J aircraft in 2014, including 11 to international customers, and our backlog extends into 2016. We currently have advanced funding from the U.S. Government for additional C-130J aircraft not currently in backlog.

Aeronautics currently produces F-16 aircraft for international customers. Aeronautics also provides service-life extension, modernization and other upgrade programs for our customers’ F-16 aircraft. We delivered 17 F-16 aircraft in 2014, and our backlog extends into 2017.

While production and deliveries of F-22 aircraft were completed in 2012, Aeronautics continues to provide modernization and sustainment activities for the U.S. Air Force’s F-22 aircraft fleet. The modernization program comprises

- The Command, Control, Battle Management and Communications (C2BMC) contract, a program to increase the integration of the Ballistic Missile Defense System for the U.S. Government.
- The National Science Foundation Antarctic Support program, which manages sites and equipment to enable universities, research institutions and federal agencies to conduct scientific research in the Antarctic.

Missiles and Fire Control

In 2014, our MFC business segment generated net sales of $7.7 billion, which represented 17% of our total consolidated net sales. MFC's customers include the military services, principally the U.S. Army, and various government agencies of the U.S. and other countries, as well as commercial and other customers. In 2014, U.S. Government customers accounted for 68% and international customers accounted for 32% of MFC's net sales.

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

- The Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD) air and missile defense programs. PAC-3 is an advanced defensive missile for the U.S. Army and international customers designed to intercept and eliminate incoming airborne threats using kinetic energy. THAAD is a transportable defensive missile system for the U.S. Government and international customers designed to engage targets both within and outside of the Earth's atmosphere.
- The Multiple Launch Rocket System (MLRS), Hellfire, Joint Air-to-Surface Standoff Missile (JASSM) and Javelin tactical missile programs. MLRS is a highly mobile, automatic system that fires surface-to-surface rockets and missiles from the M270 and High Mobility Artillery Rocket System platforms produced for the U.S. Army and international customers. Hellfire is an air-to-ground missile used on rotary and fixed-wing aircraft, which is produced for the U.S. Army, Navy, Marine Corps and international customers. JASSM is an air-to-ground missile launched from fixed-wing aircraft, which is produced for the U.S. Air Force and international customers. Javelin is a shoulder-fired anti-armor rocket system, which is produced for the U.S. Army, Marine Corps and international customers.
- The Apache, Sniper® and Low Altitude Navigation and Targeting Infrared for Night (LANTIRN®) fire control systems programs. The Apache fire control system provides weapons targeting capability for the Apache helicopter for the U.S. Army and international customers. Sniper® is a targeting system for several fixed-wing aircraft and LANTIRN® is a combined navigation and targeting system for several fixed-wing aircraft. Both Sniper® and LANTIRN® are produced for the U.S. Air Force and international customers.
- MFC's Technical Services business provides a comprehensive portfolio of technical and sustainment services to enhance our customers' mission success, with core markets in engineering services; global aviation solutions; command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) product support; counter threat services; and education and sustainment services. MFC technical services has been impacted by market pressures such as lower in-theater support as troop levels are drawn down and increased re-competition on existing contracts that are awarded primarily on the basis of price.
- The Special Operations Forces Contractor Logistics Support Services program, which provides logistics support services to the special operations forces of the U.S. military.

Mission Systems and Training

In 2014, our MST business segment generated net sales of $7.1 billion, which represented 16% of our total consolidated net sales. MST's customers include the military services, principally the U.S. Navy, and various government agencies of the U.S. and other countries, as well as commercial and other customers. In 2014, U.S. Government customers accounted for 75%, international customers accounted for 24% and U.S. commercial and other customers accounted for 1% of MST's net sales.

MST provides ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship (LCS); simulation and training services; and unmanned systems and technologies. MST's major programs include:

- The Aegis Combat System serves as a fleet ballistic missile defense system for the U.S. Navy and international customers and is also a sea and land-based element of the U.S. missile defense system.
- The LCS, a surface combatant ship for the U.S. Navy designed to operate in shallow waters and the open ocean.

- MH-60 maritime helicopter mission systems and sensors, including the digital cockpit and weapons, for the U.S. Navy and international customers.
- The TPQ-53 Radar System, a sensor that quickly locates and neutralizes mortar and rocket threats, produced for the U.S. Army and international customers.
- The Advanced Hawkeye Radar System, an airborne early warning radar, which MST provides for the E2-C/E2-D aircraft produced for the U.S. Navy and international customers.
- The Space Fence system, an advanced ground-based radar system for the U.S. Air Force designed to enhance the way objects are tracked in space and increase the ability to prevent space-based collisions.

S a S

In 2014, our Space Systems business segment generated net sales of $8.1 billion, which represented 18% of our total consolidated net sales. Space Systems' customers include various government agencies of the U.S. and commercial customers. In 2014, U.S. Government customers accounted for 97%, international customers accounted for 1% and U.S. commercial and other customers accounted for 2% of Space Systems' net sales. Net sales from Space Systems' satellite products and services represented 12% of our total consolidated net sales in each of 2014, 2013 and 2012.

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

- The Space Based Infrared System (SBIRS), which provides the U.S. Air Force with enhanced worldwide missile launch detection and tracking capabilities.
- The Advanced Extremely High Frequency (AEHF) system, the next generation of highly secure communications satellites for the U.S. Air Force.
- Global Positioning System (GPS) III, a program to modernize the GPS satellite system for the U.S. Air Force.
- The Geostationary Operational Environmental Satellite R-Series (GOES-R), which is the National Oceanic and Atmospheric Association's next generation of meteorological satellites.
- The Mobile User Objective System (MUOS), a next-generation narrow-band satellite communication system for the U.S. Navy.
- The Trident II D5 Fleet Ballistic Missile, a program with the U.S. Navy for the only submarine-launched intercontinental ballistic missile currently in production in the U.S.
- The Orion Multi-Purpose Crew Vehicle (Orion), a spacecraft for the National Aeronautics and Space Administration (NASA) utilizing new technology for human exploration missions beyond low earth orbit. On December 5, 2014, Orion successfully completed its first unmanned test flight.

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

Patents

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

Raw Materials and Seasonality

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

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

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

Government Contracts and Regulations

Our business is heavily regulated. We contract with numerous U.S. Government agencies and entities, including all branches of the U.S. military, the departments of Defense, Homeland Security, Justice, Commerce, Health and Human Services, Transportation and Energy, the U.S. Postal Service, the Social Security Administration, the Federal Aviation Administration, NASA, the U.S. Environmental Protection Agency and Veterans Affairs. Similar government authorities exist in other countries and regulate our international efforts.

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

- require certification and disclosure of all cost or pricing data in connection with certain types of contract negotiations;
- impose specific and unique cost accounting practices that may differ from U.S. generally accepted accounting principles;
- impose acquisition regulations, which may change or be replaced over time, that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts;

- require specific security controls to protect DoD controlled unclassified technical information and restrict the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data; and
- require the review and approval of contractor business systems, defined in the regulations as: (i) Accounting System; (ii) Estimating System; (iii) Earned Value Management System, for managing cost and schedule performance on certain complex programs; (iv) Purchasing System; (v) Material Management and Accounting System, for planning, controlling and accounting for the acquisition, use, issuing and disposition of material; and (vi) Property Management System.

The U.S. Government may terminate any of our government contracts and subcontracts either at its convenience or for default based on our performance. If a contract is terminated for convenience, we generally are protected by provisions covering reimbursement for costs incurred on the contract and profit on those costs. If a contract is terminated for default, we generally are entitled to payments for our work that has been accepted by the U.S. Government; however, the U.S. Government could make claims to reduce the contract value or recover its procurement costs and could assess other special penalties. For more information regarding the U.S. Government's right to terminate our contracts, see Item 1A – Risk Factors. For more information regarding government contracting laws and regulations, see Item 1A – Risk Factors as well as "Critical Accounting Policies – Contract Accounting / Sales Recognition" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Our operations are subject to and affected by various federal, state, local and foreign environmental protection laws and regulations regarding the discharge of materials into the environment or otherwise regulating the protection of the environment. While the extent of our financial exposure cannot in all cases be reasonably estimated, the costs of environmental compliance have not had, and we do not expect that these costs will have, a material adverse effect on our earnings, financial position and cash flow, primarily because most of our environmental costs are allowable in establishing the price of our products and services under our contracts with the U.S. Government. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent probable and estimable, see "Critical Accounting Policies – Environmental Matters" in Management's Discussion and Analysis of Financial Condition and Results of Operations and "Note 12 – Legal Proceedings, Commitments and Contingencies" of our consolidated financial statements. See also the discussion of environmental matters within Section 1A – Risk Factors.

Ba

At December 31, 2014, our backlog was $80.5 billion compared with $82.6 billion at December 31, 2013. Backlog is converted into sales in future periods as work is performed or deliveries are made. Approximately $32.2 billion, or 40%, of our backlog at December 31, 2014 is expected to be converted into sales in 2015.

Our backlog includes both funded (firm orders for our products and services for which funding has been both authorized and appropriated by the customer – Congress, in the case of U.S. Government agencies) and unfunded (firm orders for which funding has not been appropriated) amounts. We do not include unexercised options or potential orders under indefinite-delivery, indefinite-quantity agreements in our backlog. If any of our contracts with firm orders were to be terminated, our backlog would be reduced by the expected value of the unfilled orders of such contracts. Funded backlog was $56.5 billion at December 31, 2014, as compared to $55.0 billion at December 31, 2013. For backlog related to each of our business segments, see "Business Segment Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

R a a D

We conduct research and development activities Pinancial and development programs pursuant to contracts are included in net sales and cost of sales. Under certain arrangements in which a customer shares in product development costs, our portion of the unreimbursed costs is expensed as incurred in cost of sales. Independent research and development costs charged to cost of sales were $751 million in 2014, $697 million in 2013 and $616 million in 2012. See “Research and development and similar costs” in “Note 1 – Significant Accounting Policies” of our consolidated financial statements.

