LOCKHEED MARTIN CORP
Form 10-Q
July 23, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

**Quarterly Report Pursuant To Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

**For the quarterly period ended June 29, 2008**

**Commission file number 1-11437**

# LOCKHEED MARTIN CORPORATION

**(Exact name of registrant as specified in its charter)**

| **MARYLAND** | **52-1893632** |
|---|---|
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

| incorporation or organization) | Identification Number) |
|---|---|

| 6801 ROCKLEDGE DRIVE, BETHESDA, MD | 20817 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**(301) 897-6000**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

| Class | Outstanding as of June 29, 2008 |
|---|---|
| **Common stock, $1 par value** | **396,351,634** |

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| Exhibit 3.1 | Charter of Lockheed Martin Corporation, as restated as of June 26, 2008 (incorporated by reference to Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on June 26, 2008) |
| Exhibit 3.2 | Bylaws of Lockheed Martin Corporation, as amended effective April 25, 2008 (incorporated by reference to Exhibit 3.2 to the Corporation s Current Report on Form 8-K filed with the SEC on April 25, 2008) |
| Exhibit 10.1 | Lockheed Martin Corporation Deferred Management Incentive Compensation Plan |
| Exhibit 10.2 | Lockheed Martin Corporation Supplemental Savings Plan |
| Exhibit 10.3 | Lockheed Martin Corporation Nonqualified Capital Accumulation Plan |
| Exhibit 10.4 | Lockheed Martin Corporation Supplemental Retirement Plan |
| Exhibit 10.5 | Supplemental Retirement Benefit Plan for Certain Transferred Employees of Lockheed Martin Corporation |
| Exhibit 10.6 | Lockheed Martin Supplementary Pension Plan for Transferred Employees of GE Operations |
| Exhibit 10.7 | Lockheed Martin Corporation Severance Benefit Plan for Certain Management Employees |
| Exhibit 10.8 | Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan |
| Exhibit 10.9 | Lockheed Martin Corporation 2009 Directors Equity Plan (incorporated by reference to Appendix E to the Corporation s 2008 Annual Proxy Statement filed with the SEC on Schedule 14A on March 14, 2008) |
| Exhibit 12 | Computation of Ratio of Earnings to Fixed Charges |
| Exhibit 15 | Acknowledgment of Independent Registered Public Accounting Firm |
| Exhibit 31.1 | Rule 13a-14(a) Certification of Robert J. Stevens |
| Exhibit 31.2 | Rule 13a-14(a) Certification of Bruce L. Tanner |
| Exhibit 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 of Robert J. Stevens |
| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 of Bruce L. Tanner |

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Lockheed Martin Corporation**

**Unaudited Condensed Consolidated Statement of Earnings**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions, except per share data)* | | | |
| **Net sales** | | | | |
| Products | **$ 9,108** | $ 9,038 | **$ 17,572** | $ 16,841 |
| Services | **1,931** | 1,613 | **3,450** | 3,085 |
| | **11,039** | 10,651 | **21,022** | 19,926 |
| **Cost of sales** | | | | |
| Products | **8,007** | 8,134 | **15,530** | 15,127 |
| Services | **1,797** | 1,380 | **3,183** | 2,686 |
| Unallocated Corporate costs | **44** | 83 | **49** | 149 |
| | **9,848** | 9,597 | **18,762** | 17,962 |
| | **1,191** | 1,054 | **2,260** | 1,964 |
| Other income (expense), net | **172** | 110 | **281** | 185 |
| **Operating profit** | **1,363** | 1,164 | **2,541** | 2,149 |
| Interest expense | **92** | 93 | **179** | 186 |
| Other non-operating income (expense), net | **34** | 67 | **27** | 104 |
| Earnings before income taxes | **1,305** | 1,138 | **2,389** | 2,067 |
| Income tax expense | **423** | 360 | **777** | 599 |
| **Net earnings** | **$ 882** | $ 778 | **$ 1,612** | $ 1,468 |
| **Earnings per common share** | | | | |
| Basic | **$ 2.21** | $ 1.87 | **$ 4.00** | $ 3.50 |
| Diluted | **$ 2.15** | $ 1.82 | **$ 3.90** | $ 3.42 |
| **Cash dividends declared per common share (see Note 7)** | **$ 0.42** | $ 0.35 | **$ 0.84** | $ 0.70 |

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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**Lockheed Martin Corporation**

**Condensed Consolidated Balance Sheet**

| | *(Unaudited)* June 29, 2008 | December 31, 2007 |
|---|---|---|
| | *(In millions)* | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 3,214** | $ 2,648 |
| Short-term investments | **96** | 333 |
| Receivables | **5,218** | 4,925 |
| Inventories | **1,623** | 1,718 |
| Deferred income taxes | **724** | 756 |
| Other current assets | **433** | 560 |
| Total current assets | **11,308** | 10,940 |
| Property, plant and equipment, net | **4,256** | 4,320 |
| Goodwill | **9,484** | 9,387 |
| Purchased intangibles, net | **409** | 463 |
| Prepaid pension asset | **322** | 313 |
| Deferred income taxes | **849** | 760 |
| Other assets | **2,833** | 2,743 |
| | **$ 29,461** | $ 28,926 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities | | |
| Accounts payable | **$ 1,993** | $ 2,163 |
| Customer advances and amounts in excess of costs incurred | **4,208** | 4,254 |
| Salaries, benefits and payroll taxes | **1,637** | 1,544 |
| Current maturities of long-term debt | **1,001** | 104 |
| Other current liabilities | **2,417** | 1,806 |
| Total current liabilities | **11,256** | 9,871 |
| Long-term debt, net | **3,803** | 4,303 |
| Accrued pension liabilities | **1,431** | 1,192 |
| Other postretirement benefit liabilities | **949** | 928 |
| Other liabilities | **2,688** | 2,827 |
| Total liabilities | **20,127** | 19,121 |
| Stockholders equity | | |
| Common stock, $1 par value per share | **394** | 409 |
| Additional paid-in capital | | |
| Retained earnings | **10,756** | 11,247 |
| Accumulated other comprehensive loss | **(1,816)** | (1,851) |
| Total stockholders equity | **9,334** | 9,805 |

| | | | |
|---|---|---|---|
| | **$ 29,461** | $ | 28,926 |

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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**Lockheed Martin Corporation**

**Unaudited Condensed Consolidated Statement of Cash Flows**

| | Six Months Ended | |
|---|---|---|
| | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | |
| **Operating Activities** | | |
| Net earnings | **$ 1,612** | $ 1,468 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | **335** | 288 |
| Amortization of purchased intangibles | **63** | 81 |
| Stock-based compensation | **75** | 82 |
| Excess tax benefits on stock compensation | **(43)** | (61) |
| Changes in operating assets and liabilities: | | |
| Receivables | **(266)** | (618) |
| Inventories | **95** | 282 |
| Accounts payable | **(176)** | (94) |
| Customer advances and amounts in excess of costs incurred | **(3)** | 720 |
| Other | **681** | 738 |
| Net cash provided by operating activities | **2,373** | 2,886 |
| **Investing Activities** | | |
| Expenditures for property, plant and equipment | **(274)** | (254) |
| Sale of short-term investments, net | **237** | 52 |
| Acquisitions of businesses / investments in affiliates | **(88)** | (136) |
| Divestiture of investment in affiliate | | 26 |
| Other | **40** | (11) |
| Net cash used for investing activities | **(85)** | (323) |
| **Financing Activities** | | |
| Repurchases of common stock | **(1,930)** | (1,394) |
| Issuances of common stock and related amounts | **117** | 193 |
| Excess tax benefits on stock compensation | **43** | 61 |
| Common stock dividends | **(340)** | (295) |
| Issuance of long-term debt and related amounts | **491** | |
| Repayments of long-term debt | **(103)** | (32) |
| Net cash used for financing activities | **(1,722)** | (1,467) |
| Net increase in cash and cash equivalents | **566** | 1,096 |
| Cash and cash equivalents at beginning of period | **2,648** | 1,912 |
| **Cash and cash equivalents at end of period** | **$ 3,214** | $ 3,008 |

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 29, 2008**

## NOTE 1 BASIS OF PRESENTATION

We have prepared the condensed consolidated financial statements in this Form 10-Q in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. We have continued to follow the accounting policies disclosed in the consolidated financial statements included in our 2007 Form 10-K filed with the Securities and Exchange Commission (SEC).

