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LOCKHEED MARTIN CORP
Form 10-Q
May 10, 2001

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 QUARTER ENDED March 31, 2001 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)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (301) 897-6000

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 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 April 30, 2001

COMMON STOCK, \$1 PAR VALUE 434,327,261

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LOCKHEED MARTIN CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2001

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Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Earnings

Three Months Ended
March 31,
2001 2000
---- ----

(In millions, except per share data)

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Net sales	\$5,010	\$5,562
Cost of sales	4,681	5,249
	-----	-----
Earnings from operations	329	313
Other income and expenses, net	43	13
	-----	-----
	372	326
Interest expense	197	227
	-----	-----
Earnings before income taxes	175	99
Income tax expense	70	45
	-----	-----
Net earnings	\$ 105	\$ 54
	=====	=====
Earnings per common share:		

Basic	\$.25	\$.14
Diluted	\$.25	\$.14
Cash dividends declared per common share	\$.11	\$.11

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Lockheed Martin Corporation
Unaudited Condensed Consolidated Statement of Cash Flows

	Three Months Ended	
	March 31,	
	2001	2000
	----	----
	(In millions)	
Operating Activities:		
Net earnings	\$ 105	\$ 54
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	227	239
Changes in operating assets and liabilities	717	189
	-----	-----
Net cash provided by operating activities	1,049	482
	-----	-----
Investing Activities:		
Expenditures for property, plant and equipment	(72)	(84)
Other	(59)	(30)
	-----	-----
Net cash used for investing activities	(131)	(114)
	-----	-----
Financing Activities:		

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Net decrease in short-term borrowings	(12)	(234)
Net repayments related to long-term debt	(17)	(13)
Issuances of common stock	43	1
Common stock dividends	(48)	(44)
	-----	-----
Net cash used for financing activities	(34)	(290)
	-----	-----
Net increase in cash and cash equivalents	884	78
Cash and cash equivalents at beginning of period	1,505	455
	-----	-----
Cash and cash equivalents at end of period	\$2,389	\$ 533
	=====	=====

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Lockheed Martin Corporation
Unaudited Condensed Consolidated Balance Sheet

	March 31, 2001	December 2000
	-----	-----
	(In millions)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,389	\$ 1,
Receivables	3,934	4,
Inventories	3,571	3,
Deferred income taxes	1,124	1,
Other current assets	505	
	-----	-----
Total current assets	11,523	11,
Property, plant and equipment	3,334	3,
Investments in equity securities	2,365	2,
Intangible assets related to contracts and programs acquired	1,035	1,
Cost in excess of net assets acquired	8,794	8,
Prepaid pension cost	1,836	1,
Other assets	1,623	1,
	-----	-----
	\$30,510	\$30,
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,104	\$ 1,
Customer advances and amounts in excess of costs incurred	5,153	4,
Salaries, benefits and payroll taxes	945	1,
Income taxes	197	
Short-term borrowings	--	
Current maturities of long-term debt	901	
Other current liabilities	1,931	1,
	-----	-----
Total current liabilities	10,231	10,

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Long-term debt	9,029	9,
Post-retirement benefit liabilities	1,668	1,
Deferred income taxes	676	
Other liabilities	1,646	1,
Stockholders' equity:		
Common stock, \$1 par value per share	434	
Additional paid-in capital	1,860	1,
Retained earnings	5,256	5,
Unearned ESOP shares	(108)	(
Accumulated other comprehensive loss	(182)	(
	-----	-----
Total stockholders' equity	7,260	7,
	-----	-----
	\$30,510	\$30,
	=====	=====

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2001

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared 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. Lockheed Martin Corporation (Lockheed Martin or the Corporation) has continued to follow the accounting policies set forth in the consolidated financial statements included in its 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission except for the adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," (as amended) effective January 1, 2001, as discussed in "Note 7 - Other" of the Notes to Unaudited Condensed Consolidated Financial Statements. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of results to be expected for the full year. Certain amounts presented for prior periods have been reclassified to conform with the 2001 presentation.

NOTE 2 -- BUSINESS COMBINATION COMSAT CORPORATION

On August 3, 2000, the Corporation completed its merger with COMSAT Corporation (COMSAT) pursuant to the terms of the Agreement and Plan of Merger between COMSAT and the Corporation. The total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately \$2.6 billion, net of \$76 million in cash balances acquired. The COMSAT transaction was accounted for using the purchase method of accounting. Purchase accounting adjustments were recorded in 2000 to allocate the purchase price to assets acquired and liabilities assumed based on their fair values. These adjustments included certain amounts totaling approximately \$2.1 billion, composed of adjustments to record investments in equity securities acquired at their fair values and cost in excess of net assets

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acquired, which is being amortized over an estimated life of 30 years.

Since August 1, 2000, the Corporation has consolidated the operations of COMSAT with the results of operations of Lockheed Martin Global Telecommunications, Inc. (LMGT), a wholly-owned subsidiary of the Corporation.

NOTE 3 --EARNINGS PER SHARE

Basic and diluted earnings per share were computed based on net earnings. The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings per share, and this number of shares was increased by the dilutive effect of stock options based on the treasury stock method in the calculation of diluted earnings per share.

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

The following table sets forth the computations of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2001	2000
	-----	-----
	(In millions, except per share d	
Net earnings for basic and diluted computations	\$ 105	\$ 54

Average common shares outstanding:		

Average number of common shares outstanding for basic computations	423.3	387.1
Dilutive stock options-based on the treasury stock method	4.5	.4
	-----	-----
Average number of common shares outstanding for diluted computations	427.8	387.5
	=====	=====
Earnings per common share:		

Basic	\$.25	\$.14
Diluted	\$.25	\$.14

NOTE 4 -- INVENTORIES

	March 31,	December 31,
	2001	2000
	-----	-----

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(In millions)

Work in process, commercial launch vehicles	\$ 1,216	\$ 1,175
Work in process, primarily related to other long-term contracts and programs in progress	4,122	3,834
Less customer advances and progress payments	(2,467)	(1,864)
	-----	-----
	2,871	3,145
Other inventories	700	680
	-----	-----
	\$ 3,571	\$ 3,825
	=====	=====

Work in process inventories related to commercial launch vehicles include costs for launch vehicles, both under contract and not under contract, including approximately \$100 million of unamortized deferred costs at March 31, 2001 and December 31, 2000 for launch vehicles not under contract related to the Corporation's Atlas programs. At March 31, 2001 and December 31, 2000, commercial launch vehicle inventories included amounts advanced to Russian manufacturers, Khrunichev State Research and Production Space Center and RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of approximately \$696 million and \$657 million, respectively, for the manufacture of launch vehicles and related launch services.