E

At December 31, 2014, we had approximately 112,000 employees, about 95% of whom were located in the U.S. Approximately 15% of our employees are covered by collective bargaining agreements with various unions. A number of our existing collective bargaining agreements expire in any given year. Historically, we have been successful in negotiating

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We derived 79% of our consolidated net sales from the U.S. Government in 2014, including 59% from the Department of Defense. We expect to continue to derive most of our sales from work performed under U.S. Government contracts. Those contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal-year basis even though contract performance may extend over many years. Consequently, contracts are

Our international business is conducted through foreign military sales (FMS) contracted through the U.S. Government or direct commercial sales (DCS) with international customers. In 2014, approximately half of our sales to international customers were FMS while the other half were DCS. These transaction types differ as FMS transactions represent sales by the U.S. Government to international governments and our contract with the U.S. Government is subject to FAR. By contrast, DCS transactions represent sales by us directly to another international government or commercial customer. All sales to international customers are subject to U.S. and foreign laws and regulations, including, without limitation, regulations relating to anti-corruption, import-export control, technology transfer restrictions, taxation, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act and other anti-corruption laws and the anti-boycott provisions of the U.S. Export Administration Act. We frequently team with international subcontractors and suppliers who are also exposed to similar risks. While we have stringent policies in place to comply with such laws and regulations, failure by us, our employees or others working on our behalf to comply with these laws and regulations could result in administrative, civil or criminal liabilities, including suspension, proposed debarment or debarment from bidding for or performing government contracts or suspension of our export privileges, which could have a material adverse effect on us.

While international sales, whether contracted as FMS or DCS, present risks that are different and potentially greater than those encountered in our U.S. business, DCS with international customers may impose even greater risks as such transactions involve commercial relationships with parties with whom we have less familiarity and where there may be significant cultural differences. Additionally, international procurement rules and regulations, contract laws and regulations and contractual terms differ from those in the U.S., are less familiar to us, may be interpreted by foreign courts less bound by precedent and with more discretion and frequently have terms less favorable to us than the FAR. Export and import, tax and currency risk also may be increased for DCS with international customers. While these risks are potentially greater than those encountered in our U.S. business, the pricing of our products and services is commensurate with the risk profile on DCS with international customers.

Our international business is highly sensitive to changes in regulations, political environments or security risks that may affect our ability to conduct business outside of the U.S., including those regarding investment, procurement, taxation and repatriation of earnings. Our international business also may be impacted by changes in foreign national priorities, foreign government budgets and global economic conditions and fluctuations in foreign currency exchange rates. Sales of military products are also affected by defense budgets and U.S. foreign policy. Additionally, the timing of orders from our international customers can be less predictable than for our U.S. customers and may lead to fluctuations in the amount reported each year for our international sales.

In conjunction with defense procurements, some international customers require contractors to comply with industrial cooperation regulations, including entering into industrial cooperation agreements, sometimes referred to as offset agreements. Offset agreements may require in-country purchases, technology transfers, local manufacturing support, investments in foreign joint ventures and financial support projects as an incentive or as a condition to a contract award. In some countries, these offset agreements may require the establishment of a venture with a local company, which must control the venture. The costs to satisfy our offset obligations are included in the estimates of our total costs to complete the contract and may impact our profitability and cash flows. The ability to recover investments that we make is generally dependent upon the successful operation of ventures that we do not control and may involve products and services that are dissimilar to our business activities. In these and other situations, we could be liable for violations of law for actions taken by these entities such as laws related to anti-corruption, import and export and anti-boycott restrictions. Offset agreements generally extend over several years and may provide for penalties, which are subject to change, in the event we fail to perform in accordance with the offset requirements which are typically subjective and can be outside our control.

O b a a a a a b b a .

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology products and systems. New technologies may be untested or unproven. Failure of some of these products and services could result in extensive loss of life or property damage. Accordingly, we also may incur liabilities that are unique to our products and services, including combat and air mobility aircraft, missile and space systems, command and control systems, air traffic control management systems, cyber security, homeland security and training programs. In some but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through U.S. Government indemnifications under Public Law 85-804, qualification of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, contractual provisions or otherwise. We endeavor to obtain insurance coverage from established insurance carriers to cover these risks and liabilities. The amount of insurance coverage that we maintain may not be adequate to cover all claims or liabilities, existing coverage may be cancelled while we remain exposed to the risk, and it is not possible to obtain insurance to protect against all operational risks and liabilities. For example, we are limited in the amount of insurance we can obtain to cover certain natural hazards such as earthquakes and we have significant operations in geographic areas prone to this risk, such as Sunnyvale, California. Even if insurance coverage is available, we may not be able to obtain it at a price or on terms acceptable to us. Additionally, disputes with insurance carriers over coverage terms or the insolvency of one or more of our insurance carriers may significantly affect the amount or timing of our cash flows.

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

Ventures or equity investments operate under shared control with other parties. Under the equity method of accounting for nonconsolidated ventures and investments, we recognize our share of the operating profit of these ventures in our results of operations. Our operating results may be affected by the performance of businesses over which we do not exercise control and which face many of the same risks and uncertainties as we do. The most significant impact of our equity investments is in our Space Systems business segment where approximately 27% of its 2014 operating profit was derived from its share of earnings from equity method investees, particularly that in United Launch Alliance (ULA).

Our ULA investment may be negatively impacted by a provision in the National Defense Authorization Act for Fiscal Year 2015 (NDAA) which prevents the Secretary of Defense from awarding or renewing contracts for evolved expendable launch vehicle services after December 19, 2014 which utilize a rocket engine designed or manufactured in the Russian Federation. ULA uses the Russian-made RD-180 engine for its Atlas V launch vehicle. ULA's current block buy contract with the Air Force, which provides for launch vehicle services through 2017 (with options through 2019), is exempted from the NDAA prohibition, as are contracts that utilize Russian engines that were paid for or covered by a legally binding commitment prior to February 1, 2014. Lockheed Martin does not anticipate any impact on the carrying value of its equity investment in ULA in 2015 as a consequence of the NDAA prohibition. ULA is currently evaluating domestic engine alternatives for its Atlas V launch vehicle and we will monitor the situation for potential impacts on our Space Systems business segment after 2015.

O b a a b b a .

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

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

Prior cyberattacks directed at us have not had a material impact on our financial results and we believe our threat detection and mitigation processes and procedures are adequate. The threats we face vary from attacks common to most industries to more advanced and persistent, highly organized adversaries who target us because we protect national security information. If we are unable to protect sensitive information, our customers or governmental authorities could question the adequacy of our threat mitigation and detection processes and procedures. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers, suppliers, subcontractors, venture partners and acquisitions to seek to minimize the impact of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by these entities, which may affect the security of our information. These entities have varying levels of cyber security expertise and safeguards and their relationships with government contractors, such as Lockheed Martin, may increase the likelihood that they are targeted by the same cyber threats we face.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Additionally, some cyber technologies we develop under contract for our customers, particularly those related to homeland security, may raise potential liabilities related to intellectual property and civil liberties, including privacy concerns, which may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to our customers, our future financial results, our reputation or our stock price; or such events could result in the loss of competitive advantages derived from our research and development efforts or other intellectual property, early obsolescence of our products and services or contractual penalties.

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Our operations are subject to and affected by a variety of federal, state, local and foreign environmental protection laws and regulations. We are involved in environmental responses at some of our facilities and former facilities and at third-party sites not owned by us where we have been designated a potentially responsible party by the U.S. Environmental Protection

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

We have incurred and will continue to incur liabilities under various federal, state, local and foreign statutes for environmental protection and remediation. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. Among the variables management must assess in evaluating costs associated with these cases and remediation sites generally are the status of site assessment, extent of the contamination, impacts on natural resources, changing cost estimates, evolution of technologies used to remediate the site and continually evolving governmental environmental standards and cost allowability issues. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent probable and estimable, see “Critical Accounting Policies – Environmental Matters” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 12 – Legal Proceedings, Commitments and Contingencies” of our consolidated financial statements.

W a a b a . W a a a a .

Our business may be adversely affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As required by GAAP, we estimate loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light ofcontinge359(pra43ous-taa3

Approximately 15% of our employees are covered by collective bargaining agreements with various unions. 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 in the future. If we encounter difficulties with renegotiations or renewals of collective bargaining arrangements or were unsuccessful in those efforts, we could incur additional costs and experience work stoppages. Union actions at suppliers can also affect us. Any delays or work stoppages could adversely affect our ability to perform under our contracts, which could negatively impact our results of operations, cash flows, and financial condition.

O a a a b a a .

The accounting for some of our most significant activities is based on judgments and estimates, which are complex and subject to many variables. For example, accounting for sales using the percentage-of-completion method requires that we assess risks and make assumptions regarding schedule, cost, technical and performance issues for each of our thousands of contracts, many of which are long-term in nature. Another example is the $10.9 billion of goodwill assets recorded on our Balance Sheet as of December 31, 2014 from previous acquisitions that were made over time which represent greater than 25% of our total assets and are subject to annual impairment testing and more frequent testing upon the occurrence of certain events or significant changes in circumstances that indicate goodwill may be impaired. If we experience changes or factors arise that negatively affect the expected cash flows of a reporting unit, we may be required to write off all or a portion of the reporting unit’s related goodwill assets.

The following is a summary of our square feet of floor space by business segment at December 31, 2014, inclusive of the facilities that we plan to vacate as mentioned above (in millions):

	O	L a	U.S. G - O	T a
Aeronautics	5.8	2.5	14.2	22.5
Information Systems & Global Solutions	2.5	5.0	—	7.5
Missiles and Fire Control	4.2	4.9	1.8	10.9
Mission Systems and Training	5.7	5.3	0.4	11.4
Space Systems	8.7	1.8	7.8	18.3
Corporate activities	3.1	0.9	—	4.0
Total	30.0	20.4	24.2	74.6

ITEM 4(a). E O R a .

Our executive officers as of February 9, 2015 are listed below, with their ages on that date, positions and offices currently held, and principal occupation and business experience during at least the last five years. There were no family relationships among any of our executive officers and directors. All officers serve at the discretion of the Board of Directors.

R a F. A b (a 56), E V P S a S

Mr. Ambrose has served as Executive Vice President of Space Systems since April 2013. He previously served as Vice President and Deputy, Space Systems from July 2012 to March 2013; President, Information Systems & Global Solutions – Security from January 2011 to June 2012; and Vice President and General Manager, Space Systems – Surveillance and Navigations Systems from January 2008 to December 2010.