It is our practice to close our books and records on the Sunday prior to the end of the calendar quarter to align our financial closing with our business processes. The interim financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods, as our fiscal year ends on December 31.

The interim financial information in this Form 10-Q reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our results of operations for the interim periods. The results of operations for the six months ended June 29, 2008 are not necessarily indicative of results to be expected for the full year.

We have reclassified certain amounts for prior years to conform with the 2008 presentation, primarily to reclassify interest income from Other income (expense), net to Other non-operating income (expense), net (see Note 6).

## NOTE 2 EARNINGS PER SHARE

We compute basic and diluted per share amounts based on Net earnings for the periods presented. We use the weighted average number of common shares outstanding during the period to calculate basic earnings per share. The weighted average number of common shares used in our calculation of diluted per share amounts includes the dilutive effects of stock options and restricted stock units based on the treasury stock method, and shares related to our convertible debentures discussed below.

We have issued $1.0 billion in original principal amount of floating rate convertible debentures that potentially can have a dilutive effect on our earnings per share calculations. The debentures are convertible by holders into shares of our common stock under certain circumstances per the terms of the indenture agreement, including our decision to call the debentures for redemption. On June 26, 2008, we announced the planned redemption of any and all of the $1.0 billion of floating rate convertible debentures that remain outstanding on August 15, 2008. Holders may elect to convert their debentures at any time prior to the close of business on August 14 (see Note 7).

Upon conversion of the debentures, we have irrevocably agreed to pay only cash in lieu of common stock for the accreted principal amount of the debentures relative to our conversion obligations, and intend to satisfy the conversion obligations in excess of the accreted principal amount entirely in shares of our common stock, with any fractional shares being paid in cash. FAS 128, *Earnings Per Share*, requires that shares to be used to pay the conversion obligations in excess of the accreted principal amount be included in our calculation of weighted average common shares outstanding for the diluted earnings per share computation. Amounts in excess of the accreted principal at June 29, 2008 were computed based on the extent to which the closing price of our stock on that date exceeded the conversion price, which was $72.46 at June 29, 2008. The number of shares included in the computations in the quarter and six month periods ended June 29, 2008 and June 24, 2007 did not have a material impact on earnings per share.

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

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

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions, except per share data)* | | | |
| **Net earnings for basic and diluted computations** | **$ 882** | $ 778 | **$ 1,612** | $ 1,468 |
| **Weighted average common shares outstanding:** | | | | |
| Average number of common shares outstanding for basic computations | **399.3** | 416.7 | **402.9** | 419.1 |
| Dilutive stock options, restricted stock and convertible securities | **10.2** | 9.8 | **10.3** | 10.0 |
| Average number of common shares outstanding for diluted computations | **409.5** | 426.5 | **413.2** | 429.1 |
| **Earnings per common share** | | | | |
| Basic | **$ 2.21** | $ 1.87 | **$ 4.00** | $ 3.50 |
| Diluted | **$ 2.15** | $ 1.82 | **$ 3.90** | $ 3.42 |

**NOTE 3 INVENTORIES**

| | June 29, 2008 | December 31, 2007 |
|---|---|---|
| | *(In millions)* | |
| Work in process, primarily related to long-term contracts and programs in progress | **$ 3,860** | $ 4,039 |
| Less customer advances and progress payments | **(2,757)** | (2,839) |
| | **1,103** | 1,200 |
| Other inventories | **520** | 518 |
| | **$ 1,623** | $ 1,718 |

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

## NOTE 4 POSTRETIREMENT BENEFIT PLANS

The net pension cost as determined by FAS 87, *Employers Accounting for Pensions*, and the net postretirement benefit cost as determined by FAS 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, related to our plans include the following components:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 29, 2008** | **June 24, 2007** | **June 29, 2008** | **June 24, 2007** |
| | | *(In millions)* | | |
| Defined benefit pension plans | | | | |
| Service cost | **$ 205** | $ 215 | **$ 411** | $ 431 |
| Interest cost | **435** | 407 | **870** | 815 |
| Expected return on plan assets | **(546)** | (515) | **(1,091)** | (1,032) |
| Amortization of prior service cost | **20** | 23 | **40** | 45 |
| Recognized net actuarial losses | **1** | 42 | **1** | 84 |
| Total net pension expense | **$ 115** | $ 172 | **$ 231** | $ 343 |
| Retiree medical and life insurance plans | | | | |
| Service cost | **$ 11** | $ 13 | **$ 22** | $ 26 |
| Interest cost | **45** | 48 | **90** | 95 |
| Expected return on plan assets | **(39)** | (37) | **(77)** | (73) |
| Amortization of prior service cost | **(6)** | (6) | **(12)** | (12) |
| Recognized net actuarial losses | **1** | 6 | **1** | 11 |
| Total net postretirement expense | **$ 12** | $ 24 | **$ 24** | $ 47 |

In 2007, we made discretionary prepayments totaling $335 million to our defined benefit pension plans trust and $156 million to our retiree medical plans. In 2008, we do not expect that there will be any required contributions to the defined benefit plans pension trust or the retiree medical and life insurance plans, after giving consideration to the 2007 prepayments. These prepayments will also reduce our cash funding requirements for 2009. There were no contributions in the first six months of 2008.

## NOTE 5 LEGAL PROCEEDINGS AND CONTINGENCIES

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. We believe the probability is remote that the outcome of these matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows. We cannot predict the outcome of legal proceedings with certainty. These matters include the following items which have been previously reported:

***Legal Proceedings***

On February 22, 2007, we received a subpoena issued by a grand jury in the United States District Court for the District of Columbia. The subpoena requests documents related to our participation in a competition conducted in 2004-2005 by the National Archives and Records Administration for a $3 million contract to provide Electronic Document System (eDOCS) Support Services. We are cooperating with the investigation.

On November 30, 2007, the Department of Justice (DoJ) filed a complaint in partial intervention in a lawsuit filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Northern District of Texas, United States ex rel. Becker and Spencer v. Lockheed Martin Corporation et al., alleging that we should have known that a subcontractor

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

falsified and inflated invoices submitted to us that were passed through to the government. We dispute the allegations and are defending against them.

On February 6, 2004, we submitted a certified contract claim to the United States requesting contractual indemnity for remediation and litigation costs (past and future) related to our former facility in Redlands, California. We submitted the claim consistent with a claim sponsorship agreement with The Boeing Company, executed in 2001, in Boeing s role as the prime contractor on the Short Range Attack Missile (SRAM) program. The contract for the SRAM program, which formed a significant portion of our work at the Redlands facility, had special contractual indemnities from the U.S. Air Force, as authorized by Public Law 85-804. On August 31, 2004, the United States denied the claim. Our appeal of that decision is pending with the Armed Services Board of Contract Appeals.

On August 28, 2003, the DoJ filed complaints in partial intervention in two lawsuits filed under the qui tam provisions of the Civil False Claims Act in the United States 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. We dispute the allegations and are defending against them.

As described in the Environmental Matters discussion below, we are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have property subject to various other lawsuits or proceedings involving environmental matters and remediation obligations.

We have been in litigation with certain residents of Redlands, California since 1997 before the California Superior Court for San Bernardino County regarding allegations of personal injury, property damage, and other tort claims on behalf of individuals arising from our alleged contribution to regional groundwater contamination. On July 11, 2006, the California Court of Appeal dismissed the plaintiffs punitive damages claim. Proceedings in the trial court have resumed, but a trial date has not been set.

***Environmental Matters***

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste and other environmental matters at several of our current or former facilities. Environmental cleanup activities usually span several years, which make estimating liabilities a matter of judgment because of such factors as changing remediation technologies, assessments of the extent of contamination and continually evolving regulatory environmental standards. We consider these and other factors in estimates of the timing and amount of any future costs that may be required for remediation actions, which generally results in the calculation of a range of estimates for a particular environmental site. We record a liability for the amount within the range which we determine to be our best estimate of the cost of remediation or, in cases where no amount within the range is better than another, we record an amount at the low end of the range. We do not discount the recorded liabilities, as the timing of cash payments is not fixed or cannot be reliably determined. At June 29, 2008 and December 31, 2007, the aggregate amount of liabilities recorded relative to environmental matters was $619 million and $572 million. We have recorded assets totaling $520 million and $480 million as of the same dates for the portion of environmental costs that are probable of future recovery in the pricing of our products and services on U.S. Government contracts.