Work in process inventories at March 31, 2001 and December 31, 2000 related to other long-term contracts and programs in progress included approximately \$50 million of unamortized deferred costs for aircraft not under contract related to the Corporation's C-130J program.

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

NOTE 5 -- CONTINGENCIES

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. In the opinion of management and in-house counsel, the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation's consolidated results of operations or financial position. These matters include the following items:

Environmental matters - The Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with the Corporation's former Lockheed Propulsion Company facilities in Redlands, California. Under the orders, the Corporation is investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. The Regional Board has approved the Corporation's plan to maintain public water supplies with respect to chlorinated solvents during this investigation, and the Corporation is negotiating with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation estimates that expenditures required to implement work currently approved will be approximately \$90 million. The Corporation is also coordinating with the U.S. Air Force, which is working with the aerospace and defense

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industry to conduct preliminary studies of the potential health effects of perchlorate exposure in connection with several sites across the country, including the Redlands site. The results of these studies will assist state and federal regulators in setting appropriate action levels for perchlorates in groundwater, which will in turn assist the Corporation in determining its ultimate clean-up obligation, if any, with respect to perchlorates.

Since 1990, the Corporation has been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with the Corporation's former operations in Burbank, California. Among other things, these consent decrees and orders obligate the Corporation to operate and maintain soil and groundwater treatment facilities in Burbank and Glendale, California through 2018 and 2012, respectively; however, responsibility for the long-term operation of the Burbank facilities was assumed by the city of Burbank in the first quarter of 2001, and responsibility for the Glendale operations will be assumed by the city of Glendale following an appropriate start-up period. Under an agreement reached with the U.S. Government and filed with the U.S. District Court in January 2000 (the Agreement), the Corporation was reimbursed approximately \$100 million in the first quarter of 2000 for past expenditures for certain remediation activities related to the Burbank and Glendale properties. Also under the Agreement, an amount equal to approximately 50 percent of future expenditures for certain remediation activities will be reimbursed by the U.S. Government as a responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and orders described above, net of the effects of the Agreement, will be approximately \$45 million.

The Corporation is involved in proceedings and potential proceedings relating to environmental matters at other facilities, including disposal of hazardous wastes and soil and water contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably estimated at this time. In addition to the amounts with respect to the Redlands and Burbank properties and the city of Glendale described above, a liability of approximately \$190 million for the other properties (including current operating facilities and certain facilities

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

operated in prior years) in which an estimate of financial exposure can be determined has been recorded.

Under agreements reached with the U.S. Government in 1990 and 2000, environmental expenditures related to the Redlands and Burbank properties referenced above are being allocated to the Corporation's operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other potentially responsible parties, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the expenditures are being reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation.

The Corporation has recorded an asset for the portion of environmental costs that are probable of future recovery in pricing of the Corporation's products and services for U.S. Government business. The portion that is expected to be

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allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other potentially responsible parties, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

Waste remediation contract - In 1994, the Corporation was awarded a \$180 million fixed price contract by the U.S. Department of Energy (DOE) for the Phase II design, construction and limited test of remediation facilities, and the Phase III full remediation of waste found in Pit 9, located on the Idaho National Engineering and Environmental Laboratory reservation. The Corporation incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters, which the Corporation sought to remedy through submission of a request for equitable adjustment (REA) to the DOE in March 1997. In 1998, the Corporation took actions to raise the status of the REA to a formal claim. To date, the Corporation has been unsuccessful in reaching any agreements with the DOE on cost recovery or other contract restructuring matters. In June 1998, the DOE, through Lockheed Martin Idaho Technologies Company (LMITCO), its management contractor, terminated the Pit 9 contract for default. As a result, the Corporation filed a lawsuit against the DOE in the U.S. Court of Federal Claims in Washington, D.C., challenging and seeking to overturn the default termination and recover its costs. In August 1998, LMITCO, at the DOE's direction, filed suit against the Corporation in U.S. District Court in Boise, Idaho, seeking, among other things, recovery of approximately \$54 million previously paid by LMITCO to the Corporation under the Pit 9 contract. Discovery in the Idaho proceeding has been ongoing since August 2, 1999. In January 2001, in the Court of Federal Claims, the DOE filed a motion for summary judgment seeking to dismiss the Corporation's complaint on jurisdictional grounds. The Corporation opposed the motion in papers filed in April 2001. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

NOTE 6 -- INFORMATION ON BUSINESS SEGMENTS

The Corporation operates in five principal business segments. The five segments include Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities fall within the Corporate and Other segment.

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Lockheed Martin Corporation Notes to Unaudited Condensed Consolidated Financial Statements (continued)

The Corporation began presenting LMGT as a separate operating segment called Global Telecommunications in the third quarter of 2000. As mentioned previously, LMGT includes the operations of COMSAT from August 1, 2000, and also includes the operations of Lockheed Martin Integrated Business Solutions (IBS). LMGT and IBS were included in the Corporate and Other segment prior to the third quarter of 2000. In the second quarter of 2000, the Corporation reassigned the Space Applications Systems line of business from the Systems Integration segment to the Space Systems segment. Prior period amounts have been reclassified to conform with these organizational changes.