K R. P (a 55), V P a T

Mr. Possenriede has served as Vice President and Treasurer since July 2011. He previously served as Vice President, Finance and Business Operations of Electronic Systems from July 2008 to June 2011.

P E S

The following table provides information about our repurchases of our common stock registered pursuant to Section 12 of the Securities Exchange Act of 1934 during the quarter ended December 31, 2014.

P [a]	T a N b S a P	A a P Pa P S a	T a N b S a P a Pa P b A P a [b]	A A a ab F S a R U P a P a [b]
				(in millions)
September 29, 2014 – October 26, 2014	399,259	$176.96	397,911	$3,825
October 27, 2014 – November 30, 2014	504,300	$187.74	456,904	$3,739
December 1, 2014 – December 31, 2014				

ITEM 6. S F a a Da a.

(In millions, e cep per share da a)	**2014**	**2013**	**2012**	**2011**	**2010**
O a					
Net sales	**$45,600**	$45,358	$47,182	$46,499	$45,671
Operating profit (a)(b)	**5,592**	4,505	4,434	4,020	4,105
Net earnings from continuing operations (a)(b)(c)	**3,614**	2,950	2,745	2,667	2,614
Net earnings (d)	**3,614**	2,981	2,745	2,655	2,878
Net earnings from continuing operations per common share					
Basic (a)(b)(c)	**11.41**	9.19	8.48	7.94	7.18
Diluted (a)(b)(c)					

ITEM 7. Ma a D a A a F a a C a R O a .

Business Overview

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics and information services. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. In 2014, 79% of our $45.6 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 59% from the Department of Defense (DoD)), 20% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1% were from U.S. commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cyber security.

We operate in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST) and Space Systems. We organize our business segments based on the nature of the products and services offered.

We operate in an environment characterized by both increasing complexity in global security and continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of our products and services and placing security capability quickly into the hands of our U.S. and international customers at affordable prices. Recognizing that our customers are d(strsind,l)-270.2(eo)-259(are)-267endeavorzing develoe andxteand ourportfolliahnabea with
onfacpuscentmrkects our capabilicie,l sr sr our internsatles.nalWe continWonfocus
affloirdaabitlvietsy.We also continWe in technoloiers nwe missionquregments
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Act allows for more certainty in the budget planning process for GFY 2015, it retained sequestration cuts for GFYs 2016 through 2021, including the across-the-board spending reduction methodology provided for in the Budget Control Act. As a result, there remains uncertainty regarding how sequestration cuts beyond GFY 2015 will be applied as the DoD and other agencies may have significantly less flexibility in how to apply budget cuts in future years. While the defense budget sustained the largest single reductions under the Budget Control Act, other civil agencies and programs have also been impacted by significant spending reductions. In light of the Budget Control Act and deficit reduction pressures, it is likely that discretionary spending by the U.S. Government will remain constrained for a number of years.

On December 16, 2014, the U.S. Government passed the GFY 2015 omnibus spending bill to finance most federal activities through September 30, 2015, the end of its current fiscal year, after operating under continuing resolution temporary funding measures from October 1, 2014 to December 16, 2014. Currently, the Department of Homeland Security remains funded through a continuing resolution until February 27, 2015. The omnibus spending bill provides for a revised defense spending limit of $585 billion for GFY 2015 and eliminated much of the uncertainty and inefficiency in procuring products and services under the continuing resolution. Under continuing resolutions, partial-year funding is available at prior year levels, subject to certain restrictions, but new spending initiatives are not authorized.

On February 2, 2015, the President submitted a budget proposal for GFY 2016, which included $534 billion for defense spending, about $35 billion more than the spending limits under the Budget Control Act. The budget also provides for $51 billion in additional war spending. We anticipate there will continue to be a significant debate within the U.S. Government over defense spending throughout the budget process for GFY 2016 and beyond. The outcome of these debates could have long-term consequences for our industry and company as described below. However, we continue to believe that our portfolio of products and services will continue to be well supported in a strategically focused allocation of budget resources.

P a I a B R

While recent budget actions provide a more measured and strategic approach to addressing the U.S. Government’s fiscal challenges, sequestration remains a long-term concern. If not further modified, sequestration could have significant negative impacts on our industry and company in future 6(company(on)-27(Febg411futurT-519(cover447(soverbe269(in264rupld)-29J-1.8-249(6

O B C a

In erna ional B siness

A key component of our strategic plan is to grow our international sales. To accomplish this growth, we continue to focus on expanding our in-country presence and strengthening our relationships internationally through partnerships and local production joint technology offices. Since 2013, we have acquired Amor Group, a United Kingdom-based company, Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to aircraft performance, program schedule, cost, and requirements as part of the DoD, Congressional, and international partners' oversight and budgeting processes. Current program challenges include, but are not limited to, supplier and partner performance, software development, level of cost associated with life cycle operations and sustainment and warranties, receiving funding for production contracts on a timely basis, executing future flight tests, findings resulting from testing, and operating the aircraft.

Portfolio Shaping Activities

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our customers. We accomplish this in part by our independent research and development activities and through acquisition, divestiture and internal realignment activities. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services.

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

A

In 2014, we paid $898 million for acquisitions of businesses and investments in affiliates, net of cash acquired, primarily

Consolidated Results of Operations

Since our operating cycle is primarily long term and involves many types of contracts for the design, development and manufacture of products and related activities with varying delivery schedules, the results of operations of a particular year, or year-to-year comparisons of sales and profits, may not be indicative of future operating results. The following discussions of comparative results among years should be reviewed in this context. All per share amounts cited in these discussions are presented on a "per diluted share" basis, unless otherwise noted. Our consolidated results of operations were as follows (in millions, except per share data):

	2014	2013	2012
Net sales	**$ 45,600**	$ 45,358	$ 47,182
Cost of sales	**(40,345)**	(41,171)	(42,986)
Gross profit	**5,255**	4,187	4,196
Other income, net	**337**	318	238
Operating profit	**5,592**	4,505	4,434
Interest expense	**(340)**	(350)	(383)
Other non-operating income, net	**6**	—	21
Earnings from continuing operations before income taxes	**5,258**	4,155	4,072
Income tax expense	**(1,644)**	(1,205)	(1,327)
Net earnings from continuing operations	**3,614**	2,950	2,745
Net earnings from discontinued operations		31	—
Net earnings	**$ 3,614**	$ 2,981	$ 2,745
Diluted earnings per common share			
Continuing operations	**$ 11.21**	$ 9.04	$ 8.36
Discontinued operations		.09	—
Total diluted earnings per common share	**$ 11.21**	$ 9.13	$ 8.36

Certain amounts reported in other income, net, primarily our share of earnings or losses from equity method investees, are included in the operating profit of our business segments. Accordingly, such amounts are included in our discussion of our business segment results of operations.

N Sa

We generate sales from the delivery of products and services to our customers. Product sales are predominantly generated in our Aeronautics, MFC, MST and Space Systems business segments and most of our service sales are generated in our IS&GS and MFC business segments. Our consolidated net sales were as follows (in millions):

	2014	2013	2012
Products	**$36,093**	$35,691	$37,817
Services	**9,507**	9,667	9,365
Total net sales	**$45,600**	$45,358	$47,182

Substantially all of our contracts are accounted for using the percentage-of-completion method. Under the percentage-of-completion method, we record net sales on contracts based upon our progress towards completion on a particular contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our and sustainment activities, increased aircraft deliveries (F-16 program) and increased risk retirements (F-22 program). Product sales at MFC increased as a result of increased volume on air and missile defense systems programs (primarily THAAD), and increased deliveries on fire control programs (including the Apache Fire Control System (Apache)). Lower product sales at IS&GS were primarily due to the wind-down or completion of certain programs, driven by reductions in direct warfighter support and defense budgets tied to command and control programs. The decline at Space Systems was due to lower volume for government satellite programs (primarily Advanced Extremely High Frequency (AEHF), Global Positioning System III (GPS-III), and Mobile User Objective System (MUOS)), partially offset by the Orion program due to increased volume (primarily the first unmanned test flight of the Orion Multi-Purpose Crew Vehicle (MPCV)).

Our product sales represent about 80% of our total sales for both 2013 and 2012. Product sales decreased $2.1 billion, or 6%, in 2013 compared to 2012 primarily due to lower volume and deliveries. Product sales decreased about $915 million at Aeronautics primarily due to fewer aircraft deliveries (primarily F-16 and C-130) and lower volume and risk retirements on F-22 due to completion of aircraft deliveries in 2012, partially offset by increased volume and risk retirements on F-35 production contracts and increased aircraft deliveries on the C-5 program; about $750 million at IS&GS for various programs due to lower volume (such as Next Generation Identification (NGI) and En Route Automation Modernization (ERAM) programs); about $440 million at MST due to fewer deliveries (primarily PTDS as final surveillance system deliveries occurred during the second quarter of 2012) and lower volume (primarily integrated warfare systems and sensors programs); and about $405 million at Space Systems due to lower volume (primarily commercial satellites and the Orion program) partially offset by increased volume (primarily various government satellite programs). The decreases were partially offset by higher product sales of about $380 million at MFC due to increased volume and risk retirements (primarily THAAD and deliveries of PAC-3).

Service Sales

Our service sales represent about 20% of our total sales for 2014 and 2013. Service sales decreased $160 million, or 2%, in 2014 compared to 2013. The decreases were primarily due to lower service sales at MFC of about $355 million due to various technical services programs as a result of decreased volume reflecting market pressures, and lower service sales at Aeronautics of about $20 million attributable to decreased sustainment activities. These decreases were partially offset by higher service sales at Space Systems of about $230 million primarily for commercial space transportation programs due to launch-related activities.

Our service sales represent about 20% of our total sales for 2013 and 2012. Service sales increased $302 million, or 3%, in 2013 compared to 2012. Service sales increased about $270 million at IS&GS primarily due to the start-up of certain programs (such as the Defense Information Systems Agency – Global Information Grid Services Management-Operations (DISA GSM-O) and the National Science Foundation Antarctic Support); and about $85 million at Aeronautics primarily due to increased sustainment activities (primarily F-16). The increases were partially offset by lower service sales of about $80 million at MFC for various technical services programs due to lower volume, partially offset by various fire control programs (primarily Special Operations Forces Contractor Logistics Support Services (SOF CLSS)) due to higher volume. Service sales for 2013 were comparable to 2012 at both MST and Space Systems.

Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, subcontracting costs, an allocation of indirect

Due to the nature of percentage-of-completion accounting, changes in our cost of sales for both products and services are typically accompanied by changes in our net sales. The following discussion of material changes in our consolidated cost of sales for products and services should be read in tandem with the preceding discussion of changes in our consolidated net sales and our business segment results of operations. We have not identified any developing trends in cost of sales for *es r c ring Charges*

2013 Ac ions

During 2013, we recorded charges related to certain severance actions totaling $201 million of which $83 million, $37 million and $81 million related to our IS&GS, MST and Space Systems business segments. These charges reduced our net earnings by $130 million ($.40 per share) and primarily related to a plan we committed to in November 2013 to close and consolidate certain facilities and reduce our total workforce by approximately 4,000 positions within our IS&GS, MST and Space Systems business segments. These charges also include $30 million related to certain severance actions at our IS&GS business segment that occurred in the first quarter of 2013, which were subsequently paid in 2013.

The November 2013 plan resulted from a strategic review of facility capacity and future workload projections for these businesses and is intended to better align our organization and cost structure and improve the affordability of our products and services given the changes in U.S. Government spending as well as the rapidly changing competitive and economic landscape. Upon separation, terminated employees receive lump-sum severance payments primarily based on years of service. As of December 31, 2014, we have paid approximately $107 million in severance payments associated with this action, of which approximately $92 million was paid during the year ended December 31, 2014. The remaining severance payments are expected to be paid through the middle of 2015.

We also expect to incur total accelerated costs (e.g., accelerated depreciation expense related to long-lived assets at the sites to be closed) and incremental costs (e.g., relocation of equipment and other employee related costs) of approximately $15 million, $50 million and $175 million at our IS&GS, MST and Space Systems business segments through the completion of this plan in 2015. As of December 31, 2014, we have incurred total accelerated and incremental costs of approximately as mortality) assumptions (Note 9). The higher CAS pension cost in 2014 compared to 2013 and 2012 reflects the impact of phasing in CAS Harmonization, partially offset by the effect of higher interest rates required by the Highway and

N Ea C O a

We reported net earnings from continuing operations of $3.6 billion ($11.21 per share) in 2014, $3.0 billion ($9.04 per share) in 2013 and $2.7 billion ($8.36 per share) in 2012. Both net earnings from continuing operations and earnings per share were affected by the factors mentioned above. Earnings per share also benefited from a net decrease of approximately five million common shares outstanding from December 31, 2013 to December 31, 2014 as a result of share repurchases, which were partially offset by share issuance under our stock-based awards and certain defined contribution plans.

N Ea D O a

Net earnings from discontinued operations for 2013 include a benefit of $31 million resulting from the resolution of certain tax matters related to a business sold prior to 2013.

Business Segment Results of Operations

We operate in five business segments: Aeronautics, IS&GS, MFC, MST and Space Systems. We organize our business segments based on the nature of the products and services offered. Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation.

Operating profit of our business segments includes our share of earnings or losses from equity method investees because the operating activities of the equity method investees are closely aligned with the operations of our business segments. United Launch Alliance (ULA), which is part of our Space Systems business segment, is our primary equity method investee. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management’s evaluation of segment operating performance, such as charges related to goodwill impairments (Note 1) and significant severance actions (Note 14); gains or losses from divestitures (Note 13); the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item “Unallocated items” between operating profit from our business segments and our consolidated operating profit.

Our business segments’ results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards, which we refer to as CAS pension cost. We recover CAS pension cost through the pricing of our products and services on U.S. Government contracts and, therefore, the CAS pension cost is recognized in each of our business segments’ net sales and cost of sales. Since our consolidated financial statements must present pension expense calculated in accordance with FAS requirements under U.S. generally accepted accounting principles (GAAP), which we refer to as FAS pension expense, the FAS/CAS pension adjustment increases or decreases the CAS pension cost recorded in our business segments’ results of operations to equal the FAS pension expense. As a result, to the extent that CAS pension cost exceeds FAS pension expense, which occurred for 2014, we have FAS/CAS pension income and, conversely, to the extent FAS pension expense exceeds CAS pension cost, which occurred for 2013 and 2012, we have FAS/CAS pension expense.

The operating results in the following tables exclude businesses included in discontinued operations (Note 13) for all years presented. Summary operating results for each of our business segments were as follows (in millions):

	2014	2013	2012
N [illegible] a [illegible]			
Aeronautics	**$14,920**	$14,123	$14,953
Information Systems & Global Solutions	**7,788**	8,367	8,846
Missiles and Fire Control	**7,680**	7,757	7,457
Mission Systems and Training	**7,147**	7,153	7,579
Space Systems	**8,065**	7,958	8,347
Total net sales	**$45,600**	$45,358	$47,182
O [illegible] a [illegible]			
Aeronautics	**$ 1,649**	$ 1,612	$ 1,699
Information Systems & Global Solutions	**699**	759	808
Missiles and Fire Control	**1,358**	1,431	1,256
Mission Systems and Training	**843**	905	737
Space Systems	**1,039**	1,045	1,083
Total business segment operating profit	**5,588**	5,752	5,583
Unallocated items			
FAS/CAS pension adjustment			
FAS pension expense [a]	**(1,144)**	(1,948)	(1,941)
Less: CAS pension cost [b]	**1,520**	1,466	1,111
FAS/CAS pension income (expense) [c]	**376**	(482)	(830)
Goodwill impairment charges [d]	**(119)**	(195)	—
Severance charges [e]		(201)	(48)

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports is accumulated in a manner specified by the requirements of each contract. For example, cost data provided to a customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) and for services would align to the type of work being performed (such as help-desk support). Our contracts generally are cost-based, which allows for the recovery of costs in the pricing of our products and services. Most of our contracts are bid and negotiated with

2014, 2013 and 2012. The decrease in our consolidated net adjustments for 2014 compared to 2013 was primarily due to a decrease in profit booking rate adjustments at our Aeronautics, MFC and MST business segments. The increase in our consolidated net adjustments for 2013 as compared to 2012 was primarily due to an increase in profit booking rate adjustments at our MST and MFC business segments and, to a lesser extent, the increase in the favorable resolution of contractual matters for the corporation. The consolidated net adjustments for 2014 are inclusive of approximately $650 million in unfavorable items, which include reserves recorded on certain training and logistics solutions programs at MST and net warranty reserve adjustments for various programs (including JASSM and GMLRS) at MFC as described in the respective business segment's results of operations below. The consolidated net adjustments for 2013 and 2012 are inclusive of approximately $600 million and $500 million in unfavorable items, which include a significant profit reduction on the F-35 development contract in both years, as well as a significant profit reduction on the C-5 program in 2013, each as described in our Aeronautics business segment's results of operations discussion below.

Aeronautics

Our Aeronautics business segment is engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies. Aeronautics' major programs include the F-35 Lightning II Joint Strike Fighter, C-130 Hercules, F-16 Fighting Falcon, F-22 Raptor and the C-5M Super Galaxy. Aeronautics' operating results included the following (in millions):

	2014	2013	2012
Net sales	**$14,920**	$14,123	$14,953
Operating profit	**1,649**	1,612	1,699
Operating margins	**11.1%**	11.4%	11.4%
Backlog at year-end	**$27,600**	$28,000	$30,100

2014 compared to 2013

Aeronautics' net sales for 2014 increased $797 million, or 6%, compared to 2013. The increase was primarily attributable to higher net sales of approximately $790 million for F-35 production contracts due to increased volume and sustainment activities; about $55 million for the F-16 program due to increased deliveries (17 aircraft delivered in 2014 compared to 13 delivered in 2013) partially offset by contract mix; and approximately $45 million for the F-22 program due to increased risk retirements. The increases were partially offset by lower net sales of approximately $55 million for the F-35 development contract due to decreased volume, partially offset by the absence in 2014 of the downward revision to the profit booking rate that occurred in 2013; and about $40 million for the C-130 program due to fewer deliveries (24 aircraft delivered in 2014 compared to 25 delivered in 2013) and decreased sustainment activities, partially offset by contract mix.

Aeronautics' operating profit for 2014 increased $37 million, or 2%, compared to 2013. The increase was primarily attributable to higher operating profit of approximately $85 million for the F-35 development contract due to the absence in 2014 of the downward revision to the profit booking rate that occurred in 2013; about $75 million for the F-22 program due to increased risk retirements; approximately $50 million for the C-130 program due to increased risk retirements and contract mix, partially offset by fewer deliveries; and about $25 million for the C-5 program due to the absence in 2014 of the downward revisions to the profit booking rate that occurred in 2013. The increases were partially offset by lower operating profit of approximately $130 million for the F-16 program due to decreased risk retirements, partially offset by increased deliveries; and about $70 million for sustainment activities due to decreased risk retirements and volume. Operating profit was comparable for F-35 production contracts as higher volume was offset by lower risk retirements.

Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately $105 million lower for 2014 compared to 2013.

2013 compared to 2012

Aeronautics' net sales for 2013 decreased $830 million, or 6%, compared to 2012. The decrease was primarily attributable to lower net sales of approximately $530 million for the F-16 program due to fewer aircraft deliveries (13 aircraft delivered in 2013 compared to 37 delivered in 2012) partially offset by aircraft configuration mix; about $385 million for the C-130 program due to fewer aircraft deliveries (25 aircraft delivered in 2013 compared to 34 in 2012) partially offset by increased sustainment activities; approximately $255 million for the F-22 program, which includes about $205 million due to decreased production volume as final aircraft deliveries were completed during the second quarter of 2012 and $50 million from the favorable resolution of a contractual matter during the second quarter of 2012; and about $270 million for various other programs (primarily sustainment activities) due to decreased volume. The decreases were partially offset by higher net sales of about $295 million for F-35 production contracts due to increased production volume and risk retirements; approximately $245 million for the C-5 program due to increased aircraft deliveries (six aircraft delivered in 2013 compared to four in 2012) and other modernization activities; and about $70 million for the F-35 development contract due to increased volume.

