LOCKHEED MARTIN CORP
Form 10-Q
July 25, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 24, 2012

Commission File Number: 1-11437

LOCKHEED MARTIN CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-1893632**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6801 Rockledge Drive, Bethesda, Maryland	**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b 2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non Accelerated Filer ¨ Smaller Reporting Company ¨

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 registrant s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of June 24, 2012**
Common stock, $1 par value per share	324,416,270

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Lockheed Martin Corporation

Form 10-Q

For the Quarterly Period Ended June 24, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Lockheed Martin Corporation

Consolidated Statements of Earnings

(unaudited; in millions, except per share data)

	Quarters Ended June 24, 2012	Quarters Ended June 26, 2011	Six Months Ended June 24, 2012	Six Months Ended June 26, 2011
Net sales				
Products	**$ 9,543**	$ 9,113	**$ 18,691**	$ 17,613
Services	**2,378**	2,430	**4,523**	4,556
Total net sales	**11,921**	11,543	**23,214**	22,169
Cost of sales				
Products	**(8,351)**	(8,107)	**(16,431)**	(15,694)
Services	**(2,115)**	(2,177)	**(4,032)**	(4,103)
Severance charges		(97)		(97)
Other unallocated costs	**(275)**	(256)	**(594)**	(555)
Total cost of sales	**(10,741)**	(10,637)	**(21,057)**	(20,449)
Gross profit	**1,180**	906	**2,157**	1,720
Other income, net	**20**	87	**55**	137
Operating profit	**1,200**	993	**2,212**	1,857
Interest expense	**(96)**	(84)	**(192)**	(169)
Other non-operating income, net	**13**	9	**48**	28
Earnings from continuing operations before income taxes	**1,117**	918	**2,068**	1,716
Income tax expense	**(336)**	(170)	**(619)**	(412)
Net earnings from continuing operations	**781**	748	**1,449**	1,304
Net loss from discontinued operations		(6)		(32)
Net earnings	**$ 781**	$ 742	**$ 1,449**	$ 1,272
Earnings (loss) per common share				
Basic				
Continuing operations	**$ 2.41**	$ 2.18	**$ 4.47**	$ 3.77
Discontinued operations		(.02)		(.09)
Basic earnings per common share	**$ 2.41**	$ 2.16	**$ 4.47**	$ 3.68
Diluted				
Continuing operations	**$ 2.38**	$ 2.16	**$ 4.41**	$ 3.73
Discontinued operations		(.02)		(.09)
Diluted earnings per common share	**$ 2.38**	$ 2.14	**$ 4.41**	$ 3.64
Cash dividends paid per common share	**$ 1.00**	$ .75	**$ 2.00**	$ 1.50

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

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Lockheed Martin Corporation

Consolidated Statements of Comprehensive Income

(unaudited; in millions)

	Quarters Ended		Six Months Ended	
	June 24, 2012	**June 26, 2011**	**June 24, 2012**	**June 26, 2011**
Net earnings	**$781**	$742	**$1,449**	$1,272
Other comprehensive income, net of tax				
Recognition of previously deferred postretirement benefit plan amounts	**203**	165	**406**	330
Other, net	**(37)**	(8)	**(13)**	9
Other comprehensive income, net of tax	**166**	157	**393**	339
Comprehensive income	**$947**	$899	**$1,842**	$1,611

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

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Lockheed Martin Corporation

Consolidated Balance Sheets

(in millions, except par value)