Three Months Ended
March 31,

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	2001 -----	2000 -----
Selected Financial Data by Business Segment (In millions)		
Net sales -----		
Systems Integration	\$1,880	\$2,071
Space Systems	1,371	1,672
Aeronautics	855	1,036
Technology Services	500	464
Global Telecommunications	254	173
Corporate and Other	150	146
	-----	-----
	\$5,010	\$5,562
	=====	=====
Operating profit (loss) -----		
Systems Integration	\$ 173	\$ 168
Space Systems	187	85
Aeronautics	79	79
Technology Services	34	26
Global Telecommunications	(130)	(33)
Corporate and Other	29	1
	-----	-----
	\$ 372	\$ 326
	=====	=====
Intersegment revenue/(a)/ -----		
Systems Integration	\$ 55	\$ 105
Space Systems	20	28
Aeronautics	18	18
Technology Services	168	166
Global Telecommunications	19	3
Corporate and Other	19	12
	-----	-----
	\$ 299	\$ 332
	=====	=====

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

	March 31, 2001 -----	December 2000 -----
(In millions)		
Customer advances and amounts in excess of costs incurred/(b)/ -----		
Systems Integration	\$ 986	\$
Space Systems	1,749	2,
Aeronautics	2,181	1,
Technology Services	14	
Global Telecommunications	200	
Corporate and Other	23	

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\$ 5,153
=====

\$ 4,
=====

- (a) Intercompany transactions between segments are eliminated in consolidation and therefore excluded from the net sales and operating profit (loss) amounts presented above.
- (b) At March 31, 2001, customer advances and amounts in excess of costs incurred in the Space Systems segment included approximately \$987 million for commercial launch vehicles and related launch services (approximately \$460 million of which relates to launch vehicles and services from Russian manufacturers) and approximately \$121 million for the manufacture of commercial satellites (approximately \$20 million of which is refundable to the customer at each such customer's discretion). Customer advances and amounts in excess of costs incurred in the Aeronautics segment included approximately \$1.4 billion related to the F-16 fighter aircraft program (approximately \$972 million of which relates to a contract with the United Arab Emirates).

NOTE 7 -- OTHER

In the first quarter of 2001, the Corporation's Space Systems segment sold certain property in Sunnyvale, California for approximately \$185 million in cash. The transaction resulted in a nonrecurring and unusual gain, net of state income taxes, of \$111 million which is recorded in other income and expenses. The gain increased net earnings for the quarter by \$72 million, or \$.17 per diluted share.

Also during the first quarter of 2001, the Corporation's Global Telecommunications segment recorded a nonrecurring and unusual charge, net of state income tax benefits, of \$100 million in other income and expenses related to impairment of its investment in Americom Asia-Pacific, LLC, a joint venture in which the Corporation holds a 50 percent interest. The charge, which was recorded due to an other than temporary decline in the value of the Corporation's investment, reduced net earnings by \$65 million, or \$.15 per diluted share. The satellite operated by Americom Asia-Pacific, which serves Southeast Asia, was placed in commercial operation late in the fourth quarter of 2000. The decline in value of the investment was assessed to be other than temporary as a result of lower transponder pricing, lower than expected demand manifested in the first quarter and overall market conditions.

On March 27, 2001, the Corporation announced that it had reached a definitive agreement to sell LMGT's COMSAT Mobile Communications operations to Telenor of Norway for \$116.5 million in cash. Consummation of the transaction is conditioned upon approval by the Federal Communications Commission as well as regulatory review under the Hart Scott-Rodino Antitrust Improvement Act and other antitrust laws. If consummated, this transaction is expected to close in the second half of 2001 and is not expected to have a material impact on the Corporation's consolidated results of operations.

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

The components of comprehensive income for the three months ended March 31, 2001 and 2000 consisted of the following:

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	Three Months Ended March 31,	
	2001	2000
	----	----
	(In millions)	
Net earnings	\$ 105	\$ 54
Other comprehensive income (loss):		
Net foreign currency translation adjustments	2	--
Net unrealized (loss) gain from available-for-sale investments	(54)	50
Net unrealized gain from hedging activities	14	--
	-----	-----
	(38)	50
	-----	-----
Comprehensive income	\$ 67	\$ 104
	=====	=====

The Corporation's total interest payments were \$72 million and \$94 million for the three months ended March 31, 2001 and 2000, respectively.

The Corporation made net federal and foreign income tax payments of \$272 million and received net federal and foreign income tax refunds of \$25 million in the three months ended March 31, 2001 and 2000, respectively.

New accounting pronouncements adopted - Effective January 1, 2001, the Corporation adopted SFAS No. 133, as amended, related to accounting for derivatives and hedging activities. This Statement requires the recognition of all derivative financial instruments as either assets or liabilities in the Consolidated Balance Sheet, and the periodic adjustment of those instruments to fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings. The effect of adopting SFAS No. 133 at January 1, 2001, and amounts recorded related to derivative financial instruments as of and for the three month period ended March 31, 2001, were not material to the Corporation's consolidated results of operations, cash flows, or financial position.

Pending accounting pronouncements - In February 2001, the Financial Accounting Standards Board (FASB) issued a revision to the exposure draft related to accounting for business combinations and intangible assets issued in September 1999. The revision related to the accounting for cost in excess of net assets acquired (goodwill). The exposure draft issued in 1999, among other provisions, would eliminate the pooling of interests method of accounting for business combinations and would have limited the amortization life of goodwill to 20 years. The revision in 2001, among other

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(continued)

provisions, would no longer permit the amortization of goodwill under the purchase method of accounting, but rather sets forth a new methodology for assessing and recording impairment of goodwill. In April 2001, the FASB tentatively decided to adopt the non-amortization, impairment-only approach to accounting for goodwill; however, several issues remain unresolved relative to the approach to be used to assess and record impairment. The FASB expects to issue a final pronouncement related to business combinations and intangible assets by June 30, 2001. The Corporation has been monitoring and will continue to monitor the project closely.

NOTE 8 - CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Corporation recorded \$200 million of Monthly Income Preferred Securities (MIPS) on its consolidated balance sheet in connection with the merger with COMSAT. The MIPS were issued in 1995 by a subsidiary of COMSAT and were guaranteed by COMSAT. In the third quarter of 2000, Lockheed Martin also guaranteed the MIPS. The guarantees by the Corporation and COMSAT are full and unconditional and joint and several.