Aeronautics' operating profit for 2013 decreased $87 million, or 5%, compared to 2012. The decrease was primarily attributable to lower operating profit of about $85 million for the F-22 program, which includes approximately $50 million from the favorable resolution of a contractual matter in the second quarter of 2012 and about $35 million due to decreased risk retirements and production volume; approximately $70 million for the C-130 program due to lower risk retirements and fewer deliveries partially offset by increased sustainment activities; about $65 million for the C-5 program due to the inception-to-date effect of reducing the profit booking rate in the third quarter of 2013 and lower risk retirements; approximately $35 million for the F-16 program due to fewer aircraft deliveries partially offset by increased sustainment activity and aircraft configuration mix. The decreases were partially offset by higher operating profit of approximately $180 million for F-35 production contracts due to increased risk retirements and volume. Operating profit was comparable for the F-35 development contract and included adjustments of approximately $85 million to reflect the inception-to-date impacts of the downward revisions to the profit booking rate in both 2013 and 2012. Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately $75 million lower for 2013 compared to 2012.

Backlog

Backlog decreased slightly in 2014 compared to 2013 primarily due to lower orders on F-16 and F-22 programs. Backlog decreased in 2013 compared to 2012 mainly due to lower orders on F-16, C-5 and C-130 programs, partially offset by higher orders on the F-35 program.

Trends

We expect Aeronautics' 2015 net sales to be comparable or slightly behind 2014 due to a decline in F-16 deliveries as well as a decline in F-35 development activity, partially offset by an increase in production contracts. Operating profit is also expected to decrease in the low single digit range, due primarily to contract mix, resulting in a slight decrease in operating margins between years.

Information Systems & Global Solutions

Our IS&GS business segment provides advanced technology systems and expertise, integrated information technology solutions and management services across a broad spectrum of applications for civil, defense, intelligence and other government customers. IS&GS has a portfolio of many smaller contracts as compared to our other business segments. IS&GS has been impacted by the continued downturn in certain federal agencies' information technology budgets and increased re-competition on existing contracts coupled with the fragmentation of large contracts into multiple smaller contracts that are awarded primarily on the basis of price. IS&GS' operating results included the following (in millions):

	2014	2013	2012
Net sales	**$7,788**	$8,367	$8,846
Operating profit	**699**	759	808
Operating margins	**9.0%**	9.1%	9.1%
Backlog at year-end	**$8,700**	$8,300	$8,700

2014 compared to 2013

IS&GS' net sales decreased $579 million, or 7%, for 2014 compared to 2013. The decrease was primarily attributable to lower net sales of about $645 million for 2014 due to the wind-down or completion of certain programs, driven by reductions in direct warfighter support (including JIEDDO and PTDS) and defense budgets tied to command and control programs; and approximately $490 million for 2014 due to a decline in volume for various ongoing programs, which reflects lower funding levels and programs impacted by in-theater force reductions. The decreases were partially offset by higher net sales of about

IS&GS’ operating profit decreased $60 million, or 8%, for 2014 compared to 2013. The decrease was primarily attributable to the activities mentioned above for sales, lower risk retirements and reserves recorded on an international program, partially offset by severance recoveries related to the restructuring announced in November 2013 of approximately $20 million for 2014. Adjustments not related to volume, including net profit booking rate adjustments, were approximately $30 million lower for 2014 compared to 2013.

2013 compared o 2012

IS&GS’ net sales decreased $479 million, or 5%, for 2013 compared to 2012. The decrease was attributable to lower net sales of about $495 million due to decreased volume on various programs (command and control programs for classified customers, NGI and ERAM programs); and approximately $320 million due to the completion of certain programs (such as

Mission Systems and Training

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

	2014	2013	2012
Net sales	**$ 7,147**	$ 7,153	$ 7,579
Operating profit	**843**	905	737
Operating margins	**11.8%**	12.7%	9.7%
Backlog at year-end	**$11,700**	$10,800	$10,700

2014 compared to 2013

MST's net sales for 2014 were comparable to 2013. Net sales decreased by approximately $85 million for undersea systems programs due to decreased volume and deliveries; and about $55 million related to the settlements of contract cost matters on certain programs (including a portion of the terminated presidential helicopter program) in 2013 that were not repeated in 2014. The decreases were offset by higher net sales of approximately $80 million for integrated warfare systems and sensors programs due to increased volume (primarily Space Fence); and approximately $40 million for training and logistics solutions programs due to increased deliveries (primarily Close Combat Tactical Trainer).

MST's operating profit for 2014 decreased $62 million, or 7%, compared to 2013. The decrease was primarily attributable to lower operating profit of approximately $120 million related to the settlements of contract cost matters on certain programs (including a portion of the terminated presidential helicopter program) in 2013 that were not repeated in 2014; and approximately $45 million due to higher reserves recorded on certain training and logistics solutions programs. The decreases were partially offset by higher operating profit of approximately $45 million for performance matters and reserves recorded in 2013 that were not repeated in 2014; and about $60 million for various programs due to increased risk retirements (including MH-60 and radar surveillance programs). Adjustments not related to volume, including net profit booking rate adjustments and other matters, were approximately $50 million lower for 2014 compared to 2013.

2013 compared to 2012

MST's net sales for 2013 decreased $426 million, or 6%, compared to 2012. The decrease was primarily attributable to lower net sales of approximately $275 million for various ship and aviation systems programs due to lower volume (primarily PTDS as final surveillance system deliveries occurred during the second quarter of 2012); about $195 million for various integrated warfare systems and sensors programs (primarily Naval systems) due to lower volume; approximately $65 million for various training and logistics programs due to lower volume; and about $55 million for the Aegis program due to lower volume. The decreases were partially offset by higher net sales of about $155 million for the LCS program due to increased volume.

MST's operating profit for 2013 increased $168 million, or 23%, compared to 2012. The increase was primarily attributable to higher operating profit of approximately $120 million related to the settlement of contract cost matters on certain programs (including a portion of the terminated presidential helicopter program); about $55 million for integrated warfare systems and sensors programs (primarily radar and Halifax class modernization programs) due to increased risk retirements; and

Eq i earnings

Total equity earnings recognized by Space Systems (primarily ULA in 2014 and 2013) represented approximately $280 million and $300 million, or 27% and 29% of this business segment's operating profit during 2014 and 2013. During 2012, total equity earnings recognized by Space Systems from ULA, United Space Alliance and the U.K. Atomic Weapons Establishment joint venture represented approximately $265 million, or 24%, of this business segment's operating profit.

Backlog

Backlog decreased in 2014 compared to 2013 primarily due to lower orders and higher sales on the Orion program, partially offset by higher orders on SBIRS. Backlog increased in 2013 compared to 2012 mainly due to higher orders on the Orion program, partially offset by lower orders on government satellite programs (primarily AEHF).

Trends

We expect Space Systems' net sales to decline in the mid single digit percentage range in 2015 as compared to 2014; primarily due to lower delivery based sales in 2015. Operating profit is expected to decline in the low-double digit percentage range, primarily driven by lower equity earnings in 2015 compared to 2014. As a result, operating profit margin is expected to decline between the years.

Liquidity and Cash Flows

We have a balanced cash deployment strategy to enhance stockholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have continued to invest in our business, including capital expenditures, independent research and development and made selective business acquisitions, while returning cash to stockholders through dividends and share repurchases, and managing our debt levels, maturities and interest rates.

We have generated strong operating cash flows, which have been the primary source of funding for our operations, capital expenditures, acquisitions, debt service and repayments, dividends, share repurchases and postretirement benefit plan contributions. Our strong operating cash flows enabled our Board of Directors to approve two key cash deployment initiatives in September 2014. First, we increased our quarterly dividend rate by 13% to $1.50 per share. Second, the Board of Directors approved a $2.0 billion increase to our share repurchase program. Inclusive of this increase, the total remaining authorization for future common share repurchases under our program was $3.7 billion as of December 31, 2014. Further, based on our current cash projections, in October 2014 we announced a new cash deployment initiative in which we plan to reduce our total outstanding share count to below 300 million shares over the next three years, market conditions and our fiduciary obligations permitting.

We have accessed the capital markets on limited occasions, as needed or when opportunistic. We expect our cash from operations will continue to be sufficient to support our operations and anticipated capital expenditures for the foreseeable future. As mentioned in the "Capital Resources" section below, we have financing resources available to fund potential cash outflows that are less predictable or more discretionary, should they occur. We also have access to credit markets, if needed, for liquidity or general corporate purposes, including, but not limited to, our revolving credit facility or the ability to issue commercial paper, and letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts.

Cash received from customers, either from the payment of invoices for work performed or for advances in excess of costs incurred, is our primary source of cash. We generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. We generally bill and collect cash more frequently under cost-reimbursable and time-and-materials contracts, which together represent approximately half of the sales we recorded in 2014, as we are authorized to bill as the costs are incurred or work is performed. A number of our fixed-price contracts may provide for performance-based payments, which allow us to bill and collect cash as we perform on the contract. The amount of performance-based payments and the related milestones are encompassed in the negotiation of each contract. The timing of such payments may differ from our incurrence of costs related to our contract performance, thereby affecting our cash flows.

The U.S. Government has indicated that it would consider progress payments as the baseline for negotiating payment terms on fixed-price contracts, rather than performance-based payments. In contrast to negotiated performance-based payment terms, progress payment provisions correspond to a percentage of the amount of costs incurred during the performance of the contract. While the total amount of cash collected on a contract is the same, performance-based payments

Purchase obligations in the preceding table for capital expenditures generally include facilities infrastructure, equipment and information technology.

cash, after-tax reduction primarily represents net actuarial losses resulting from declines in discount rates from 6.375% at the

Trends

Under agreements reached with the U.S. Government, most of the amounts we spend for environmental remediation are allocated to our operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures relating to our U.S. Government business, after deducting any recoveries received from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, most of the expenditures we incur are included in our net sales and cost of sales according to U.S. Government agreement or regulation, We estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public company trading values and values observed in business acquisitions. Determining fair value requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates, discount rates and relevant comparable public company earnings multiples and transaction multiples. The cash flows employed in the DCF analyses are based on our best estimate of future sales, earnings and cash flows after considering factors such as general market conditions, U.S. Government budgets, existing firm orders, expected future orders, contracts with suppliers, labor agreements, changes in working capital, long term business plans and recent operating performance. The discount rates utilized in the DCF analysis are based on the respective reporting unit's weighted average cost of capital, which takes into account the relative weights of each component of capital structure (equity and debt) and represents the expected cost of new capital, adjusted as appropriate to consider the risk inherent in future cash flows of the respective reporting unit.