	June 24, 2012 (unaudited)	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	**$ 3,802**	$ 3,582
Receivables, net	**6,569**	6,064
Inventories, net	**2,521**	2,481
Deferred income taxes	**1,327**	1,339
Other current assets	**581**	628
Total current assets	**14,800**	14,094
Property, plant, and equipment, net	**4,495**	4,611
Goodwill	**10,158**	10,148
Deferred income taxes	**4,186**	4,388
Other noncurrent assets	**4,747**	4,667
Total assets	**$38,386**	$37,908
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	**$ 2,359**	$ 2,269
Customer advances and amounts in excess of costs incurred	**6,287**	6,399
Salaries, benefits, and payroll taxes	**1,668**	1,664
Current portion of long-term debt	**150**	
Other current liabilities	**1,804**	1,798
Total current liabilities	**12,268**	12,130
Long-term debt, net	**6,343**	6,460
Accrued pension liabilities	**12,775**	13,502
Other postretirement benefit liabilities	**1,267**	1,274
Other noncurrent liabilities	**3,529**	3,541
Total liabilities	**36,182**	36,907
Stockholders equity		
Common stock, $1 par value per share	**322**	321
Additional paid-in capital	**19**	
Retained earnings	**12,727**	11,937
Accumulated other comprehensive loss	**(10,864)**	(11,257)
Total stockholders equity	**2,204**	1,001
Total liabilities and stockholders equity	**$38,386**	$37,908

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

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Lockheed Martin Corporation

Consolidated Statements of Cash Flows

(unaudited; in millions)

	Six Months Ended	
	June 24, 2012	**June 26, 2011**
Operating activities		
Net earnings	**$1,449**	$1,272
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**464**	492
Stock-based compensation	**87**	79
Severance charges		97
Reduction in tax expense from resolution of certain tax matters		(89)
Changes in operating assets and liabilities:		
Receivables, net	**(505)**	(861)
Inventories, net	**(38)**	148
Accounts payable	**91**	592
Customer advances and amounts in excess of costs incurred	**(111)**	151
Postretirement benefit plans	**(138)**	622
Income taxes	**(105)**	196
Other, net	**109**	(86)
Net cash provided by operating activities	**1,303**	2,613
Investing activities		
Capital expenditures	**(306)**	(328)
Net cash provided by short-term investment transactions		260
Other, net	**8**	236
Net cash (used for) provided by investing activities	**(298)**	168
Financing activities		
Repurchases of common stock	**(423)**	(1,313)
Dividends paid	**(653)**	(524)
Proceeds from stock option exercises	**235**	60
Other, net	**56**	3
Net cash used for financing activities	**(785)**	(1,774)
Net change in cash and cash equivalents	**220**	1,007
Cash and cash equivalents at beginning of period	**3,582**	2,261
Cash and cash equivalents at end of period	**$3,802**	$3,268

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

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Lockheed Martin Corporation

Consolidated Statements of Stockholders Equity

(unaudited; in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumu-lated Other Comprehen-sive Loss	Total Stock-holders Equity
Balance at December 31, 2010	$346	$	$12,161	$ (9,010)	$3,497
Net earnings			1,272		1,272
Other comprehensive income, net of tax				339	339
Repurchases of common stock	(17)	(261)	(1,021)		(1,299)
Dividends declared			(786)		(786)
Stock-based awards and ESOP activity	4	261			265
Balance at June 26, 2011	$333	$	$11,626	$ (8,671)	$3,288
Balance at December 31, 2011	**$321**	**$**	**$11,937**	**$(11,257)**	**$1,001**
Net earnings			**1,449**		**1,449**
Other comprehensive income, net of tax				**393**	**393**
Repurchases of common stock	**(5)**	**(423)**			**(428)**
Dividends declared			**(659)**		**(659)**
Stock-based awards and ESOP activity	**6**	**442**			**448**
Balance at June 24, 2012	**$322**	**$ 19**	**$12,727**	**$(10,864)**	**$2,204**

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

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Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements

NOTE 1 BASIS OF PRESENTATION

We prepared these consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. We followed the accounting policies used and disclosed in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Form 10-K) filed with the U.S. Securities and Exchange Commission.

In the opinion of management, the interim financial information in this Form 10-Q reflects all adjustments, that are of a normal recurring nature, necessary for a fair presentation of our results of operations and financial condition for the interim periods presented. 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. The consolidated financial statements include the accounts of subsidiaries we control and other entities for which we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. We have reclassified certain amounts in prior periods to conform to the current year presentation.

We 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 results of operations for the interim periods presented are not necessarily indicative of results to be expected for the full year or future periods. Unless otherwise noted, we present all per share amounts cited in these consolidated financial statements on a per diluted share basis from continuing operations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2011 Form 10-K.