The following condensed consolidating financial information presents separate financial information for each of the guarantors, with all non-guarantor entities presented as a separate group. Purchase accounting adjustments recorded in connection with the merger with COMSAT, and amortization of the related intangible assets, are appropriately reflected in this financial information. Investments in majority-owned subsidiaries are accounted for under the equity method of accounting for purposes of this presentation and, accordingly, earnings of such subsidiaries are reflected in the earnings and investment accounts of the parent companies. The elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

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Lockheed Martin Corporation Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(In millions)	Lockheed Martin/(a)/	COMSAT/(b)/	Non- Guarantor Entities
<hr style="border-top: 1px dashed black;"/>			
Condensed Statement of Earnings			
<hr style="border-top: 1px dashed black;"/>			
For the quarter ended March 31, 2001			
Net sales	\$ 3,609	\$ 79	\$ 1,716
Cost of sales	3,290	107	1,678
<hr style="border-top: 1px dashed black;"/>			
Earnings from operations	319	(28)	38
Other income and expenses, net	(29)	24	48
Equity in earnings of majority-owned subsidiaries	7	(11)	--
<hr style="border-top: 1px dashed black;"/>			
Interest expense	297 180	(15) 10	86 7
<hr style="border-top: 1px dashed black;"/>			

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Earnings before income taxes	117	(25)	79
Income tax expense	12	--	58
Net earnings	\$ 105	\$ (25)	\$ 21
Condensed Statement of Cash Flows			
For the quarter ended March 31, 2001			
Net cash provided by (used for) operating activities	\$ 94	\$ (121)	\$ 1,076
Investing Activities			
Expenditures for property, plant and equipment	(55)	--	(17)
Other	60	(29)	(90)
Net cash provided by (used for) investing activities	5	(29)	(107)
Financing Activities			
Net decrease in short-term borrowings	(12)	--	--
Net repayments related to long-term debt	(17)	--	--
Issuances of common stock	43	--	--
Common stock dividends	(48)	--	--
Net intercompany financing activities	(369)	97	272
Net cash (used for) provided by financing activities	(403)	97	272
Net (decrease) increase in cash and cash equivalents	(304)	(53)	1,241
Cash and cash equivalents at beginning of period	524	(9)	990
Cash and cash equivalents at end of period	\$ 220	\$ (62)	\$ 2,231

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

(In millions)	Lockheed Martin/ (a) /	COMSAT/ (b) /	Non- Guarantor Entities	Eliminati
Condensed Balance Sheet				
As of March 31, 2001				
Assets				
Cash and cash equivalents	\$ 220	\$ (62)	\$2,231	\$ --
Receivables	4,306	78	2,813	(3,263)
Inventories	2,419	2	1,150	--

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Deferred income taxes	1,121	--	3	--
Other current assets	434	3	68	--
<hr/>				
Total current assets	8,500	21	6,265	(3,263)
Property, plant and equipment	2,548	121	665	--
Investments in equity securities	76	1,617	672	--
Investments in majority-owned subsidiaries	5,470	942	--	(6,412)
Intangible assets related to contracts and programs acquired	1,000	--	35	--
Cost in excess of net assets acquired	6,726	615	1,453	--
Prepaid pension cost	1,784	50	2	--
Other assets	897	246	480	--
<hr/>				
	\$27,001	\$3,612	\$9,572	\$ (9,675)
<hr/>				
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ 698	\$ 29	\$3,640	\$ (3,263)
Customer advances and amounts in excess of costs incurred	4,524	5	624	--
Salaries, benefits and payroll taxes	731	26	188	--
Income taxes	137	(5)	65	--
Short-term borrowings	--	--	--	--
Current maturities of long-term debt	825	75	1	--
Other current liabilities	695	100	1,136	--
<hr/>				
Total current liabilities	7,610	230	5,654	(3,263)
Long-term debt	8,658	135	236	--
Post-retirement benefit liabilities	1,629	39	--	--
Deferred income taxes	634	160	(118)	--
Other liabilities	1,210	353	83	--
Stockholders' equity:				
Common stock, \$1 par value per share	434	--	--	--
Additional paid-in capital	1,860	--	--	--
Retained earnings	5,256	--	--	--
Unearned ESOP shares	(108)	--	--	--
Accumulated other comprehensive loss	(182)	--	--	--
Total equity of subsidiaries		2,695	3,717	(6,412)
<hr/>				
Total stockholders' equity	7,260	2,695	3,717	(6,412)
<hr/>				
	\$27,001	\$3,612	\$9,572	\$ (9,675)
<hr/>				

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Lockheed Martin Corporation
Notes to Unaudited Condensed Consolidated Financial Statements
(continued)

(In millions)	Lockheed Martin/(a)/	COMSAT/(b)/	Non- Guarantor Entities	Eliminati
<hr/>				
Condensed Balance Sheet				
<hr/>				

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As of December 31, 2000

Assets				
Cash and cash equivalents	\$ 524	\$ (9)	\$ 990	\$
Receivables	3,140	76	2,454	(1,
Inventories	3,054	1	770	
Deferred income taxes	1,233	3	--	
Other current assets	232	9	257	

Total current assets	8,183	80	4,471	(1,
Property, plant and equipment	2,742	76	628	
Investments in equity securities	206	1,617	610	
Investments in majority-owned subsidiaries	5,016	974	--	(5,
Intangible assets related to contracts and programs acquired	1,052	--	36	
Cost in excess of net assets acquired	6,732	664	1,459	
Prepaid pension cost	1,743	49	2	
Other assets	629	73	772	

	\$26,303	\$3,533	\$7,978	\$ (7,
=====				
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ 831	\$ 2	\$1,826	\$ (1,
Customer advances and amounts in excess of costs incurred	3,623	2	1,155	
Salaries, benefits and payroll taxes	821	43	174	
Income taxes	241	(2)	280	
Short-term borrowings	12	--	--	
Current maturities of long-term debt	802	75	5	
Other current liabilities	607	70	1,083	

Total current liabilities	6,937	190	4,523	(1,
Long-term debt	8,713	134	218	
Post-retirement benefit liabilities	1,607	39	1	
Deferred income taxes	677	156	(97)	
Other liabilities	1,209	333	24	
Stockholders' equity:				
Common stock, \$1 par value per share	431	--	--	
Additional paid-in capital	1,789	--	--	
Retained earnings	5,199	--	--	
Unearned ESOP shares	(115)	--	--	
Accumulated other comprehensive loss	(144)	--	--	
Total equity of subsidiaries	--	2,681	3,309	(5,

Total stockholders' equity	7,160	2,681	3,309	(5,

	\$26,303	\$3,533	\$7,978	\$ (7,
=====				

/(a)/ Data is related to the Lockheed Martin parent company only.

/(b)/ Data is related to the COMSAT parent company only and pertains to operations from August 1, 2000.