The carrying value of each reporting unit includes the assets and liabilities employed in its operations, goodwill and allocations of amounts held at the business segment and corporate levels. Corporate allocations include our postretirement benefit plans liabilities, as determined in accordance with CAS, in order to align the basis of the carrying values with the determination of the fair values of our reporting units, which are measured using CAS pension cost. CAS pension cost is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, affects the fair ort59(the)-2bhrm

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In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard that will change the way we recognize revenue and significantly expand the disclosure requirements for revenue recognition. Unless the FASB delays the effective date of the new standard, it will be effective for us beginning on January 1, 2017. See Note 1 (under the caption “Recent Accounting Pronouncements”) for additional information related to this new standard.

ITEM 7A. Q a a a Q a a D Ab Ma R .

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

Our main exposure to market risk relates to interest rates, foreign currency exchange rates and market prices on certain equity securities. Our financial instruments that are subject to interest rate risk principally include fixed-rate long-term debt. The estimated fair value of our outstanding debt was $7.9 billion at December 31, 2014 and the outstanding principal amount was $7.0 billion, excluding unamortized discounts of $872 million. A 10% change in the level of interest rates would not have a material impact on the fair value of our outstanding debt at December 31, 2014.

We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exposed to price changes and changes in interest rates. A portion of the liabilities associated with the deferred compensation plans supported by the trust is also impacted by changes in the market price of our common stock and certain market indices. Changes in the value of the liabilities have the effect of partially offsetting the impact of changes in the value of the trust. Both the change in the fair value of the trust and the change in the value of the liabilities are recognized on our Statements of Earnings in other unallocated, net and were not material for the year ended December 31, 2014.

ITEM 8. Financial Statements and Supplementary Data.

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Corporation at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 9, 2015 expressed an unqualified opinion thereon.

Ernst & Young LLP

McLean, Virginia
February 9, 2015

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	2014	**2013**	**2012**
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Products	**$ 36,093**	$ 35,691	$ 37,817

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Operating activities			
Net earnings	**$ 3,614**	$ 2,981	$ 2,745
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	**994**	990	988
Stock-based compensation	**164**	189	167
Deferred income taxes	**(401)**	(5)	930
Goodwill impairment charges	**119**	195	—
Severance charges		201	48
Changes in assets and liabilities			
Receivables, net	**28**	767	(460)
Inventories, net	**77**	(60)	(422)
Accounts payable	**95**	(647)	(236)
Customer advances and amounts in excess of costs incurred	**(572)**	(158)	57
Postretirement benefit plans	**(880)**	(375)	(1,883)
Income taxes	**351**	364	(535)
Other, net	**277**	104	162
Net cash provided by operating activities	**3,866**	4,546	1,561
Investing activities			
Capital expenditures	**(845)**	(836)	(942)
Acquisitions of businesses and investments in affiliates	**(898)**	(269)	(259)
Other, net	**20**	(16)	24
Net cash used for investing activities	**(1,723)**	(1,121)	(1,177)
Financing activities			
Repurchases of common stock	**(1,900)**	(1,762)	(990)
Proceeds from stock option exercises	**308**	827	440
Dividends paid	**(1,760)**	(1,540)	(1,352)
Repayments of long-term debt		(150)	—
Premium paid on debt exchange		—	(225)
Other, net	**38**	(81)	59
Net cash used for financing activities	**(3,314)**	(2,706)	(2,068)
Net change in cash and cash equivalents	**(1,171)**	719	(1,684)
Cash and cash equivalents at beginning of year	**2,617**	1,898	3,582
Cash and cash equivalents at end of year	**$ 1,446**	$ 2,617	$ 1,898

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

Lockheed Martin Corporation
Consolidated Statements of Stockholders' Equity
(In millions, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2011	$321	$ —	$11,937	$(11,257)	$ 1,001
Net earnings	—	—	2,745	—	2,745
Other comprehensive loss, net of tax	—	—	—	(2,236)	(2,236)
Repurchases of common stock	(11)	(889)	(108)	—	(1,008)
Dividends declared ($4.15 per share)	—	—	(1,363)	—	(1,363)
Stock-based awards and ESOP activity	11	889	—	—	900
Balance at December 31, 2012	321	—	13,211	(13,493)	39
Net earnings	—	—	2,981	—	2,981
Other comprehensive income, net of tax	—	—	—	3,892	3,892
Repurchases of common stock	(16)	(1,294)	(434)	—	(1,744)
Dividends declared ($4.78 per share)	—	—	(1,558)	—	(1,558)
Stock-based awards and ESOP activity	14	1,294	—	—	1,308
Balance at December 31, 2013	319	—	14,200	(9,601)	4,918
Net earnings			**3,614**		**3,614**
Other comprehensive income, net of tax				**(2,269)**	**(2,269)**
Repurchases of common stock	**(12)**	**(792)**	**(1,096)**		**(1,900)**
Dividends declared ($5.49 per share)			**(1,762)**		**(1,762)**
Stock-based awards and ESOP activity	**7**	**792**			**799**
Balance at December 31, 2014	**$314**	**$**	**$14,956**	**$(11,870)**	**$ 3,400**

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

Note 1 – Significant Accounting Policies

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

Basis of presentation – Our consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. Our receivables, inventories, customer advances and amounts in excess of costs incurred and certain amounts in other current liabilities primarily are attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, we include these items in current assets and current liabilities. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a "per diluted share" basis.

Use of estimates – We prepare our consolidated financial statements in conformity with U.S. generally accepted current period for the inception-to-date effect of such changes. When estimates of total costs to be incurred on a contract exceed estimates of total sales to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

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

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

impairment at a level referred to as the reporting unit, which is our business segment level or a level below the business segment. The level at which we test goodwill for impairment requires us to determine whether the operations below the business segment constitute a business for which discrete financial information is available and segment management

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ineffective portion of the hedges or of derivatives that are not considered to be highly effective hedges, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding interest rate swaps at December 31, 2014 and 2013 was $1.3 billion and $1.2 billion. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2014 and 2013 was $804 million and $1.0 billion. Derivative instruments did not have a material impact on

- **Mission Systems and Training** – Provides ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship; simulation and training services; and unmanned systems and technologies.

- **Space Systems** – Engaged in the research and development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. Space Systems is also responsible for various classified systems and services in support of vital national security systems. Operating profit for our Space Systems business segment includes our share of earnings for our investment in ULA, which provides expendable launch services to the U.S. Government.

The financial information in the following tables includes the results of businesses we have acquired during the past three years (Note 13) from their respective dates of acquisition. The business segment operating results in the following tables exclude businesses included in discontinued operations (Note 13) for all years presented. Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation.

Operating profit of our business segments includes our share of earnings or losses from equity method investees because the operating activities of the equity method investees are closely aligned with the operations of our business segments. Operating profit of our business segments excludes the FAS/CAS pension adjustment described below; expense for stock-based compensation; the effects of items not considered part of management's evaluation of segment operating performance, such as charges related to goodwill impairments (Note 1) and significant severance actions (Note 14); gains or losses from divestitures (Note 13); the effects of certain legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit.

Our business segments' results of operations include pension expense only as calculated under U.S. Government Cost

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

	2014	2013	2012
N a			
Aeronautics	**$14,920**	$14,123	$14,953
Information Systems & Global Solutions	**7,788**	8,367	8,846
Missiles and Fire Control	**7,680**	7,757	7,457
Mission Systems and Training	**7,147**	7,153	7,579
Space Systems	**8,065**	7,958	8,347
Total net sales	**$45,600**	$45,358	$47,182
O a			
Aeronautics	**$ 1,649**	$ 1,612	$ 1,699
Information Systems & Global Solutions	**699**	759	808
Missiles and Fire Control	**1,358**	1,431	1,256
Mission Systems and Training	**843**	905	737
Space Systems	**1,039**	1,045	1,083
Total business segment operating profit	**5,588**	5,752	5,583
Unallocated items			
FAS/CAS pension adjustment			
FAS pension expense [a]	**(1,144)**	(1,948)	(1,941)
Less: CAS pension cost [b]	**1,520**	1,466	1,111
FAS/CAS pension income (expense)	**376**	(482)	(830)
Goodwill impairment charges [c]	**(119)**	(195)	—
Severance charges [d]		(201)	(48)
Stock-based compensation	**(164)**	(189)	(167)
Other, net	**(89)**	(180)	(104)
Total unallocated items	**4**	(1,247)	(1,149)
Total consolidated operating profit	**$ 5,592**	$ 4,505	$ 4,434

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	2014	2013	2012
I a			
Aeronautics	**$ 99**	$ 195	$ 197
Information Systems & Global Solutions	**665**	687	838
Missiles and Fire Control	**336**	273	298
Mission Systems and Training	**1,224**	991	908
Space Systems	**119**	101	107
Total intersegment sales	**$2,443**	$2,247	$2,348
D a a a a			
Aeronautics	**$ 322**	$ 318	$ 311
Information Systems & Global Solutions	**91**	94	92
Missiles and Fire Control	**99**	98	104
Mission Systems and Training	**158**	174	179
Space Systems	**217**	199	191
Total business segment depreciation and amortization	**887**	883	877
Corporate activities	**107**	107	111
Total depreciation and amortization	**$ 994**	$ 990	$ 988
Ca a			
Aeronautics	**$ 283**	$ 271	$ 271
Information Systems & Global Solutions	**35**	64	78
Missiles and Fire Control	**142**	128	128
Mission Systems and Training	**157**	132	158
Space Systems	**162**	170	167
Total business segment capital expenditures	**779**	765	802
Corporate activities	**66**	71	140
Total capital expenditures	**$ 845**	$ 836	$ 942

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

	2014	2013

We expect to bill substantially all of the December 31, 2014 unbilled costs and accrued profits during 2015.

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

	2014	2013
Work-in-process, primarily related to long-term contracts and programs in progress	**$ 6,728**	$ 7,073
Less: customer advances and progress payments	**(4,701)**	(4,834)
	2,027	2,239
Other inventories	**855**	738
Total inventories, net	**$ 2,882**	$ 2,977

Work-in-process inventories at December 31, 2014 and 2013 included general and administrative costs of $698 million and $630 million. General and administrative costs incurred and recorded in inventories totaled $2.6 billion in 2014 and $2.4 billion in both 2013 and 2012 and general and administrative costs charged to cost of sales from inventories totaled $2.6 billion in 2014 and $2.4 billion in both 2013 and 2012.