NOTE 2 EARNINGS PER COMMON SHARE

The weighted average number of shares outstanding used to compute earnings per common share were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Weighted average common shares outstanding for basic computations	**324.5**	342.8	**324.3**	345.6
Weighted average dilutive effect of stock options and restricted stock units	**4.3**	3.8	**4.4**	4.0
Weighted average common shares outstanding for diluted computations	**328.8**	346.6	**328.7**	349.6

We compute basic and diluted earnings per common share by dividing net earnings by the respective weighted average number of common shares outstanding for the periods presented. Our calculation of diluted earnings per common share includes the dilutive effects for the assumed exercise of stock options and vesting of restricted stock units based on the treasury stock method.

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Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

The computation of diluted earnings per common share for both the quarters and six months ended June 24, 2012 and June 26, 2011 excluded 9.6 million and 16.9 million stock options because their inclusion would have been anti-dilutive.

NOTE 3 BUSINESS SEGMENT INFORMATION

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

Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation. Intercompany transactions are generally negotiated under terms and conditions similar to our third-party contracts.

Operating profit of our business segments includes the equity earnings or losses from investees in which certain of our business segments hold equity interests, because the activities of the investees are closely aligned with the operations of those business segments. Operating profit of our business segments excludes the non-cash FAS/CAS pension adjustment described below; expense for stock-based compensation programs; the effects of items not considered part of management s evaluation of segment operating performance, such as charges related to material severance actions in 2011 (Note 8, under the caption Severance Activities); gains or losses from divestitures; the effects of legal settlements; corporate costs not allocated to our business segments; and other miscellaneous corporate activities. These items are included in the reconciling item Unallocated expense, net between operating profit from our business segments and our consolidated operating profit.

The results of operations of our business segments include pension expense only as determined and funded in accordance with U.S. Government Cost Accounting Standards (CAS). The non-cash FAS/CAS pension adjustment represents the difference between pension expense or income calculated in accordance with GAAP and pension costs calculated and funded in accordance with CAS. CAS is a major factor in determining our pension funding requirements, and governs the extent to which pension costs can be allocated to and recovered on U.S. Government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts and, therefore, is recognized in each of our business segments net sales and cost of sales.

The operating results in the following table exclude businesses included in discontinued operations (Note 8, under the caption Discontinued Operations). During the quarter ended December 31, 2011, we realigned an immaterial supply chain services business from our Aeronautics business segment to our Electronic Systems business segment. The realignment had no effect on our consolidated results of operations, financial position, or cash flows. The financial information in the following table has been reclassified to reflect this realignment.

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Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

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

	Quarters Ended		Six Months Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Net sales				
Aeronautics	**$ 3,408**	$ 3,390	**$ 7,114**	$ 6,542
Electronic Systems	**3,866**	3,780	**7,475**	7,262
Information Systems & Global Solutions	**2,263**	2,361	**4,353**	4,510
Space Systems	**2,384**	2,012	**4,272**	3,855
Total net sales	**$11,921**	$11,543	**$23,214**	$22,169
Operating profit				
Aeronautics	**$ 454**	$ 397	**$ 839**	$ 725
Electronic Systems	**526**	478	**1,067**	910
Information Systems & Global Solutions	**208**	213	**396**	407
Space Systems	**282**	263	**508**	480
Total business segment operating profit	**1,470**	1,351	**2,810**	2,522
Unallocated expense, net				
Severance charges [(a)]		(97)		(97)
Other unallocated expense, net	**(270)**	(261)	**(598)**	(568)
Total consolidated operating profit	**$ 1,200**	$ 993	**$ 2,212**	$ 1,857
Intersegment sales				
Aeronautics	**$ 51**	$ 45	**$ 90**	$ 82
Electronic Systems	**249**	255	**516**	504
Information Systems & Global Solutions	**220**	213	**428**	408
Space Systems	**26**	26	**52**	51
Total intersegment sales	**$ 546**	$ 539	**$ 1,086**	$ 1,045

(a) The severance charges for 2011 consist of amounts, net of state taxes, related to actions taken at our Aeronautics and Space Systems business segments (Note 8, under the caption Severance Activities). Severance charges for initiatives that are not material are included in business segment operating profit.