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Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations
March 31, 2001

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RESULTS OF OPERATIONS

Consolidated Results of Operations

The Corporation's operating cycle is long-term and involves many types of production contracts with varying production delivery schedules. Accordingly, results of a particular quarter, or quarter-to-quarter comparisons of recorded sales and profits, may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

The Corporation's consolidated net sales for the first quarter of 2001 were \$5.0 billion, a decrease of ten percent from the \$5.6 billion recorded for the comparable period in 2000. Net sales decreases in the Systems Integration, Space Systems and Aeronautics segments more than offset increases in the remaining segments. The Corporation's operating profit (earnings before interest and taxes) for the first quarter 2001 was approximately \$372 million, an increase of 14 percent from the \$326 million recorded in the comparable 2000 period. The reported amounts for the first quarter of both years include the financial impacts of various nonrecurring and unusual items. The impact of these items on operating profit, net earnings and earnings per diluted share is as follows:

	<u>Operating</u> profit (loss)	<u>Net</u> earnings (loss)	<u>Earn</u> (los dilat
(In millions, except per share d			
Quarter ended March 31, 2001			
Sale of surplus real estate (Note 7)	\$ 111	\$ 72	
Impairment charge related to Americom Asia-Pacific (Note 7)	(100)	(65)	
	-----	----	
	\$ 11	\$ 7	
	=====	====	
Quarter ended March 31, 2000			
Sales of surplus real estate	\$ 16	\$ 10	
Divestitures and other portfolio shaping activities	(6)	(4)	
	-----	----	
	\$ 10	\$ 6	
	=====	====	

Excluding the effects of these nonrecurring and unusual items, operating profit would have increased in the Systems Integration, Space Systems, Technology Services and Corporate and Other segments, and the operating loss for the Global Telecommunications segment would have declined in the first quarter of 2001 as compared to the first quarter of 2000. Operating profit for the Aeronautics segment remained consistent for the two periods presented. For a more detailed discussion of the operating results of the business segments, see "Discussion of Business Segments" below.

The Corporation reported diluted earnings per share of \$.25 and \$.14 for the first quarter of 2001 and 2000, respectively. Excluding the nonrecurring and unusual items presented above, diluted earnings per share for the first quarter of 2001 and 2000 would have been \$.23 and \$.12, respectively.

Lockheed Martin Corporation
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

The Corporation's backlog of undelivered orders at March 31, 2001 remained unchanged from the \$56.4 billion reported at December 31, 2000. The Corporation received orders for approximately \$5.0 billion in new and follow-on business during the first quarter of 2001 that were substantially offset by sales during the period. Significant new orders received during the quarter primarily related to the CVN 77 Aircraft Carrier systems integration contract, classified activities, bridge funding for the F-22 program, Aegis production, the A-10 Precision Engagement weapon systems upgrade, the National Airspace System Implementation Support contract and three new launch services orders.

Discussion of Business Segments

The Corporation operates in five principal business segments: Systems Integration, Space Systems, Aeronautics, Technology Services and Global Telecommunications. All other activities fall within the Corporate and Other segment. The following tables of financial information and related discussions of the results of operations of the Corporation's business segments correspond to the presentation of segment information in "Note 6 -- Information on Business Segments" of the Notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q, including the financial data in the tables under the headings "Net sales" and "Operating profit (loss)."

The following table displays the impact of the nonrecurring and unusual items presented earlier on each segment's operating (loss) profit for each of the periods presented:

	Three Months Ended March 31,	
	2001	2000
	-----	-----
	(In millions)	
Nonrecurring and unusual items - profit (loss):		
Systems Integration	\$ --	\$ --
Space Systems	111	17
Aeronautics	--	--
Technology Services	--	(6)
Global Telecommunications	(100)	--
Corporate and Other	--	(1)
	-----	-----
	\$ 11	\$ 10
	=====	=====

In an effort to make the following discussion of significant operating results of each business segment more understandable, the effects of the nonrecurring and unusual items in the preceding table have been excluded. The Space Systems and Aeronautics segments generally include programs that are substantially larger in terms of sales and operating results than those included in the other segments. Accordingly, due to the large number of relatively smaller programs in the Systems Integration, Technology Services and Global Telecommunications segments, the performance of individual programs typically is not as significant to the results of operations of these segments.

Systems Integration

Net sales of the Systems Integration segment decreased by nine percent in the

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first quarter of 2001 from the comparable 2000 period. However, excluding the sales attributable to the

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

segment's Aerospace Electronic Systems and Controls Systems businesses, which were divested in the second half of 2000, and the transfer of the Payload Launch Vehicle contract to the Space Systems business segment, sales for the first quarter of 2001 increased slightly from the year-ago period. Approximately \$70 million of the increase in net sales over the comparable 2000 period is attributable to the segment's Missiles & Air Defense product line as a result of higher volume on the Theater High Altitude Area Defense (THAAD) missile program and certain tactical missile programs. Increased net sales in the segment's Naval Electronic and Surveillance Systems product line, primarily due to higher volume on AEGIS programs, contributed approximately \$40 million to the current year increase. These increases were partially offset by an approximate \$30 million decrease in the segment's Systems Integration-Owego line of business, which includes electronic platform integration businesses.

Operating profit for the segment increased by three percent in the first quarter of 2001 compared to the same period in 2000. Adjusting for the operating profit attributable to the divested Aerospace Electronic Systems and Controls Systems businesses, operating profit for the first quarter of 2001 would have increased seven percent from the year-ago period. The fluctuation in operating profit was due primarily to the changes in volume mentioned in the discussion of net sales as well as the impact of increases in volume on certain other Systems Integration programs.

Space Systems

Net sales of the Space Systems segment decreased by 18 percent in the first quarter of 2001 compared to the first quarter 2000. The decrease in sales was principally attributable to a reduction in launch vehicle and commercial satellite activities from the comparable 2000 period. These declines were partially offset by an approximate \$50 million increase in volume on ground systems and military and government satellite programs.

Operating profit for the segment increased 12 percent in the first quarter of 2001 from the respective 2000 period. This increase is primarily attributable to the combination of the absence in 2001 of unfavorable adjustments for market and pricing pressures related to the Atlas commercial launch vehicle program recorded during the first quarter of 2000 and improved performance in 2001 on the Titan IV program. The approximate \$60 million increase in operating profit realized from these items, as well as the operating profit impact of the volume increases on ground systems and military and government satellite programs, were largely offset by the volume declines in Commercial Space activities and an approximate \$40 million loss provision recorded in the first quarter of 2001 on certain commercial satellite contracts related to schedule and technical issues.