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

	2014	2013
Land	**$ 99**	$ 99
Buildings	**5,724**	5,602
Machinery and equipment	**7,036**	7,043
Construction in progress	**636**	622
	13,495	13,366
Less: accumulated depreciation and amortization	**(8,740)**	(8,660)
Total property, plant and equipment, net	**$ 4,755**	$ 4,706

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

	2014	2013	2012
Federal income tax expense (benefit):			
Current	**$2,020**	$1,204	$ 387
Deferred	**(387)**	3	925
Total federal income tax expense	**1,633**	1,207	1,312
Foreign income tax expense (benefit):			
Current	**24**	6	14
Deferred	**(13)**	(8)	1
Total foreign income tax expense (benefit)	**11**	(2)	15
Total income tax expense	**$1,644**	$1,205	$1,327

State income taxes are included in our operations as general and administrative costs and, under U.S. Government regulations, are allowable costs in establishing prices for the products and services we sell to the U.S. Government. Therefore, a substantial portion of state income taxes is included in our net sales and cost of sales. As a result, the impact of certain transactions on our operating profit and of other matters presented in these financial statements is disclosed net of state income taxes. Our total net state income tax expense was $207 million in 2014, $121 million for 2013 and $183 million for 2012.

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

	2014	2013	2012
Income tax expense at the U.S. federal statutory tax rate	**$1,840**	$1,454	$1,425
U.S. manufacturing deduction benefit	**(127)**	(100)	(29)
Research and development tax credit	**(66)**	(96)	—
Tax deductible dividends	**(82)**	(77)	(73)
Goodwill impairment – non-deductible portion	**30**	50	—
Other, net	**49**	(26)	4
Income tax expense	**$1,644**	$1,205	$1,327

Our tax-deductible pension contributions were significantly higher in 2012 than in 2013 or 2014 and, accordingly, our U.S. manufacturing deduction for 2012 was significantly reduced.

We recognized tax benefits of $66 million in 2014 and $96 million in 2013 from U.S. research and development (R&D) tax credits, including benefits attributable to prior periods. In 2014, the R&D tax credit was temporarily reinstated for one year, retroactive to the beginning of 2014, which reduced income tax expense by approximately $45 million. In 2013, the R&D tax credit was temporarily reinstated for two years, retroactive to the beginning of 2012. As a result, income tax expense for 2013 reflects the credit for all of 2013 and 2012, which reduced income tax expense by approximately $76 million.

We receive a tax deduction for dividends paid on shares of our common stock held by certain of our defined contribution plans with an employee stock ownership plan feature. The amount of the tax deduction has increased as we increased our dividend over the last three years, partially offset by a decline in the number of shares in these plans.

A limited amount of the non-cash goodwill impairment charges will be deductible for tax purposes. Accordingly, the 2014 and 2013 non-cash goodwill impairment charges (Note 1) of $119 million and $195 million increased our 2014 and 2013 effective tax rates.

We participate in the IRS Compliance Assurance Process program. The IRS examination of the year 2012 was completed in the fourth quarter of 2013. The examinations of the years 2013 and 2014 remain under review. We also resolved certain issues

As of December 31, 2014 and 2013, our liabilities associated with unrecognized tax benefits are not material.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. With few exceptions, the statute of limitations is no longer open for U.S. federal or non-U.S. income tax examinations for the years before 2011, other than with respect to refunds.

U.S. income taxes and foreign withholding taxes have not been provided on earnings of $291 million, $222 million and $211 million that have not been distributed by our non-U.S. companies as of December 31, 2014, 2013 and 2012. Our intention is to permanently reinvest these earnings, thereby indefinitely postponing their remittance to the U.S. If these earnings had been remitted, we estimate that the additional income taxes after foreign tax credits would have been approximately $55 million in 2014, $50 million in 2013 and $45 million in 2012.

Our federal and foreign income tax payments, net of refunds received, were $1.5 billion in 2014, $787 million in 2013

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

	Qualified Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	2014	2013	2014	2013
Change in benefit obligation				
Beginning balance	$ **42,161** BeginniServicMedicalcost5 1 Tf 24.71 0 5.96($)-50(903)T			

The accumulated benefit obligation (ABO) for all qualified defined benefit pension plans was $45.2 billion and $37.5 billion at December 31, 2014 and 2013, of which $45.0 billion and $37.3 billion related to plans where the ABO was in excess of plan assets. The ABO represents benefits accrued without assuming future compensation increases to plan participants. Certain key information related to our qualified defined benefit pension plans as of December 31, 2014 and 2013 is as follows (in millions):

	2014	2013
P a[illegible] ABO [illegible]		
Projected benefit obligation	**$ 45,741**	$ 41,984
Less: fair value of plan assets	**34,328**	32,623
Unfunded status of plans [a]	**(11,413)**	(9,361)
P a[illegible] ABO [illegible]		
Projected benefit obligation	**141**	177
Less: fair value of plan assets	**345**	387
Funded status of plans [b]	**$ 204**	$ 210

(a) $ 204

in net periodic benefit cost during 2015. Of this amount, $1.2 billion, or $781 million net of tax, primarily relates to actuarial losses associated with our qualified defined benefit plans and is included in our expected 2015 pension expense of $1.1 billion.

Actuarial Assumptions

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

	Qualified Defined Benefit Pension Plans			Retiree Medical and Life Insurance Plans		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
Discount rate	**4.00%**	4.75%	4.00%	**3.75%**	4.50%	3.75%
Expected long-term rate of return on assets	**8.00%**	8.00%	8.00%	**8.00%**	8.00%	8.00%
Rate of increase in future compensation levels	**4.30%**	4.30%	4.30%			
Health care trend rate assumed for next year				**8.50%**	8.75%	9.00%
Ultimate health care trend rate				**5.00%**	5.00%	5.00%
Year that the ultimate health care trend rate is reached				**2029**	2029	2029

The decrease in the discount rate from December 31, 2013 to December 31, 2014 resulted in an increase in the projected benefit obligations of our qualified defined benefit pension plans of approximately $4.8 billion at December 31, 2014. The increase in the discount rate from December 31, 2012 to December 31, 2013 resulted in a decrease in the projected benefit obligations of our qualified defined benefit pension plans of approximately $4.4 billion at December 31, 2013.

The long-term rate of return assumption represents the expected long-term rate of earnings on the funds invested, or to be invested, to provide for the benefits included in the benefit obligations. That assumption is based on several factors including historical market index returns, the anticipated long-term allocation of plan assets, the historical return data for the trust funds, plan expenses and the potential to outperform market index returns.

Plan Assets

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

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

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

Asset Class	**Asset Allocation Ranges**
Cash and cash equivalents	0-20%
Equity	15-65%
Fixed income	10-60%
Alternative investments:	
Private equity funds	0-15%
Real estate funds	0-10%
Hedge funds	0-20%
Commodities	0-25%

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

Commingled equity funds are investment vehicles valued using the Net Asset Value (NAV) provided by the fund managers. The NAV is the total value of the fund divided by the number of shares outstanding. Commingled equity funds are categorized as Level 1 if traded at their NAV on a nationally recognized securities exchange or categorized as Level 2 if the NAV is corroborated by observable market data (e.g., purchases or sales activity) and we are able to redeem our investment in the near-term.

shares were held in a separate trust. Of the 321 million shares of common stock issued and outstanding as of December 31, 2013, 319 million shares were considered outstanding for Balance Sheet presentation purposes; the remaining shares were held in a separate trust. No shares of preferred stock were issued and outstanding at December 31, 2014 or 2013.

R a C S

During 2014, we repurchased 11.5 million shares of our common stock for $1.9 billion. During 2013 and 2012, we paid $1.8 billion and $990 million to repurchase 16.2 million and 11.1 million shares of our common stock. We reduced stockholders' equity by $1.7 billion and $1.0 billion which represents the 16.0 million and 11.3 million shares of common stock we committed to repurchase during 2013 and 2012. Of the shares we committed to during 2012, a portion settled in cash during January 2013.

In September 2014, our Board of Directors approved a $2.0 billion increase to our share repurchase program. Inclusive of this increase, the total remaining authorization for future common share repurchases under our program was $3.7 billion as of December 31, 2014. As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess purchase price over par value of $1.1 billion and $434 million recorded as a reduction of retained earnings in 2014 and 2013.

A a O C L

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

	P B P a	**O**	**AOCL**
Balance at December 31, 2011 [a]	$(11,186)	$ (71)	$(11,257)
Other comprehensive (loss) income before reclassifications	(3,204)	105	(3,099)
Amounts reclassified from AOCL			
Recognition of net actuarial losses	819	—	819
Amortization of net prior service costs	39	—	39
Other	—	5	5
Total reclassified from AOCL	858	5	863
Total other comprehensive (loss) income	(2,346)	110	(2,236)
Balance at December 31, 2012 [a]	(13,532)	39	(13,493)
Other comprehensive income before reclassifications	2,868	11	2,879
Amounts reclassified from AOCL			
Recognition of net actuarial losses	973	—	973
Amortization of net prior service costs	42	—	42
Other	—	(2)	(2)
Total reclassified from AOCL	1,015	(2)	1,013
Total other comprehensive income	3,883	9	3,892
Balance at December 31, 2013 [a]	(9,649)	48	(9,601)
Other comprehensive loss before reclassifications	**(2,870)**	**(103)**	**(2,973)**
Amounts reclassified from AOCL			
Recognition of net actuarial losses	**806**		**806**

Note 11 – Stock-Based Compensation

During 2014, 2013 and 2012, we recorded non-cash stock-based compensation expense totaling $164 million, $189 million and $167 million, which is included as a component of other unallocated, net on our Statements of Earnings. The net impact to earnings for the respective years was $107 million, $122 million and $108 million.

As of December 31, 2014, we had $91 million of unrecognized compensation cost related to nonvested awards, which is expected to be recognized over a weighted average period of 1.6 years. We received cash from the exercise of stock options totaling $308 million, $827 million and $440 million during 2014, 2013 and 2012. In addition, our income tax liabilities for 2014, 2013 and 2012 were reduced by $215 million, $158 million, $96 million due to recognized tax benefits on stock-based compensation arrangements.