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

We cannot reasonably determine the extent of our financial exposure in all cases at this time. We also are pursuing claims for contribution to site cleanup costs against other potentially responsible parties (PRPs), including the U.S. Government.

At Redlands, California, in response to administrative orders issued by the California Regional Water Quality Control Board, we are investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. With respect to perchlorates, the State of California adopted a new drinking water standard of six parts per billion in the fourth quarter of 2007. The new drinking water standard is consistent with the interim standard that has been in place for several years, and we have been implementing remediation plans to achieve the six parts per billion level. The liabilities recorded at June 29, 2008 included estimated costs associated with this regulatory limit. With respect to solvents, we have implemented a plan of well-head treatment on new and existing wells.

We also are conducting remediation activities under various consent decrees and orders relating to soil or groundwater contamination at certain other sites of former 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).

***Letters of Credit***

We have entered into standby letter of credit agreements, surety bonds and other arrangements with financial institutions and other third parties primarily relating to advances received from customers and/or the guarantee of future performance on certain contracts. We have total outstanding letters of credit, surety bonds and other arrangements aggregating $3.3 billion at June 29, 2008 and December 31, 2007. Letters of credit and surety bonds are generally available for draw down in the event we do not perform.

***Sale of International Launch Services***

Under the agreement to sell our ownership interests in Lockheed Khrunichev Energia International, Inc. (LKEI) and International Launch Services, Inc. (ILS) in 2006, we continue to have the responsibility to refund customer advances to certain customers if launch services are not provided and ILS does not refund the advance. The amount we could be required to pay may increase over time due to the payment of additional advances by the customers to ILS related to the specific launches we have guaranteed, and will be reduced by the occurrence of those launches. At June 29, 2008, the total amount that could be payable under the guarantees, approximating the total contract value of the guaranteed launches, was $121 million. That amount may be partially mitigated by approximately $28 million of cash we retained that, absent any requirements to make payments under the guarantees, will be paid to the buyer as the launches occur.

Our Balance Sheet at June 29, 2008 included current assets relating to LKEI and ILS totaling $91 million and current liabilities totaling $119 million, both of which will be reduced as the launch services are provided. The assets relate primarily to advances we have made to Khrunichev State Research and Production Space Center for future launches, and the liabilities relate primarily to advances we have received from customers for future launches. Any potential earnings impact resulting from our inability to realize the assets we have recorded related to LKEI and ILS would be mitigated by the unrecognized deferred net gain we recorded on the transaction at the end of 2006, which we expect to recognize as the remaining launches occur.

The unrecognized deferred gain, net of state and federal income taxes, of $57 million at June 29, 2008 will be recognized as the remaining two launches occur. We believe those launches will take place in 2008 based on the Proton launch schedule, which is subject to change. Based on

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

the launches that had occurred through March 30, 2008, we recognized, net of state income taxes, $16 million of the deferred gain in the first quarter of 2008 which increased net earnings by $10 million ($0.02 per share).

***Investment in ULA***

In connection with the formation of United Launch Alliance, LLC (ULA), both we and Boeing have each committed to providing up to $25 million in additional capital contributions and $200 million in other financial support to ULA, as required. The non-capital financial support will be made in the form of a revolving credit facility between us and ULA or guarantees of ULA financing with third parties, in either case to the extent necessary for ULA to meet its working capital needs. We have agreed to provide this support for at least five years from December 1, 2006, the closing date of the transaction, and would expect to fund our requirements with cash on hand. To satisfy our non-capital financial support commitment, we and Boeing put into place at closing a revolving credit agreement with ULA. As of December 31, 2007, we had provided a total of $3 million of funding to ULA under the additional capital contribution commitment. We did not provide further funding to ULA during the first six months of 2008. In addition, both we and Boeing have cross-indemnified ULA related to certain financial support arrangements (*e.g.*, letters of credit, surety bonds or foreign exchange contracts provided by either party) and guarantees by us and Boeing of the performance and financial obligations of ULA under certain launch service contracts. We believe ULA will be able to fully perform its obligations, as it has done through June 29, 2008, and that it will not be necessary to make payments under the cross-indemnities.

**NOTE 6 INFORMATION ON BUSINESS SEGMENTS**

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

Amounts in 2007 reflect the reclassification of interest income from segment Operating profit and Unallocated Corporate income (expense), net to Other non-operating income (expense), net to conform to the 2008 consolidated Statement of Earnings presentation. In the second quarter of 2007, we reclassified $67 million, including $63 million from Unallocated Corporate income (expense), net and $4 million from across the business segments. During the six-month period ended June 24, 2007, we reclassified $104 million, including $96 million from Unallocated Corporate income (expense), net and $8 million from across the business segments. The amounts from Unallocated Corporate income (expense), net were primarily attributable to U.S. bank accounts, and amounts from the business segments were attributable to interest from foreign bank accounts. The impact of the reclassification on the individual segments operating results was not material.

In the following table relative to the caption Operating profit, total Operating profit of the business segments is reconciled to the corresponding consolidated amount. The reconciling item Unallocated Corporate income (expense), net includes the FAS/CAS pension adjustment (see discussion below), costs for certain stock-based compensation programs, the effects of items not considered part of management s evaluation of segment operating performance, Corporate costs not allocated to the operating segments and other miscellaneous Corporate activities.

The FAS/CAS pension adjustment represents the difference between pension expense or income calculated for financial reporting purposes in accordance with FAS 87, and pension costs calculated and funded in accordance with U.S. Government Cost Accounting Standards (CAS), which are reflected in the business segment results. CAS is a major factor in determining pension funding requirements, and governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts, and therefore recognized in segment Net

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

sales. The results of operations of our segments only include pension expense as determined and funded in accordance with CAS rules.

Transactions between segments are generally negotiated and accounted for under terms and conditions that are similar to other government and commercial contracts; however, these intercompany transactions are eliminated in consolidation and for purposes of the presentation of Net sales in the related table that follows.

**Selected Financial Data by Business Segment**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | | | |
| **Net sales** | | | | |
| Aeronautics | **$ 2,884** | $ 3,136 | **$ 5,691** | $ 5,957 |
| Electronic Systems | **3,095** | 2,927 | **5,884** | 5,442 |
| Information Systems & Global Services | **2,858** | 2,520 | **5,362** | 4,665 |
| Space Systems | **2,202** | 2,068 | **4,085** | 3,862 |
| Total | **$ 11,039** | $ 10,651 | **$ 21,022** | $ 19,926 |
| **Operating profit** | | | | |
| Aeronautics | **$ 366** | $ 378 | **$ 689** | $ 677 |
| Electronic Systems | **409** | 387 | **775** | 704 |
| Information Systems & Global Services | **272** | 231 | **502** | 429 |
| Space Systems | **268** | 214 | **499** | 399 |
| Total business segments | **1,315** | 1,210 | **2,465** | 2,209 |
| Unallocated Corporate income (expense), net | **48** | (46) | **76** | (60) |
| Total | **$ 1,363** | $ 1,164 | **$ 2,541** | $ 2,149 |
| **Intersegment revenue** | | | | |
| Aeronautics | **$ 36** | $ 36 | **$ 71** | $ 72 |
| Electronic Systems | **146** | 144 | **286** | 268 |
| Information Systems & Global Services | **243** | 266 | **458** | 529 |
| Space Systems | **38** | 39 | **67** | 73 |
| Total business segments | **$ 463** | $ 485 | **$ 882** | $ 942 |

| | June 29, 2008 | December 31, 2007 |
|---|---|---|
| | *(In millions)* | |
| **Assets** | | |
| Aeronautics | **$ 3,331** | $ 3,014 |

| | | |
|---|---|---|
| Electronic Systems | **8,258** | 8,500 |
| Information Systems & Global Services | **7,503** | 7,477 |
| Space Systems | **2,844** | 2,977 |
| Total business segments | **21,936** | 21,968 |
| Corporate activities [1] | **7,525** | 6,958 |
| | **$ 29,461** | $ 28,926 |

1) Assets primarily include Cash and cash equivalents, Short-term investments, Deferred income taxes and the Prepaid pension asset.