Aeronautics

Net sales of the Aeronautics segment decreased by 17 percent in the first quarter of 2001 from the comparable period in 2000. The decrease is primarily attributable to an approximate \$200 million decline in sales related to reduced deliveries of F-16 fighter aircraft and C-130J airlift aircraft, with another approximately \$110 million related to a reduction in sales on C-130J support and other Aeronautics aircraft programs. These decreases were partially offset by

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sales related to development activities on the F-16 contract with the United Arab Emirates (UAE) as well as increased volume in F-16 support activities.

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Operating profit for the segment during the first quarter of 2001 remained consistent with the first quarter of 2000, as the impact of reduced deliveries of F-16 aircraft was offset by continued favorable performance on other combat aircraft programs. The reduction in C-130J deliveries did not impact operating profit for the comparative periods due to the suspension of earnings recognition on the program.

Technology Services

Net sales of the Technology Services segment increased by eight percent in the first quarter of 2001 over the comparable 2000 period. This increase is mainly the result of an approximate \$60 million increase in volume on various federal technology services programs, primarily government information technology programs, and in the segment's aircraft maintenance and logistics line of business, primarily the Kelly Aviation Center Propulsion Business Area (PBA) contract. These increases were partially offset by an approximate \$25 million decrease in volume on energy-related contracts due to lower operation and maintenance contract activity as well as the divestitures of Lockheed Martin Energy Technologies and Retech in January 2001.

Operating profit for the segment increased by six percent in the first quarter of 2001 from the comparable 2000 period. In the first quarter of 2001, increases in operating profits on various federal technology services programs were mostly offset by the operating profit impact of the previously discussed declines in volume on energy-related contracts as well as the divestitures of Lockheed Martin Energy Technologies and Retech.

Global Telecommunications

Net sales of the Global Telecommunications segment increased by 47 percent during the first quarter of 2001 over the comparable 2000 period. This increase was primarily attributable to the inclusion of net sales from COMSAT Corporation (COMSAT) in the segment's results beginning August 1, 2000, offset by the absence in 2001 of \$65 million in net sales associated with the recognition of revenue on a Proton launch vehicle, which successfully launched the ACeS 1 satellite in the first quarter of 2000.

Global Telecommunication's operating loss decreased nine percent during the first quarter 2001 from the respective 2000 period mainly due to improvements in Global Telecommunications' Satellite Services line of business.

Corporate and Other

Net sales of the Corporate and Other segment increased by three percent in the first quarter of 2001 compared to the first quarter of 2000. This improvement is primarily attributable to increased volume on state and municipal services programs.

Operating profit of the Corporate and Other segment increased by \$27 million in the first quarter of 2001 from the comparable 2000 period. This increase is primarily the result of increased interest income associated with

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the Corporation's higher cash balances in the first quarter of 2001 as compared to the first quarter of 2000, as well as the operating profit impact of increased volume on state and municipal services.

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2001, approximately \$1.0 billion of cash was provided by operating activities, compared to \$482 million during the first quarter of 2000. This increase was primarily attributable to a significant milestone payment received related to the F-16 fighter aircraft contract with the UAE that increased cash from operating activities by more than \$450 million (net of payments to subcontractors and other disbursements associated with the contract), and pretax proceeds from the sale of surplus real estate. In addition, advances received on certain Naval Electronics and Surveillance Systems programs, as well as the impact of increased earnings in 2001, were more than offset by higher income tax payments related to the 2000 divestiture activities.

Net cash used for investing activities during the first quarter of 2001 was \$131 million as compared to \$114 million during the first quarter of 2000. The 2001 amount includes approximately \$86 million and \$30 million for additional equity investments in Astrolink International, LLC and INTELSAT, respectively, as well as \$72 million used for additions to property, plant and equipment. These outflows were partially offset by approximately \$68 million received from property dispositions. The remainder of the cash used for investing activities was attributable to other acquisition and divestiture activities. The 2000 amount included \$84 million for additions to property, plant and equipment and \$30 million primarily related to additional equity investment in Astrolink International, LLC.

Net cash used for financing activities in the first quarter of 2001 was \$34 million as compared to \$290 million during first quarter 2000. The variance between periods was primarily due to a \$29 million decrease in the Corporation's total debt position during the first quarter of 2001 versus a decrease in total debt of \$247 million during the first quarter of 2000.

Total debt, including short-term borrowings, decreased by \$29 million during the first quarter of 2001 from approximately \$10 billion at December 31, 2000. This decrease was primarily attributable to net payments on current maturities of long-term debt of approximately \$17 million and the \$12 million repayment of short-term debt. The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures. At the end of the first quarter of 2001, the Corporation held cash and cash equivalents of \$2.4 billion, a portion of which is expected to be used to retire the approximately \$900 million of long-term debt maturing during 2001, with approximately \$825 million of that amount due in the second quarter of 2001, and to pay subcontractors and fund other expenditures associated with various long-term contracts. Total stockholders' equity was \$7.3 billion at March 31, 2001, an increase of approximately \$100 million from the December 31, 2000 balance. This increase resulted from net earnings of \$105 million, employee stock option and ESOP activities of \$81 million, partially offset by dividend payments of \$48 million and other comprehensive losses of \$38 million. The Corporation's ratio of debt to total capitalization remained unchanged from the 58 percent reported at December 31, 2000.

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At March 31, 2001, the Corporation had in place a revolving credit facility in the amount of \$3.5 billion which expires on December 20, 2001. No borrowings were outstanding under this credit facility at March 31, 2001.

The Corporation actively seeks to finance its business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. The Corporation's

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

management continually reviews changes in financial, market and economic conditions to manage the types, amounts and maturities of the Corporation's indebtedness. Periodically, the Corporation may refinance existing indebtedness, vary its mix of variable rate and fixed rate debt, or seek alternative financing sources for its cash and operational needs.

Cash and cash equivalents including temporary investments, internally generated cash flow from operations and other available financing resources are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements and discretionary investment needs during the next twelve months. Consistent with the Corporation's desire to generate cash to reduce debt and invest in its core businesses, management anticipates that, subject to prevailing financial, market and economic conditions, the Corporation may continue to divest certain non-core businesses, passive equity investments and surplus properties.