Stock-Based Compensation Plans

S O

We generally recognize compensation cost for stock options ratably over the three-year vesting period. At December 31, 2014 and 2013, there were 6.3 million (weighted average exercise price of $84.62) and 10.2 million (weighted average exercise price of $83.65) stock options outstanding. Stock options outstanding at December 31, 2014 have a weighted average remaining contractual life of approximately four years and an aggregate intrinsic value of $681 million. Of the stock options outstanding, 5.6 million (weighted average exercise price of $84.96) have vested as of December 31, 2014 and those stock options have a weighted average remaining contractual life of approximately four years and an aggregate intrinsic value of $601 million. There were 3.7 million (weighted average exercise price of $82.13) stock options exercised during 2014. We did not grant stock options to employees during 2014 and 2013.

The following table pertains to stock options granted in 2012, in addition to stock options that vested and were exercised in 2014, 2013 and 2012 (in millions, except for weighted-average grant-date fair value of stock options granted):

	2014	**2013**	**2012**
Weighted average grant-date fair value of stock options granted	**$**	$ —	$10.57
G7(value)-25485ons13 not grant stock options that **vested 18$**			
297$ 290136-50016257			

L a P

On April 24, 2009, we filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA is in material breach of our agreement based on the MTA's failure to provide access to sites where work must be performed and the customer-furnished equipment necessary to complete the contract. The MTA filed an answer and counterclaim alleging that we breached the contract and subsequently terminated the contract for alleged default. The primary damages sought by the MTA are the cost to complete the contract and potential re-procurement costs. While we are unable to estimate the cost of another contractor to complete the contract and the costs of re-procurement, we note that our contract with the MTA had a total value of $323 million, of which $241 million was paid to us, and that the MTA is seeking damages of approximately $190 million. We dispute the MTA's allegations and are defending against them. Additionally, following an investigation, our sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA's termination of the contract was improper. Finally, our declaratory judgment action was later amended to include claims for monetary damages against the MTA of approximately $95 million. This matter was taken under submission by the District Court on December 5, 2014, after a five-week bench trial and the filing of post-trial pleadings by the parties. We expect a decision in the second or third quarter of 2015.

On August 28, 2003, the U.S. Department of Justice (DOJ) filed complaints in partial intervention in two lawsuits filed under the civil qui tam provisions of the False Claims Act in the U.S. District Court for the Western District of Kentucky, United States ex rel. Natural Resources Defense Council, et al., v. Lockheed Martin Corporation, et al., and United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al. The DOJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The complaint does not allege a specific calculation of damages. In April 2013, the parties attended a settlement conference ordered by the magistrate judge. The conference focused on the parties' sharply differing views of the merits of the case and did not significantly contribute to our understanding of the damages sought. The parties participated in confidential mediation pursuant to Federal Rule of Civil Procedure Rule 408 in December 2014. The plaintiffs made settlement demands at this mediation but these were not tied to any theory of damages, were not apportioned between the False Claims Act and Resource Conservation and Recovery Act allegations (as to which our defenses differ) and did not provide insight into what damages plaintiffs would seek to prove if this matter proceeds to trial. Consequently, we continue to be unable to estimate the reasonably possible loss or range of loss, which could be incurred if the plaintiffs were to prevail, but we believe we have substantial defenses. We anticipate filing motions for summary judgment in the second quarter of 2015.

E a Ma

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste and other environmental matters at several of our current or former facilities or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix and our history of receiving reimbursement of such costs. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to not be recoverable under U.S. Government contracts, in our cost of sales at the time the liability is established.

At December 31, 2014 and 2013, the aggregate amount of liabilities recorded relative to environmental matters was $965 million and $997 million, most of which are recorded in other noncurrent liabilities on our Balance Sheets. We have recorded receivables totaling $836 million and $863 million at December 31, 2014 and 2013, most of which are recorded in other noncurrent assets on our Balance Sheets, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. We project costs and recovery of costs over approximately 20 years.

Environmental cleanup activities usually span several years, which makes estimating liabilities a matter of judgment because of uncertainties with respect to assessing the extent of the contamination as well as such factors as changing remediation technologies and continually evolving regulatory environmental standards. There are a number of former operating facilities that we are monitoring or investigating for potential future remediation. We perform quarterly reviews of reviews we consider these and other factors in estimating the timing and amount of any future costs that may be required for remediation activities and record a liability when it is probable that a loss has occurred and the loss can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. We reasonably cannot determine the extent of our financial exposure in all cases as, although a loss may be probable or reasonably possible, in some cases it is not possible at this time to estimate the loss or reasonably possible loss or range of loss.

We also are pursuing claims for recovery of costs incurred or contribution to site cleanup costs against other PRPs, including the U.S. Government, and are conducting remediation activities under various consent decrees and orders relating to soil, groundwater, sediment or surface water contamination at certain sites of former or current operations. Under an agreement related to our Burbank and Glendale, California, sites, the U.S. Government reimburses us an amount equal to approximately 50% of expenditures for certain remediation activities in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

On July 1, 2014, a regulation became effective in California setting the maximum level of the contaminant hexavalent chromium in drinking water at 10 parts per billion (ppb). In May 2014, the Manufacturers and Technology Association filed a suit alleging the 10 ppb threshold is lower than is required to protect public health and thus imposes unjustified costs on the regulated community. We cannot predict the outcome of this suit or whether other challenges may be advanced by the regulated community or environmental groups which had sought a significantly higher and lower standard, respectively. If the new standard remains at 10 ppb, it will not have a material impact on our existing remediation costs in California.

sufficient cash resources or credit capacity to make required payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions earnings by $130 million ($.40 per share) and primarily related to a plan we committed to in November 2013 to close and

Ma a R I a C O F a a R

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

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *In ernal Con rol In egra ed Frame ork* (2013 framework). Based on this assessment, management has concluded that, as of December 31, 2014, our internal control over financial reporting was effective.

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

C a I a C O F a a R

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

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

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited Lockheed Martin Corporation’s internal control over financial reporting as of December 31, 2014, based on criteria established in *In ernal Con rol In egra ed Frame ork* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Lockheed Martin Corporation’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation’s internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because ofopinio, pdetebrf132o(in)-0(that)-renttha527(thatasseof)2(recor0orizationtenance)-531.
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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The information concerning directors required by Item 401 of Regulation S-K is included under the caption “Proposal 1 – Election of Directors” in our definitive Proxy Statement to be filed pursuant to Regulation 14A (the 2015 Proxy Statement), and that information is incorporated by reference in this Form 10-K. Information concerning executive officers required by Item 401 of Regulation S-K is located under Part I, Item 4(a) of this Form 10-K. The information required by Item 405 of Regulation S-K is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2015 Proxy Statement, and that information is incorporated by reference in this Form 10-K. The

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

List of financial statements filed as part of this Form 10-K

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

The report of Lockheed Martin Corporation's independent registered public accounting firm with respect to the above-referenced financial statements and their report on internal control over financial reporting appear on pages 58 and 93 of this Form 10-K. Their consent appears as Exhibit 23 of this Form 10-K.

List of financial statement schedules filed as part of this Form 10-K

All schedules have been omitted because they are not applicable, not required or the information has been otherwise supplied in the financial statements or notes to the financial statements.

Exhibits

3.1 Charter of Lockheed Martin Corporation, as amended by Articles of Amendment dated April 23, 2009 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-11437)).

3.2 Bylaws of Lockheed Martin Corporation, as amended effective January 24, 2013 (incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on January 28, 2013).

4.1 Indenture, dated May 15, 1996, among Lockheed Martin Corporation, Lockheed Martin Tactical Systems, Inc. and First Trust of Illinois, National Association as Trustee (incorporated by reference to Exhibit 4.A to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 20, 1996 (File No. 001-11437)).

4.2 Indenture, dated as of August 30, 2006, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 31, 2006 (File No. 001-11437)).

4.3 Indenture, dated as of March 11, 2008, between Lockheed Martin Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on March 12, 2008 (File No. 001-11437)).

4.4 Indenture, dated as of May 25, 2010, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 25, 2010 (File No. 001-11437)).

4.5 Indenture, dated as of September 6, 2011, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on September 8, 2011).

4.6 Indenture, dated as of December 14, 2012, between Lockheed Martin Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on December 17, 2012).

See also Exhibits 3.1 and 3.2.

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

10.1 Five-Year Credit Agreement dated as of August 14, 2014, among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's req4hSrdminisockheed
instruments

Lockheedts r114hSrdminisockheed

12	Computation of ratio of earnings to fixed charges.
21	Subsidiaries of Lockheed Martin Corporation.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31.1	Certification of Marillyn A. Hewson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bruce L. Tanner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Marillyn A. Hewson and Bruce L. Tanner Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Exhibits 10.3 through 10.30 constitute management contracts or compensatory plans or arrangements.

SIGNATURES

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

Lockheed Martin Corporation
(Registrant)

Date: February 9, 2015

By: Brian P Colan

Brian P. Colan
Vice President, Controller, and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

S a	T	Da
Marillyn A. Hewson Marillyn A. Hewson	Chairman, President and Chief Executive201te	

Exhibit 31.1

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

I, Marillyn A. Hewson, certify that:

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

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

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

Exhibit 31.2

CERTIFICATION OF BRUCE L. TANNER PURSUANT TO

Exhibit 32

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

In connection with the Annual Report of Lockheed Martin Corporation (the “Corporation”) on Form 10-K for the period ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Marillyn A. Hewson, Chief Executive Officer of the Corporation, and I, Bruce L. Tanner, Chief Financial Officer of the Corporation, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Marillyn A. Hewson
Chief Executive Officer

Bruce L. Tanner
Chief Financial Officer

Date: February 9, 2015

NON-GAAP DEFINITIONS AND RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES

This annual report contains non-generally accepted accounting principles (GAAP) financial measures. While we believe that these non-GAAP financial measures may be useful in evaluating Lockheed Martin, this information should be considered supplemental and is not a substitute for financial information prepared in accordance with GAAP. In addition, our definitions for non-GAAP measures may differ from similarly titled measures used by other companies or analysts.

Segment Operating Profit / Margin