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**NOTE 7 OTHER**

***Matters Included in Earnings***

In the second quarter of 2008, we recognized, net of state income taxes, $85 million in Other income (expense), net due to the elimination of reserves related to various land sales in California. Reserves were originally recorded at the time of each land sale in 2007 and prior years based on the U.S. Government s assertion that a significant portion of the sale proceeds should be allocated to the buildings and improvements on the properties, thereby giving the U.S. Government the right to share in the gains associated with the land sales. At the time the land sales occurred, we believed the value of the properties sold was attributable to the land versus the buildings and improvements. The dispute ultimately went to trial with the Armed Services Board of Contract Appeals (ASBCA), subsequent to which the ASBCA determined that our accounting for the land sales was in accordance with the Federal Acquisition Regulation and CAS. We reached a settlement with the U.S. Government in the second quarter of 2008, and the previously recorded reserves were no longer required. Resolution of this matter increased our Net earnings in the second quarter by $56 million ($0.14 per share).

In the first quarter of 2008, we recognized, net of state income taxes, a gain of $16 million in Other income (expense), net representing a portion of the deferred net gain recorded in connection with the transaction to sell our ownership interests in LKEI and ILS in 2006 (see Note 5). The gain increased Net earnings by $10 million ($0.02 per share).

In the second quarter of 2007, we sold our remaining 20% interest in COMSAT International for $26 million in cash. The transaction resulted in a gain, net of state income taxes, of $25 million which we recorded in Other income (expense), net and an increase in Net earnings of $16 million ($0.04 per share).

In the first quarter of 2007, we reached closure with the Internal Revenue Service (IRS) on their examination of our Federal income tax returns for 2003 and 2004, as well as claims we filed for additional extraterritorial income (ETI) tax benefits for years prior to 2005. As a result, we recognized additional tax benefits and reduced our income tax expense in the first quarter of 2007 by $59 million ($0.14 per share), including related interest.

In the first quarter of 2007, we sold certain surplus land in California for $36 million in cash. The transaction resulted in a gain, net of state income taxes, of $25 million which we recorded in Other income (expense), net, and an increase in Net earnings of $16 million ($0.04 per share).

In 2004, we recorded a charge associated with certain litigation related to a waste remediation contract with the Department of Energy. In the first quarter of 2007, we reversed, net of state income tax benefits, $21 million of legal reserves into Other income (expense), net in connection with the settlement of that litigation. This settlement increased Net earnings by $14 million ($0.03 per share).

***Long-term Debt***

On June 26, 2008, we announced the planned redemption of any and all of our $1.0 billion in original principal amount of floating rate convertible debentures that remain outstanding on August 15, 2008 (see Note 2). Holders may elect to convert their debentures at any time prior to the close of business on August 14, 2008. Any debentures that have not been delivered for conversion by the close of business on that date will no longer be available for conversion and will be redeemed at $1,000 for each $1,000 in principal amount on August 15, 2008. At June 29, 2008, the debentures have been classified as current liabilities on our Balance Sheet.

Upon conversion of the debentures, we have irrevocably agreed to pay only cash in lieu of common stock for the accreted principal amount of the debentures relative to our conversion obligations, which at all times up to the redemption date will be equal to the original principal

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

amount of the debentures. At June 29, 2008, the conversion rate was 13.7998 shares of common stock for each $1,000 in original principal amount of debentures based on the conversion price of $72.46. The conversion obligations in excess of the accreted principal amount, using the closing price of our stock on June 29, 2008, totaled $375 million. If that amount had been settled in shares on that date, we would have been required to issue 3.8 million shares of our common stock. We intend to satisfy the conversion obligations in excess of the accreted principal amount of the debentures entirely in shares of common stock, with any fractional shares being paid in cash. The actual total amount of the conversion obligations will not be determined until after all of the debentures have been converted.

In the first quarter of 2008, we issued $500 million of long-term notes. The notes have a fixed coupon interest rate of 4.121% and are due in 2013.

The registered holders of $300 million of 40-year debentures issued in 1996 that bear interest of 7.20% had the opportunity to elect, between March 1 and April 1, 2008, to have their debentures repaid on May 1, 2008. No such elections were made, and the debentures continue to be classified as long-term at June 29, 2008.

***Stockholders Equity***

*Share Repurchase Program*

We used cash to repurchase common shares during the first six months of both 2008 and 2007 as follows:

- In the first six months of 2008, $1,930 million was used to repurchase 18.3 million common shares that were executed and settled during the six-month period, and an additional $25 million was paid for 0.3 million common shares purchased in June 2008 that were settled in July 2008; and

- In the first six months of 2007, $1,394 million was used to repurchase 14.4 million common shares, all of which were executed and settled during the six-month period.

As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the remainder of the purchase price over par value recorded as a reduction of additional paid-in capital. Due to the volume of repurchases made under our share repurchase program, additional paid-in capital was reduced to zero, with the remainder of the excess of purchase price over par value of $1,595 million recorded as a reduction of retained earnings.

Our share repurchase program authorizes the repurchase of up to 128 million shares of our common stock from time-to-time at management s discretion. As of June 29, 2008, we had repurchased a total of 113.9 million shares under the program, and there remained 14.1 million shares that may be repurchased in the future.

*Dividends*

During the first six months of 2008, we declared and paid quarterly dividends totaling $340 million ($0.42 per share per quarter). We also declared our third quarter 2008 dividend totaling $168 million ($0.42 per share per quarter), which was recorded as a current liability and a reduction of retained earnings. This dividend will be paid in September 2008. In the first six months of 2007, we declared and paid dividends totaling $295 million ($0.35 per share per quarter).

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

*Comprehensive Income*

The components of comprehensive income for the three months and six months ended June 29, 2008 and June 24, 2007 consisted of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | | | *(In millions)* | |
| Net earnings | **$ 882** | $ 778 | **$ 1,612** | $ 1,468 |
| Other comprehensive income | **22** | 4 | **35** | 4 |
| Comprehensive income | **$ 904** | $ 782 | **$ 1,647** | $ 1,472 |

***Income Tax and Interest Payments***

We made federal and foreign income tax payments, net of refunds received, of $444 million and $376 million during the six-month periods ended June 29, 2008 and June 24, 2007. Our total interest payments were $162 million and $164 million during the same respective periods.

***New Accounting Rules***

In the first quarter of 2008, we adopted Statement of Financial Accounting Standards (FAS) 157, *Fair Value Measurements*, which defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The FAS 157 requirements for certain non-financial assets and liabilities have been deferred until the first quarter of 2009 in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) 157-2. The adoption of FAS 157 did not have a material impact on our results of operations, financial position or cash flows.

The fair-value hierarchy established in FAS 157 prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 Observable inputs quoted prices in active markets for identical assets and liabilities;

Level 2 Observable inputs other than the quoted prices in active markets for identical assets and liabilities includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3 Unobservable inputs includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The net amount of assets and liabilities we recorded at fair value at June 29, 2008 totaled $466 million, including $96 million of Short-term investments, $597 million of other investments we hold in a trust related to certain of our non-qualified benefit plans, $173 million of liabilities associated with non-qualified deferred compensation plans, and $54 million of net liabilities related to

derivative financial instruments. We determined the fair values of approximately 97% of the assets included in Short-term investments using the Level 2 methodology, with the remainder valued based on the Level 1 methodology. The fair values of approximately 60% of the investments held in the trust for non-qualified benefit plans were determined using the Level 1 methodology, with the remainder of those assets valued based on the Level 2 methodology. We record assets and liabilities related to our derivative financial instruments and liabilities associated with non-qualified deferred compensation plans at fair value using the Level 2 methodology.

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**Lockheed Martin Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

We elected not to adopt the fair value option included in FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which became effective January 1, 2008 for companies electing adoption.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which is effective beginning with our first quarter 2009 financial reporting. The FSP requires retrospective application to all periods presented and does not grandfather existing debt instruments. The FSP changes the accounting for our $1.0 billion in original principal amount of floating rate convertible debentures in that it requires that we bifurcate the proceeds from the debt issuance between a debt and equity component as of the August 2003 issuance date. The equity component would reflect the value of the conversion feature of the debentures. We are currently assessing the impact of the new rule, but currently expect its adoption would result in immaterial changes to our previously reported Balance Sheets and Statements of Earnings to reflect the amortization of additional Interest expense over the period from August 2003 to August 2008, based on the requirement for retrospective application.

In December 2007, the FASB issued FAS 141(R), *Business Combinations*, which will become effective January 1, 2009. The new standard will replace existing guidance and significantly change accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post-acquisition restructuring costs in our results of operations as incurred. FAS 141(R) will be effective for businesses acquired after the effective date.