In connection with an order for F-16 fighter aircraft from the UAE valued at approximately \$6.4 billion, in June 2000, the Corporation issued a letter of credit in the amount of \$2 billion related to advance payments to be received under the contract. At March 31, 2001, in accordance with the terms of the agreement with the UAE, the amount of the letter of credit available for draw down in the event of the Corporation's nonperformance under the contract was limited to the amount of advance payments received to date, or approximately \$1.5 billion.

In March 2001, Space Imaging LLC (Space Imaging), a joint venture in which the Corporation holds a 46 percent ownership interest, closed on a new loan facility under which Lockheed Martin provides debt guarantees of up to \$150 million. The amount of borrowings outstanding as of March 31, 2001 for which Lockheed Martin was guarantor was approximately \$140 million. The Corporation's investment in Space Imaging is accounted for under the equity method of accounting. At March 31, 2001, the Corporation's investment in and receivables from Space Imaging amounted to approximately \$120 million. Space Imaging is pursuing its business plan and Lockheed Martin, as an investor and partner, is working with its other partners and Space Imaging to improve its investment return.

The Corporation plans to complete its \$400 million investment commitment for Astrolink International, LLC (Astrolink), a joint venture in which it holds a 31% interest, in the third quarter of 2001. The remaining commitment at March 31, 2001 is approximately \$54 million. To date, Astrolink has a total of \$1.325 billion in equity commitments from its partners which, in addition to the Corporation, include TRW, Telespazio, and Liberty Media. The Astrolink business plan contemplates obtaining further funding from a combination of strategic equity, public equity and various debt funding sources. Astrolink is currently

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in discussions with additional equity partners to raise the necessary funding for the second half of 2001. Concurrently, Astrolink is discussing alternatives for additional funding from the current shareholders, including the Corporation. Lockheed Martin is under contract to build the satellites which will comprise the Astrolink constellation, and to provide related launch vehicles and services.

Effective March 31, 2000, the Corporation converted its 45.9 million shares of Loral Space & Communications Ltd. (Loral Space) Series A Preferred Stock into an equal number of shares of Loral Space common stock in preparation for divestiture of the shares. The timing of the planned divestiture and the related amount of cash received will depend upon market conditions and other factors. Investments in equity securities in the March 31, 2001 Unaudited Condensed Consolidated Balance Sheet includes approximately \$100 million related to the Corporation's investment in Loral Space. In addition, accumulated other comprehensive loss includes an

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

unrealized loss, net of income tax benefits, of approximately \$168 million related to this investment. The Corporation is continuing to monitor and assess the underlying market conditions impacting the value of its investment in Loral Space.

OTHER MATTERS

The Corporation's primary exposure to market risk relates to interest rates and foreign currency exchange rates. The Corporation's financial instruments which are subject to interest rate risk principally include fixed rate long-term debt. The Corporation's long-term debt obligations are generally not callable until maturity. The Corporation may use interest rate swaps to manage its exposure to fluctuations in interest rates; however, there were no such agreements outstanding at March 31, 2001.

The Corporation uses forward exchange contracts to manage its exposure to fluctuations in foreign exchange rates. These contracts are designated as qualifying hedges of firm commitments or specific anticipated transactions. Effective January 1, 2001, the Corporation began accounting for these contracts under the provisions of SFAS No. 133, as amended. At March 31, 2001, the fair value of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the quarter then ended, were not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

As part of a strategic and organizational review begun in 1999, the Corporation is continuing to evaluate alternatives relative to the disposition of all or a portion of its investment in a business unit in the state and municipal services line of business, subject to appropriate valuation, negotiation and approval. Net sales for the quarter ended March 31, 2001 related to this business unit were approximately \$140 million. Management cannot predict whether or when a potential divestiture will take place or the amount of proceeds that may ultimately be realized. In addition, on an ongoing basis, the Corporation will continue to explore the sale of various investment holdings and surplus real estate. If the Corporation were to decide to sell any such holdings or real estate, the resulting gains, if any, would be recorded when the transactions are consummated and losses, if any, would be recorded when they are

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estimable. The Corporation also continues to review its businesses on an ongoing basis to identify ways to improve organizational effectiveness and performance, and to clarify and focus on its core business strategy.

On August 3, 2000, the Corporation completed its merger with COMSAT pursuant to the terms of the Agreement and Plan of Merger between COMSAT and the Corporation. The total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately \$2.6 billion, net of \$76 million in cash balances acquired. The COMSAT transaction was accounted for using the purchase method of accounting. Purchase accounting adjustments were recorded in 2000 to allocate the purchase price to assets acquired and liabilities assumed based on their fair values. These adjustments included certain amounts totaling approximately \$2.1 billion, composed of adjustments to record investments in equity securities acquired at their fair values and cost in excess of net assets acquired, which is being amortized over an estimated life of 30 years.

Also as more fully described in "Note 5 - Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements, the Corporation is continuing to pursue recovery of a significant portion of the unanticipated costs incurred in connection with the \$180 million fixed price contract with the U.S. Department of Energy (DOE) for the remediation of waste

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

found in Pit 9. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, at the DOE's direction, filed suit against the Corporation seeking recovery of approximately \$54 million previously paid to the Corporation under the Pit 9 contract. The Corporation is defending this action while continuing its efforts to resolve the dispute through non-litigation means.

In 1992, the Corporation entered into a joint venture with two Russian government-owned space firms to form Lockheed-Khrunichev-Energia International, Inc. (LKEI). Lockheed Martin owns 51 percent of LKEI and consolidates the operations of LKEI into its financial statements. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton rocket from a launch site in Kazakhstan. In 1995, another joint venture was formed, International Launch Services (ILS), with the Corporation and LKEI each holding a 50 percent ownership. ILS was formed to market commercial Atlas and Proton launch services worldwide. Contracts for Proton launch services typically provide for substantial advances from the customer in advance of launch, and a sizable percentage of these advances are forwarded to Khrunichev State Research and Production Space Center (Khrunichev), the manufacturer in Russia, to provide for the manufacture of the related launch vehicle. Significant portions of such advances would be required to be refunded to each customer if launch services were not successfully provided within the contracted time frames. At March 31, 2001, approximately \$460 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and approximately \$641 million of payments to Khrunichev for launches not yet provided was included in inventories. Through March 31, 2001, launch services provided through LKEI and ILS have been in accordance with contract terms.