Total assets for each of our business segments were as follows (in millions):

	June 24, 2012	December 31, 2011
Assets		
Aeronautics	**$ 6,005**	$ 5,752
Electronic Systems	**10,721**	10,480
Information Systems & Global Solutions	**5,758**	5,838
Space Systems	**3,255**	3,121

Total business segment assets	**25,379**	25,191
Corporate assets [a]	**12,647**	12,717
Total assets	**$38,386**	$37,908

[a] Corporate assets primarily include cash and cash equivalents, deferred income taxes, environmental receivables, and investments held in a Rabbi Trust.

Our Aeronautics business segment includes our largest program, the F-35 Lightning II Joint Strike Fighter, an international multi-role, stealth fighter. Net sales for the F-35 program represented approximately 12% of our total consolidated net sales during the quarters ended June 24, 2012 and June 26, 2011 and approximately 13% of our total consolidated net sales during the six months ended June 24, 2012 and June 26, 2011.

Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 4 INVENTORIES, NET

Inventories consisted of the following (in millions):

	June 24, 2012	December 31, 2011
Work-in-process, primarily related to long-term contracts and programs in progress	**$6,643**	$7,129
Less: customer advances and progress payments	**(5,026)**	(5,425)
	1,617	1,704
Other inventories	**904**	777
Total inventories, net	**$2,521**	$2,481

NOTE 5 POSTRETIREMENT BENEFIT PLANS

The components of our net periodic benefit costs for our qualified defined benefit and retiree medical and life insurance plans were as follows (in millions):

	Quarters Ended		Six Months Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Qualified defined benefit pension plans				
Service cost	**$ 263**	$ 244	**$ 527**	$ 487
Interest cost	**471**	479	**942**	959
Expected return on plan assets	**(546)**	(508)	**(1,093)**	(1,016)
Recognized net actuarial losses	**279**	220	**558**	440
Amortization of prior service cost	**19**	21	**37**	41
Total net pension expense	**$ 486**	$ 456	**$ 971**	$ 911
Retiree medical and life insurance plans				
Service cost	**$ 7**	$ 8	**$ 14**	$ 16
Interest cost	**33**	40	**66**	81
Expected return on plan assets	**(33)**	(35)	**(66)**	(70)
Recognized net actuarial losses	**8**	9	**16**	17
Amortization of prior service credit	**(3)**	(4)	**(6)**	(8)
Total net postretirement expense	**$ 12**	$ 18	**$ 24**	$ 36

The recognized net actuarial losses and the amortization of prior service cost (credit) in the table above, as well as similar costs related to our other postretirement benefit plans, reflect amounts that were recorded as a component of net periodic benefit cost for the period. These amounts totaling $203 million and $165 million, net of tax expense of $111 million and $90 million, for the quarters ended June 24, 2012 and June 26, 2011, and $406 million and $330 million, net of tax expense of $222 million and $180 million, for the six months ended June 24, 2012 and June 26, 2011 are recorded on our Statements of Comprehensive Income as an increase to comprehensive income for all periods presented.

We generally determine funding requirements for our defined benefit pension plans in a manner consistent with CAS and the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006 (PPA). During the six months ended June 24, 2012, we made $1.1 billion in contributions to our qualified defined benefit pension plans, including $607 million during the quarter ended June 24, 2012, which completes our required funding for 2012. Consistent with prior years, we may review options for further contributions in the remainder of the year. We expect to make contributions of approximately $110 million related to the retiree medical and life insurance plans in 2012, of which $21 million was made during the quarter and six months ended June 24, 2012.

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Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 6 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 each of these matters, including the legal proceedings discussed below, will have a material adverse effect on the Corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular interim reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment, and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress. Unless otherwise indicated, a range of loss associated with any individual legal proceeding set forth below reasonably cannot be estimated. We cannot predict the outcome of legal proceedings with certainty. These matters include the following items.