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**Lockheed Martin Corporation**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors

Lockheed Martin Corporation

We have reviewed the condensed consolidated balance sheet of Lockheed Martin Corporation as of June 29, 2008, and the related condensed consolidated statements of earnings for the three- and six-month periods ended June 29, 2008 and June 24, 2007, and the condensed consolidated statements of cash flows for the six-month periods ended June 29, 2008 and June 24, 2007. These financial statements are the responsibility of the Corporation s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2007, and the related consolidated statements of earnings, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated February 26, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Baltimore, Maryland

July 22, 2008

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**Lockheed Martin Corporation**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**
**June 29, 2008**

We principally research, design, develop, manufacture, integrate, operate and sustain advanced technology systems and products, and provide a broad range of management, engineering, technical, scientific, logistics and information services. We serve both domestic and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. Our sales to agencies of the U.S. Government, including those to the Department of Defense (DoD), represented 84% of our sales in 2007. Of the remaining 16% of sales, approximately 13% related to sales to international customers (including foreign military sales funded, in whole or in part, by the U.S. Government), with the remainder attributable to commercial and other customers. Our main areas of focus are in defense, space, intelligence, homeland security, and government information technology.

We operate in four principal business segments: Aeronautics, Electronic Systems, Information Systems & Global Services (IS&GS) and Space Systems. As a systems integrator, our products and services range from electronics and information systems, including integrated net-centric solutions, to missiles, aircraft and spacecraft.

The following discussion should be read along with our 2007 Form 10-K filed with the Securities and Exchange Commission, and with the unaudited condensed consolidated financial statements included in this Form 10-Q.

**Consolidated Results of Operations**

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

The following discussion of Net sales and operating results provides an overview of our operations by focusing on key elements set forth in our Statement of Earnings. The Discussion of Business Segments section which follows describes the contributions of each of our business segments to our consolidated Net sales and Operating profit for the quarter and six-month periods ended June 29, 2008 and June 24, 2007. We follow an integrated approach for managing the performance of our businesses and generally focus the discussion of our results of operations around major lines of business, versus distinguishing between products and services. Product sales are predominantly generated in the Aeronautics, Electronic Systems and Space Systems segments, while most of our services revenues are generated in our IS&GS segment.

Net sales for the second quarter of 2008 were $11.0 billion, a 4% increase over the second quarter 2007 sales of $10.7 billion. Net sales for the six months of 2008 were $21.0 billion, a 6% increase over the $19.9 billion recorded in the comparable 2007 period. Sales increased in every business unit except Aeronautics, which declined mainly due to lower volume on F-16 programs.

Other income (expense), net was $172 million for the second quarter of 2008 compared to $110 million recorded in the comparable 2007 period. Other income (expense), net for the six months ended June 29, 2008 and June 24, 2007 were $281 million and $185 million, respectively. The increase was primarily due to higher equity earnings in affiliates and the benefits from the impact of certain items included in Other income (expense), net (see Note 7 under the caption Matters Included in Earnings ).

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

Operating profit for the second quarter of 2008 was $1,363 million, an increase of 17% from the $1,164 million recorded in the comparable 2007 period. During the quarter, operating profit increased in every business unit except Aeronautics, which declined slightly due to the lower volume on F-16 programs. Operating profit for the six months ended June 29, 2008 was $2,541 million, an 18% increase over the $2,149 million recorded in the comparable 2007 period. Operating profit for the first half of 2008 increased in every business segment. The second quarter and first six months of 2008 were also favorably impacted by the decline in the FAS/CAS pension adjustment and by the benefits of certain items included in Other income (expense), net.

Other non-operating income (expense), net was income of $34 million in the second quarter of 2008 as compared to income of $67 million in the second quarter of 2007. For the six months ended June 29, 2008, other non-operating income (expense), net was income of $27 million compared to income of $104 million for the six months ended June 24, 2007. The decrease was primarily due to lower interest income on invested cash balances and reduced investment income on marketable securities we hold in a trust related to certain of our non-qualified benefit plans.

Interest expense for the second quarter and six months ended June 29, 2008 was $92 million and $179 million, respectively, as compared to $93 million and $186 million in the comparable 2007 periods. This decrease was mainly driven by interest expense we accrued in the first quarter of 2007 related to acquisition activities.

Our effective income tax rates were 32.4% and 32.5% for the quarter and six months ended June 29, 2008 and 31.6% and 29.0% for the quarter and six months ended June 24, 2007. The effective rates for all periods were lower than the statutory rate of 35% due to tax benefits for U.S. manufacturing activities and dividends related to our employee stock ownership plans. The effective tax rates for the quarter and six-month periods in 2008 are higher than the comparable periods in 2007 primarily due to the expiration of the research tax credit at the end of 2007 and a reduction of income tax expense of $59 million recorded in the first quarter of 2007 arising from the closure of the IRS examination of the 2003 and 2004 tax years.

Net earnings for the second quarter of 2008 were $882 million ($2.15 per share) compared to $778 million ($1.82 per share) reported in the second quarter of 2007. Net earnings for the six months ended June 29, 2008 were $1,612 million ($3.90 per share) compared to $1,468 million ($3.42 per share) reported in the comparable 2007 period.

**DISCUSSION OF BUSINESS SEGMENTS**

The following tables of financial information and related discussions of the results of operations of our business segments are consistent with the presentation of segment information in Note 6. In our discussions of comparative results, changes in Net sales and Operating profit are generally expressed in terms of volume and/or performance. Volume refers to increases (or decreases) in sales resulting from varying production activity levels, deliveries or service levels on individual contracts. Volume changes typically include a corresponding change in Operating profit based on the estimated profit rate at completion for a particular contract for design, development and production activities.

Changes in segment Operating profit are also expressed in terms of performance. Performance generally refers to changes in contract profit rates at completion. These changes on our contracts for products usually relate to profit recognition associated with revisions to total estimated costs at completion of the contract that reflect improved (or deteriorated) operating or award fee performance on a particular contract. Changes in estimates of Net sales and Operating profit on contracts for products are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods.

The Aeronautics segment generally includes fewer programs that have much larger sales and operating results than programs included in the other segments. Therefore, due to the larger

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

number of comparatively smaller programs in the remaining segments, the discussions of the results of operations of these business segments generally focus on lines of business within the segments rather than on specific programs.

***Aeronautics***

Aeronautics operating results included the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | | | |
| Net sales | **$ 2,884** | $ 3,136 | **$ 5,691** | $ 5,957 |
| Operating profit | **$ 366** | $ 378 | **$ 689** | $ 677 |

Net sales for Aeronautics decreased by 8% for the quarter and 4% for the six months of 2008 from the comparable 2007 periods. In both periods, decreases in Combat Aircraft sales more than offset increases in Air Mobility and Other Aeronautics Programs. The decrease in Combat Aircraft for both the quarter and the six months was due primarily to lower volume on F-16 programs. The increase in Air Mobility for the quarter and first half of the year was due primarily to higher volume on C-130J programs, including deliveries and support activities. There were three C-130J deliveries in the second quarter of 2008 and six during the first six months of the year compared to three and five deliveries in the comparable periods of 2007. The increase in Other Aeronautics Programs for both periods was due mainly to higher volume in sustainment services activities.

Operating profit decreased by 3% for the quarter and increased by 2% for the six months of 2008 from the comparable 2007 periods. During the quarter, operating profit decreases in Combat Aircraft and Air Mobility offset an increase in Other Aeronautics Programs. In Combat Aircraft, the decline was due mainly to lower volume on F-16 programs. The decrease in operating profit at Air Mobility was attributable primarily to performance on C-5 programs offset partially by improved performance on C-130 programs. The increase in Other Aeronautics Programs was due mainly to higher volume and improved performance in sustainment services activities. During the first six months of the year, an increase in Other Aeronautics Programs was offset partially by declines in Air Mobility and Combat Aircraft. The increase in Other Aeronautics Programs was due mainly to higher volume in sustainment services activities. In Air Mobility, operating profit decreased due to performance on C-5 programs which was partially offset by improved performance and the delivery of one additional C-130J in 2008.