The Corporation has entered into agreements with RD AMROSS, a joint venture of the Pratt & Whitney division of United Technologies Corporation and the Russian firm NPO Energomash, for the development and purchase, subject to

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certain conditions, of up to 101 RD-180 booster engines for use in two models of the Corporation's Atlas launch vehicle. Terms of the agreements call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Approximately \$55 million of payments made under these agreements were included in the Corporation's inventories at March 31, 2001.

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 Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "estimate," "anticipate," "project," "intend," "expect," and similar expressions are intended to identify forward looking statements. All forward looking statements involve risks and uncertainties, including, without limitation, statements and assumptions with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. Our operations are necessarily subject to various risks and uncertainties and, therefore, actual outcomes are dependent upon many factors, including, without limitation, our successful performance of internal plans and reorganization efforts; government customers' budgetary constraints and the timing of awards and contracts; customer changes in short-range and long-range plans; domestic and international competition in the defense, space and commercial areas; continued development and acceptance of new products; timing and customer acceptance of product delivery and launches; product

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Lockheed Martin Corporation Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

performance; performance issues with the U.S. Government, key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; the outcome of contingencies, including completion of acquisitions and divestitures, litigation and environmental remediation; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support; domestic and international telecommunications regulatory developments; market conditions and other factors affecting the value of the Corporation's equity investments; as well as other economic, political and technological risks and uncertainties. Readers are cautioned not to place undue reliance on these forward looking statements which speak only as of the date of this Form 10-Q. The Corporation does not undertake any obligation to publicly release any revisions to these forward looking statements to reflect events, circumstances or changes in expectations after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events. The forward looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act and 21E of the Exchange Act.

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward looking statements, see the Corporation's Securities and Exchange Commission filings including, but not limited to, the discussion of "Competition and Risk," the discussion of "Government Contracts and Regulations," and the discussion of "Industry Considerations" on pages 16 through 17, pages 17 through 19 and pages

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39 through 42 respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17 through 25 of this Form 10-Q; "Note 5 -- Contingencies" and "Note 7 -- Other" of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 8 through 9 and pages 11 through 13, respectively, of the Notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q; and Part II - Item 1, "Legal Proceedings" on page 26 of this Form 10-Q.

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LOCKHEED MARTIN CORPORATION PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is a party to or has property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, as described in "Note 5 - Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements in this Form 10-Q and in the Corporation's 2000 Annual Report on Form 10-K (Form 10-K), or arising in the ordinary course of business. In the opinion of management, the probability is remote that the outcome of any such litigation or other proceedings will have a material adverse effect on the Corporation's results of operations or financial position.

The Corporation is 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 the Corporation's operations are being conducted in accordance with these requirements. U.S. Government investigations of the Corporation, 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 upon the Corporation, or could lead to 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 the Corporation. For the U.S. Government investigations described in the Corporation's Form 10-K, it is too early for Lockheed Martin to determine whether adverse decisions relating to these investigations could ultimately have a material adverse effect on its results of operations or financial position.

See the "Legal Proceedings" section of the Form 10-K for a description of previously reported matters.

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

At the Annual Meeting of Stockholders on April 26, 2001, the stockholders of Lockheed Martin Corporation:

- Elected the following individuals to the Board of Directors to serve as directors until the Annual Meeting of Stockholders in 2002 and until their successors have been duly elected and qualified:

	Votes Cast For -----	Votes Withheld -----
Norman R. Augustine	381,799,222	6,976,737
Marcus C. Bennett	382,340,200	6,435,759

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Vance D. Coffman	381,697,884	7,078,075
James F. Gibbons	382,643,871	6,132,088
Caleb B. Hurtt	381,351,349	7,424,610
Gwendolyn S. King	382,465,541	6,310,418
Douglas H. McCorkindale	382,542,876	6,233,082
Eugene F. Murphy	381,577,813	7,198,146
Frank Savage	382,704,536	6,071,423
Robert J. Stevens	382,819,446	5,956,513
James R. Ukropina	382,672,109	6,103,850
Douglas C. Yearley	382,638,027	6,137,932

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LOCKHEED MARTIN CORPORATION PART II - OTHER INFORMATION (continued)

- . Ratified the appointment of Ernst & Young LLP, independent auditors, to audit the consolidated financial statements of the Corporation as of and for the fiscal year ending December 31, 2001. There were 384,387,916 votes for the appointment, 2,440,760 votes against the appointment, and 1,947,283 abstentions.

- . Ratified a proposal to amend the 1995 Omnibus Plan to increase the number of shares authorized for issuance, remove the ability to change the price of a grant and set limits as to the number of restricted shares which could be issued. There were 268,296,452 votes for the proposal, 116,460,846 votes against the proposal, and 4,018,661 abstentions.

- . Rejected a stockholder proposal that recommended that the Corporation publish in various newspapers of general circulation certain information regarding political contributions. There were 12,496,021 votes for the proposal, 320,241,054 votes against the proposal, 14,569,428 abstentions and 41,469,456 non-votes.

- . Rejected a stockholder proposal that recommended that the Corporation prepare and make available to its stockholders a report on the dilutive effects of certain options to purchase the Corporation's stock. There were 23,190,661 votes for the proposal, 318,672,058 votes against the proposal, 5,443,784 abstentions and 41,469,456 non-votes.

- . Rejected a stockholder proposal that recommended that the Corporation disclose all significant promises made to foreign governments or foreign firms in connection with military sales that are intended to offset the U.S. dollar cost of weapons purchased by foreign nations. There were 11,963,988 votes for the proposal, 321,959,461 votes against the proposal, 13,383,054 abstentions and 41,469,456 non-votes.

- . Rejected a stockholder proposal that recommended that the Corporation provide for simple majority vote on each issue submitted to stockholder vote to the fullest extent possible. There were 156,609,272 votes for the proposal, 182,403,307 votes against the proposal, 8,293,924 abstentions and 41,469,456 non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Exhibit 12. Lockheed Martin Corporation Computation of Ratio of Earnings to Fixed Charges for the three months ended March 31, 2001.

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(b) Reports on Form 8-K filed in the first quarter of 2001.

None.

(c) Reports on Form 8-K filed subsequent to the first quarter of 2001.

None.

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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: May 10, 2001

by: /s/ Christopher E. Kubasik

Christopher E. Kubasik
Vice President and Chief Financial
Officer; Acting Controller

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