Legal Proceedings

On July 20, 2011, the City of Pontiac General Employees Retirement System filed a class action lawsuit against us and three of our executive officers (Robert J. Stevens, Chairman and Chief Executive Officer; Bruce L. Tanner, Executive Vice President and Chief Financial Officer; and Linda R. Gooden, Executive Vice President, IS&GS) in the U.S. District Court for the Southern District of New York. The complaint was filed on behalf of purchasers of our common stock from April 21, 2009, through July 21, 2009, and alleges that we violated certain sections of the federal securities laws by allegedly making statements, primarily about the then-expected performance of our IS&GS business segment, that contained either false statements of material facts or omitted material facts necessary to make the statements made not misleading, or engaged in other acts that operated as an alleged fraud upon class members who purchased our common stock during that period. The complaint further alleges that the statutory safe harbor provided for forward-looking statements does not apply to any of the allegedly false statements. The complaint does not allege a specific amount of monetary damages. We believe that the allegations are without merit and are defending against them.

An additional action was filed that repeats substantially the same allegations as those in the City of Pontiac General Employees Retirement System case (described above). On October 11, 2011, Renee Smith, individually and on behalf of others, filed a shareholder derivative action in the U.S. District Court for the Southern District of New York, naming Mr. Stevens, Mr. Tanner, and each of the current Directors of Lockheed Martin, as well as the individuals who were Directors at the time of the activities alleged in the complaint, and alleging breach of fiduciary duty, mismanagement, unjust enrichment, abuse of control, and waste of corporate assets relating to substantially the same allegations as the City of Pontiac General Employees Retirement System case. We believe that the allegations are without merit and are defending against them.

On April 24, 2009, we filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA is in material breach of our agreement based on the MTA s failure to provide access to sites where work must be performed and customer-furnished equipment necessary to complete the contract. The MTA filed an answer and counterclaim alleging that we breached the contract, and subsequently terminated the contract for alleged default. The MTA is seeking monetary damages and other relief under the contract, including the cost to complete the contract and potential re-procurement costs. The contract had a total value of $323 million, of which $241 million was paid to us. We dispute the MTA s allegations and are defending against them.

Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

On September 11, 2006, we and Lockheed Martin Investment Management Company (LMIMCo), a subsidiary, were named as defendants in a lawsuit filed in the U.S. District Court for the Southern District of Illinois, seeking to represent a class of purportedly similarly situated participants and beneficiaries in two of our 401(k) plans. Plaintiffs allege that we or LMIMCo caused our plans to pay expenses that were higher than reasonable by, among other actions, permitting service providers of the plans to engage in revenue sharing, paying investment management fees for the company stock funds, and causing the company stock funds to hold cash for liquidity, thus reducing the return on those funds. Plaintiffs also allege that we failed to disclose information appropriately relating to the fees associated with managing the plans. In August 2008, plaintiffs filed an amended complaint, adding allegations that we breached fiduciary duties under ERISA by providing inadequate disclosures with respect to the Stable Value Fund offered under our 401(k) plans. On March 31, 2009, the Judge dismissed a number of plaintiffs claims, leaving three claims for trial, specifically plaintiffs claims involving the company stock funds, the Stable Value Fund, and overall fees. The Court also granted class certification on two of plaintiffs claims. We appealed the class certification. On March 15, 2011, the U.S. Court of Appeals for the Seventh Circuit vacated the District Court s class certification order and remanded the case to the District Court. The complaint does not allege a specific calculation of damages, and we reasonably cannot estimate the possible loss, or range of loss, which could be incurred if plaintiffs were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

On August 28, 2003, the U.S. Department of Justice (DOJ) filed complaints in partial intervention in two lawsuits filed under the qui tam provisions of the Civil False Claims Act in the U.S. District Court for the Western District of Kentucky, *United States ex rel. Natural Resources Defense Council, et al., v. Lockheed Martin Corporation, et al., and United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al*. DOJ alleges that we committed violations of the Resource Conservation and Recovery Act at the Paducah Gaseous Diffusion Plant by not properly handling, storing, and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The complaint does not allege a specific calculation of damages, and we reasonably cannot estimate the possible loss, or range of loss, which could be incurred if the plaintiff were to prevail in the allegations, but believe that we have substantial defenses. We dispute the allegations and are defending against them.