***Electronic Systems***

Electronic Systems operating results included the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | | | |
| Net sales | **$ 3,095** | $ 2,927 | **$ 5,884** | $ 5,442 |
| Operating profit | **$ 409** | $ 387 | **$ 775** | $ 704 |

Net sales for Electronic Systems increased by 6% for the quarter and 8% for the six months of 2008 from the comparable 2007 periods. During the quarter and the first half of the year, sales increased due mainly to higher volume in fire control and tactical missile programs at Missiles & Fire Control (M&FC) and undersea systems, surface systems, and radar systems activities at

Maritime Systems & Sensors (MS2). These increases were offset partially in both periods by declines in platform integration activities at Platform, Training & Energy (PT&E).

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

Operating profit for Electronic Systems increased by 6% for the quarter and 10% for the six months of 2008 from the comparable 2007 periods. In both the quarter and six month periods, the increases in operating profit were attributable primarily to higher volume and improved performance in tactical missile and fire control programs at M&FC and radar systems at MS2. In both periods, these increases were offset partially by declines in operating profit at PT&E due mainly to performance in the second quarter on platform integration programs.

***Information Systems & Global Services***

Information Systems & Global Services operating results included the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 29, 2008** | **June 24, 2007** | **June 29, 2008** | **June 24, 2007** |
| | | ***(In millions)*** | | |
| Net sales | **$ 2,858** | $ 2,520 | **$ 5,362** | $ 4,665 |
| Operating profit | **$ 272** | $ 231 | **$ 502** | $ 429 |

Net sales for IS&GS increased by 13% for the quarter and 15% for the six months of 2008 from the comparable 2007 periods. Sales increased in all three lines of business for both the quarter and six months. The increase in Global Services was due principally to global and mission services activities. The increase in Mission Solutions was driven primarily by mission and combat support solutions activities and global security solutions programs. The increase in Information Systems was due to higher volume on information technology programs.

Operating profit for IS&GS increased by 18% for the quarter and 17% for the six months of 2008 from the comparable 2007 periods. In both the quarter and the six-month periods, the increase in operating profit was driven by Information Systems and Mission Solutions. The increase in Information Systems was due to higher volume on IT programs and a benefit from a contract restructuring during the first quarter of 2008. Mission Solutions operating profit grew due to higher volume and improved performance on secure enterprise solutions and mission and combat support solutions activities.

***Space Systems***

Space Systems operating results included the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 29, 2008** | **June 24, 2007** | **June 29, 2008** | **June 24, 2007** |
| | | ***(In millions)*** | | |
| Net sales | **$ 2,202** | $ 2,068 | **$ 4,085** | $ 3,862 |
| Operating profit | **$ 268** | $ 214 | **$ 499** | $ 399 |

Net sales for Space Systems increased by 6% for both the quarter and six-month periods of 2008 from the comparable 2007 periods. In both periods, sales growth in Space Transportation was offset partially by a decline in Satellites. The sales growth in Space Transportation was due primarily to higher volume on the Orion program. In Satellites, reduced volume in government satellite activities was offset partially by an increase in commercial satellite activities in both periods. There was one commercial satellite delivery during the second quarter and two during the first six months of 2008. In the first six months of 2007, there was one commercial satellite delivery in the second quarter.

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

Operating profit increased by 25% for both the quarter and six months of 2008 from the comparable 2007 periods. In both periods, the increase in operating profit was due to growth in Space Transportation and Satellites. In Space Transportation, the increase was attributable mainly to higher equity earnings on the United Launch Alliance joint venture, volume on the Orion program and the results from successful negotiations of a terminated commercial launch service contract in the first quarter of 2008. In Satellites, the increase was attributable mainly to higher volume and improved performance on commercial satellite activities.

***Unallocated Corporate Income (Expense), Net***

The following table shows the components of Unallocated Corporate income (expense), net. For a discussion of the FAS/CAS pension adjustment and other types of items included in Unallocated Corporate income (expense), net, see Note 6 to the financial statements in this Form 10-Q.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | | | |
| FAS/CAS pension adjustment | **$ 32** | $ (14) | **$ 64** | $ (28) |
| Items not considered in segment operating performance | **85** | 25 | **101** | 71 |
| Stock compensation expense | **(40)** | (33) | **(75)** | (82) |
| Other, net | **(29)** | (24) | **(14)** | (21) |
| | **$ 48** | $ (46) | **$ 76** | $ (60) |

The following table shows the CAS cost that is included as expense in the segments operating results, the related FAS expense, and the resulting FAS/CAS pension adjustment:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 29, 2008 | June 24, 2007 | June 29, 2008 | June 24, 2007 |
| | *(In millions)* | | | |
| FAS 87 expense | **$ (115)** | $ (172) | **$ (231)** | $ (343) |
| Less: CAS cost | **(147)** | (158) | **(295)** | (315) |
| FAS/CAS pension adjustment expense | **$ 32** | $ (14) | **$ 64** | $ (28) |

The FAS/CAS pension adjustment resulted in income in the second quarter and first six months of 2008 versus expense in the prior-year periods due to an increase in the discount rate and other factors such as our actual return on plan assets. This trend is consistent with our expectations based on the assumptions we used in computing the FAS 87 expense and CAS cost amounts as discussed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our 2007 Form 10-K under the caption Critical Accounting Policies.

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

Certain items are excluded from segment results as part of senior management s evaluation of segment operating performance consistent with the management approach promulgated by FAS 131, *Disclosures about Segments of an Enterprise and Related Information*. For example, gains and losses related to the disposition of businesses or investments managed by Corporate, as well as other Corporate activities, are not considered by management in evaluating the operating performance of business segments. Therefore, for purposes of segment reporting, the following items were included in Unallocated Corporate income (expense), net for the respective quarters:

*Second Quarter 2008*

Earnings, net of state income taxes, of $85 million from the elimination of reserves associated with various land sales that occurred in prior years (see Note 7).

*First Quarter 2008*

A gain, net of state income taxes, of $16 million representing recognition of a portion of the deferred net gain recorded in connection with the transaction to sell our ownership interests in LKEI and ILS in 2006 (see Note 5).

On an aggregate basis, these items increased our net earnings by $56 million ($0.14 per share) and $66 million ($0.16 per share) during the quarter and six month periods ended June 29, 2008.

*Second Quarter 2007*

A gain, net of state income taxes, of $25 million related to the sale of our remaining 20% interest in COMSAT International.

*First Quarter 2007*

A gain, net of state income taxes, of $25 million related to the sale of certain surplus land in California; and

Earnings, net of state income taxes, of $21 million from the reversal of legal reserves following the settlement of certain litigation related to a waste remediation contract with the Department of Energy.

On an aggregate basis, these items increased our net earnings by $16 million ($0.04 per share) and $46 million ($0.11 per share) during the quarter and six months ended June 30, 2007. The first quarter of 2007 also was favorably affected by the closure of certain IRS examinations disclosed previously (see Note 7) which resulted in a reduction in our first quarter 2007 income tax expense of $59 million ($0.14 per share). On a combined basis, these items increased earnings for the first six months of 2007 by $105 million ($0.25 per share).

**LIQUIDITY AND CASH FLOWS**

We have a balanced cash deployment and disciplined growth strategy to enhance shareholder value and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have invested in our business (*e.g.*,

capital expenditures, independent research and development), made selective acquisitions of businesses, repurchased shares, increased our dividends and opportunistically reduced and refinanced our debt.

**Operating Activities**

Net cash provided by operating activities decreased by $513 million in the first six months of 2008 from the first six months of 2007. The decrease primarily was attributable to a $640 million decline in cash provided by operating working capital as compared to 2007. This decline in operating working capital was primarily due to a decrease in Customer advances and amounts in excess of costs incurred on Combat Aircraft programs at Aeronautics and various programs in the Missiles & Fire Control line of business at Electronic Systems. This decrease was partially offset by an increase in cash between the six

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

month periods primarily attributable to higher net earnings. Operating working capital accounts consist of Receivables, Inventories, Accounts payable, and Customer advances and amounts in excess of costs incurred.

**Investing Activities**

*Capital expenditures* Capital expenditures for Property, plant and equipment amounted to $274 million during the first six months of 2008 and $254 million in the comparable 2007 period. We expect our annual capital expenditures over the next three years to exceed 2007 expenditures consistent with the expected growth in our business and to support specific program requirements.

*Acquisitions, divestitures and other activities* We have a process in place to selectively identify businesses for acquisition that meet our financial targets and help build a balanced portfolio. We paid $88 million in the first six months of 2008 and $136 million in the comparable 2007 period related to acquisition activities.

There were no divestiture activities in the first six months of 2008. We received proceeds of $26 million in the first six months of 2007 related to the sale of our 20% interest in COMSAT International.

During the first six months of 2008, we decreased our short-term investments by $237 million compared to a decrease of $52 million in the same period of 2007.

**Financing Activities**

*Share activity and dividends* We used $1,930 million and $1,394 million of cash to repurchase common shares during the first six months of 2008 and 2007 (see Note 7 under the caption Stockholders Equity ). These purchases were made under our share repurchase program. As of June 29, 2008, we had repurchased a total of 113.9 million shares under the program, and there remained 14.1 million shares that may be repurchased in the future. See Part II, Item 2 of this Form 10-Q, for additional information regarding the repurchase of shares during the quarter ended June 29, 2008.

Cash received from the issuance of our common stock during the first six months of 2008 related to the exercise of stock options and associated tax benefits totaled $160 million, compared to $254 million during the same period in 2007. Those activities resulted in the issuance of 2.2 million shares and 3.9 million shares during the respective periods.

During the first six months of 2008, we declared and paid quarterly dividends totaling $340 million compared to $295 million in the first half of 2007. We also declared our third quarter dividend of $168 million in June 2008, which was recorded as a current liability and a reduction of retained earnings. This dividend will be paid in September 2008. We paid quarterly dividends of $0.42 per share in 2008 compared to $0.35 per share in 2007.

*Issuance and repayment of long-term debt* In the first quarter of 2008, we issued $500 million of long-term notes due in 2013. The notes have a fixed coupon interest rate of 4.121%. We used $103 million in the first six months of 2008 for repayments of long-term debt, compared to $32 million in the comparable 2007 period. Cash from operations has been our principal source of funds to reduce our long-term debt.

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

**CAPITAL RESOURCES**

At June 29, 2008, we held Cash and cash equivalents of approximately $3.2 billion and Short-term investments of $96 million. Our total Long-term debt, net of unamortized discounts, amounted to $4.8 billion at June 29, 2008, an increase of $397 million from the December 31, 2007 balance resulting from the first quarter debt issuance of $500 million partially offset by a second quarter repayment of $103 million.

Our Long-term debt is mainly in the form of publicly issued notes and debentures. We have $1.0 billion of convertible debentures that have a floating interest rate based on LIBOR. At June 29, 2008, we had agreements in place to swap variable interest rates on the debentures for fixed interest rates. With this swap agreement, our entire Long-term debt portfolio effectively bears interest at fixed rates. Our debt-to-total capital ratio, net of unamortized discounts, increased from 31% at December 31, 2007 to 34% at June 29, 2008, primarily due to the first quarter debt issuance and share repurchase activity.

On June 26, 2008, we announced the planned redemption of our $1.0 billion of floating rate convertible debentures that remain outstanding on August 15, 2008 (see Note 7 under the caption Long-term Debt ). At June 29, 2008, the debentures were classified as Current maturities of long-term debt on our Balance Sheet. Upon conversion of the debentures, we have irrevocably agreed to pay only cash in lieu of common stock for the accreted principal amount of the debentures relative to our conversion obligations. We intend to satisfy the conversion obligations in excess of the accreted principal amount of the debentures entirely in shares of common stock, with any fractional shares being paid in cash.

At June 29, 2008, the conversion rate was 13.7998 shares of common stock for each $1,000 in original principal amount of debentures based on the conversion price of $72.46. The conversion obligations in excess of the accreted principal amount, using the closing price of our stock on June 29, 2008, totaled $375 million. If that amount had been settled in shares on that date, we would have been required to issue 3.8 million shares of our common stock. The actual total amount of the conversion obligations will not be determined until after all of the debentures have been converted. We do not expect that the redemption of the debentures, or the anticipated conversions by holders in advance of redemption, will have a material effect on our financial condition or results of operations.

Our stockholders equity amounted to $9,334 million at June 29, 2008, a decrease of $471 million from December 31, 2007. The following items were the drivers of the decrease:

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---|---|---|---|---|
| | | | *(In millions)* | | |
| Balance at December 31, 2007 | **$ 409** | **$** | **$ 11,247** | **$ (1,851)** | **$ 9,805** |
| Net earnings | | | **1,612** | | **1,612** |
| Common stock dividends declared | | | **(508)** | | **(508)** |
| Stock-based awards and ESOP activity [(1)] | **4** | **341** | | | **345** |
| Common stock repurchases | **(19)** | **(341)** | **(1,595)** | | **(1,955)** |
| Other comprehensive income | | | | **35** | **35** |
| Net activity | **(15)** | | **(491)** | **35** | **(471)** |

| | | | | | |
|---|---|---|---|---|---|
| Balance at June 29, 2008 | **$ 394** | **$** | **$ 10,756** | **$ (1,816)** | **$ 9,334** |

(1) Common Stock and Additional Paid-in Capital include amounts related to the exercise of 2.2 million stock options, resulting in the issuance of a like number of common shares.

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**Lockheed Martin Corporation**

**Management s Discussion and Analysis of Financial Condition**

**and Results of Operations (continued)**

We actively seek to finance our business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. We review changes in financial, market and economic conditions to manage the types, amounts and maturities of our indebtedness. We may at times refinance existing indebtedness, vary our mix of variable-rate and fixed-rate debt, or seek alternative financing sources for our cash and operational needs.

Cash and cash equivalents, short-term investments, cash flow from operations and other available financing resources, are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements, as well as acquisition and other discretionary investment needs, projected over the next three years.

**CRITICAL ACCOUNTING POLICIES**

The foregoing discussion of our financial condition and results of operations is based on the consolidated financial statements included in this Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosures of contingencies. We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

During the six months ended June 29, 2008, there were no significant changes to the critical accounting policies we disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

**OTHER MATTERS**

Following our sale of Lockheed Khrunichev Energia International, Inc. (LKEI) and ILS in 2006, we continue to be responsible to refund customer advances to certain customers if launch services are not provided and ILS does not refund the advance (see Note 5). At June 29, 2008, the total amount that could be payable under the guarantees, approximating the total contract value of the guaranteed launches, was $121 million. That amount may be partially mitigated by approximately $28 million of cash we retained that, absent any requirements to make payments under the guarantees, will be paid to the buyer as the launches occur.

Our Balance Sheet at June 29, 2008 included current and noncurrent assets relating to LKEI and ILS totaling $91 million, and current and noncurrent liabilities totaling $119 million, both of which will be reduced as the launch services are provided. Any potential earnings impact resulting from our inability to realize the assets we have recorded related to LKEI and ILS would be mitigated by the deferred net gain we recorded on the transaction at the end of 2006, which we expect to recognize as the remaining launches occur. The unrecognized deferred gain, net of state and federal income taxes, of $57 million at June 29, 2008, will be recognized as the remaining two launches occur. We believe those launches will take place in 2008 based on the Proton launch schedule, which is subject to change.

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**Lockheed Martin Corporation**

**Item 3. Quantitative and Qualitative Disclosure of Market Risk**

Our main exposure to market risk relates to interest rates and foreign currency exchange rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At June 29, 2008, we had an agreement in place to swap variable interest rates on our $1.0 billion of convertible debentures based on LIBOR for a fixed interest rate through August 15, 2008. With this swap agreement, our long-term debt portfolio effectively bears interest at fixed rates.

We have designated the swap agreement as a cash flow hedge of the forecasted LIBOR-based variable interest payments. Based on our evaluation at the inception of the hedging agreement and in subsequent periods, we expect the hedging relationship to be highly effective in achieving the offsetting cash flows attributable to the hedged variable interest payments, resulting in a fixed net Interest expense reported on the Statement of Earnings. We determined that the hedging relationship remained highly effective at June 29, 2008. The fair value of the interest rate swap agreement is adjusted at each Balance Sheet date, with a corresponding adjustment to Other comprehensive income (loss). At June 29, 2008, the fair value of the interest rate swap agreement was not material.

We use forward foreign exchange contracts to manage our exposure to fluctuations in foreign currency exchange rates, and generally do so in ways that qualify for hedge accounting treatment. These exchange contracts hedge the fluctuations in cash flows associated with firm commitments or specific anticipated transactions contracted in foreign currencies, or hedge the exposure to rate changes affecting foreign currency denominated assets or liabilities. Related gains and losses on these contracts, to the extent they are effective hedges, are recognized in income at the same time the hedged transaction is recognized. To the extent the hedges are ineffective, gains and losses on the contracts are recognized in the current period. At June 29, 2008, the fair value of forward exchange contracts outstanding and the amounts of gains and losses recorded during the quarter and six-month periods then ended were not material.

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

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**Lockheed Martin Corporation**

**Item 4. Controls and Procedures**

We maintain disclosure controls and procedures, including internal control over financial reporting, which are designed to ensure that information required to be disclosed in our periodic filings with the SEC is reported within the time periods specified in the SEC s rules and forms, and to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded. Our disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating such controls and procedures, we recognize that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our controls and procedures with respect to those entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We performed an evaluation of the effectiveness of our disclosure controls and procedures, including internal control over financial reporting, as of June 29, 2008. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, and under the supervision of the CEO and CFO. Based on our evaluation, we concluded that our disclosure controls and procedures were effective as of June 29, 2008.

We routinely review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating the activities of two or more business units, and migrating certain processes to our shared services centers. In addition, when we acquire new businesses, we review the controls and procedures of the acquired business as part of our integration activities.

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.

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**Lockheed Martin Corporation**

**FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains statements which, to the extent that they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on our current expectations and assumptions. The words believe, estimate, anticipate, project, intend, expect, plan, outlook, forecast and similar expressions are intend forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results could differ materially because of factors such as: the availability of government funding for our products and services both domestically and internationally; changes in government and customer priorities and requirements (including changes to respond to election cycles, Congressional actions, Department of Defense reviews, budgetary constraints and cost-cutting initiatives); the impact of continued military operations in Iraq and Afghanistan on funding for existing defense programs; the award or termination of contracts; returns on pension plan assets, interest and discount rates, and other changes that may impact pension plan assumptions; difficulties in developing and producing operationally advanced technology systems; the timing and customer acceptance of product deliveries; materials availability and performance by key suppliers, subcontractors and customers; charges from any future impairment reviews that may result in the recognition of losses and a reduction in the book value of goodwill or other long-term assets; the future impact of legislation, changes in accounting interpretations or pronouncements, tax rules, or export policies; the future impact of acquisitions or divestitures, joint ventures or teaming arrangements; the outcome of legal proceedings and other contingencies (including lawsuits, government/regulatory investigations or audits, and environmental remediation efforts); the competitive environment for our products and services; and economic, business and political conditions domestically and internationally.

These are only some of the factors that may affect the forward-looking statements contained in this Form 10-Q. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see our filings with the SEC including, but not limited to, the discussions of Government Contracts and Regulations and Risk Factors on page 16, and pages 18 through 24, respectively, of our Annual Report on Form 10-K for the year ended December 31, 2007; Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 19 through 27 of this Form 10-Q; and Note 4 Postretirement Benefit Plans and Note 5 Legal Proceedings and Contingencies of the Notes to Consolidated Financial Statements of the Unaudited Consolidated Financial Statements on page 9 and pages 9 through 12, respectively, included in this Form 10-Q.

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

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**Lockheed Martin Corporation**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are a party to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in Note 5 Legal Proceedings and Contingencies in this Form 10-Q, and in our 2007 Annual Report on Form 10-K filed with the Securities Exchange Commission (Form 10-K), or arising in the ordinary course of business. In the opinion of management and in-house counsel, the probability is remote that the outcome of any such litigation or other proceedings will have a material adverse effect on our consolidated results of operations, financial position or cash flows. The results of legal proceedings, however, cannot be predicted with certainty.

We are primarily engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under direct foreign sales contracts, some of which are funded by the U.S. Government. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with these requirements. U.S. Government investigations, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed on us, or could lead to our suspension or debarment from future U.S. Government contracting. U.S. Government investigations often take years to complete and many result in no adverse action against us.

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have our property subject to various other lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in our being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see Note 5 Legal Proceedings and Contingencies on pages 9 through 12 of this Form 10-Q.

We and BAE Systems Information and Electronic Systems Integration, Inc. (BAE) are both named in a civil administrative proceeding by the U.S. Environmental Protection Agency alleging violations of the Resource Conservation and Recovery Act in connection with a solvent collection system operated by BAE at a facility that we own and lease to them. The parties are in settlement discussions with the EPA related to payment of a possible fine in excess of the required $100,000 reporting threshold with respect to the alleged violations. We believe the matter will be resolved without material liability to us.

In addition, see the Legal Proceedings section of the Form 10-K for a description of previously reported matters.

**Item 1A. Risk Factors**

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our 2007 Form 10-K (pages 18 through 24) describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results and future prospects. We do not believe that there have been any material changes to the risk factors previously disclosed in our 2007 Form 10-K.

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**Lockheed Martin Corporation**

**Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

The following table provides information about our purchases during the three-month period ended June 29, 2008 of our equity securities that are registered pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs [1] | Maximum Number of Shares That May Yet Be Purchased Under the Programs [2] |
|---|---|---|---|---|
| April 2008 | 1,065,600 | $ 101.27 | 1,065,600 | 20,369,931 |
| May 2008 | 3,005,000 | $ 107.53 | 3,005,000 | 17,364,931 |
| June 2008 | 3,233,464 | $ 104.69 | 3,233,464 | 14,131,467 |

(1) We repurchased a total of 7,304,064 shares of our common stock during the quarter ended June 29, 2008 under a share repurchase program that we announced in October 2002.

(2) Our Board of Directors has approved a share repurchase program for the repurchase of up to 128 million shares of our common stock from time-to-time. Under the program, management has discretion to determine the number and price of the shares to be repurchased, and the timing of any repurchases in compliance with applicable law and regulation.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

On April 24, 2008, we held our Annual Meeting of Stockholders. A description of matters voted upon by stockholders at that meeting, and the results of such votes, were disclosed in a Form 8-K filed with the Securities and Exchange Commission on April 25, 2008.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

| | |
|---|---|
| Exhibit 3.1 | Charter of Lockheed Martin Corporation, as restated as of June 26, 2008 (incorporated by reference to Exhibit 3.1 to the Corporation s Current Report on Form 8-K filed with the SEC on June 26, 2008) |
| Exhibit 3.2 | Bylaws of Lockheed Martin Corporation, as amended effective April 25, 2008 (incorporated by reference to Exhibit 3.2 to the Corporation s Current Report on Form 8-K filed with the SEC on April 25, 2008) |
| Exhibit 10.1 | Lockheed Martin Corporation Deferred Management Incentive Compensation Plan |
| Exhibit 10.2 | Lockheed Martin Corporation Supplemental Savings Plan |
| Exhibit 10.3 | Lockheed Martin Corporation Nonqualified Capital Accumulation Plan |
| Exhibit 10.4 | Lockheed Martin Corporation Supplemental Retirement Plan |

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**Lockheed Martin Corporation**

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|---|---|
| Exhibit 10.5 | Supplemental Retirement Benefit Plan for Certain Transferred Employees of Lockheed Martin Corporation |
| Exhibit 10.6 | Lockheed Martin Supplementary Pension Plan for Transferred Employees of GE Operations |
| Exhibit 10.7 | Lockheed Martin Corporation Severance Benefit Plan For Certain Management Employees |
| Exhibit 10.8 | Lockheed Martin Corporation Amended and Restated 2003 Incentive Performance Award Plan |
| Exhibit 10.9 | Lockheed Martin Corporation 2009 Directors Equity Plan (incorporated by reference to Appendix E to the Corporation s 2008 Annual Proxy Statement filed with the SEC on Schedule 14A on March 14, 2008) |
| Exhibit 12 | Lockheed Martin Corporation Computation of Ratio of Earnings to Fixed Charges for the six months ended June 29, 2008 |
| Exhibit 15 | Acknowledgment of Independent Registered Public Accounting Firm |
| Exhibit 31.1 | Rule 13a-14(a) Certification of Robert J. Stevens |
| Exhibit 31.2 | Rule 13a-14(a) Certification of Bruce L. Tanner |
| Exhibit 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 of Robert J. Stevens |
| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350 of Bruce L. Tanner |

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**Lockheed Martin Corporation**

**SIGNATURES**

Pursuant to the requirements 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: July 23, 2008

by: /s/ Martin T. Stanislav
Martin T. Stanislav
Vice President and Controller
(Chief Accounting Officer)