Environmental Matters

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities, or at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record a receivable for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed price). We continuously evaluate the recoverability of our environmental receivables by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs. We include the portion of those environmental costs expected to be allocated to our non-U.S. Government contracts, or that is determined to be unallowable for pricing under U.S. Government contracts, in our cost of sales at the time the liability is established.

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Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

At June 24, 2012 and December 31, 2011, the aggregate amount of liabilities recorded relative to environmental matters was $961 million and $932 million, of which $843 million and $814 million is recorded in other noncurrent liabilities on the Balance Sheets at June 24, 2012 and December 31, 2011, with the remainder recorded in other current liabilities. We have recorded receivables totaling $834 million and $808 million at June 24, 2012 and December 31, 2011, for the estimated future recovery of these costs, as we consider the recovery probable based on the factors previously mentioned. Of those amounts, $732 million and $706 million are recorded in other noncurrent assets on the Balance Sheets at June 24, 2012 and December 31, 2011, with the remainder recorded in other current assets. We project costs and recovery of costs over approximately twenty years.

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 results in the calculation of a range of estimates for a particular environmental remediation site.

We perform quarterly reviews of the status of our environmental remediation sites and the related liabilities and receivables. We record a liability when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined.

We reasonably cannot determine the extent of our financial exposure in all cases at this time. There are a number of former operating facilities that we are monitoring or investigating for potential future remediation. In some cases, although a loss may be probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory standard. We also are pursuing claims for contribution to site cleanup costs against other PRPs, including the U.S. Government.

Both the U.S. Environmental Protection Agency and the California Office of Environmental Health Hazard Assessment announced plans in January 2011 to regulate two chemicals, perchlorate and hexavalent chromium, to levels in drinking water that are expected to be substantially lower than the existing public health goals or standards established in California. The rulemaking processes are lengthy and may take one or more years to complete. If substantially lower standards are adopted, we would expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. Government contracts or that is determined to be unallowable for pricing under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

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

Letters of Credit, Surety Bonds, and Third-Party Guarantees

We have entered into standby letters of credit, surety bonds, and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform.

Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

In some cases, we may guarantee the contractual performance of third parties such as joint venture partners. We had total outstanding letters of credit, surety bonds, and third-party guarantees aggregating $3.4 billion and $3.9 billion at June 24, 2012 and December 31, 2011. The decline between periods primarily was due to a scheduled reduction in a letter of credit issued to secure advance payments received under an F-16 contract from an international customer. The letter of credit was reduced as certain events occurred during the period of performance in accordance with the contract terms.

At June 24, 2012 and December 31, 2011, third-party guarantees totaled $863 million and $907 million, of which approximately 85% related to guarantees of the contractual performance of joint ventures to which we currently are or previously were a party. This amount represents our estimate of the maximum amount we would expect to incur upon the contractual non-performance of the joint venture partners. In addition, we generally have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. We believe our current and former joint venture partners will be able to perform their obligations, as they have done through June 24, 2012, and that it will not be necessary to make payments under the guarantees. In determining our exposures, we evaluate the reputation, technical capabilities, and credit quality of our current and former joint venture partners.

United Launch Alliance

In connection with our 50% ownership interest of United Launch Alliance, L.L.C. (ULA), we and The Boeing Company (Boeing) have each received distributions totaling $404 million (since ULA s formation in December 2006) which are subject to agreements between us, Boeing, and ULA, whereby, if ULA does not have sufficient cash resources or credit capacity to make payments under the inventory supply agreement it has with Boeing, both we and Boeing would provide to ULA, in the form of an additional capital contribution, the level of funding required for ULA to make those payments. Any such capital contributions would not exceed the amount of the distributions subject to the agreements. We currently believe that ULA will have sufficient operating cash flows and credit capacity, including access to its $400 million revolving credit agreement from third-party financial institutions, to meet its obligations such that we would not be required to make a contribution under these agreements.

In addition, both we and Boeing have cross-indemnified each other for 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 24, 2012, and that it will not be necessary to make payments under the cross-indemnities or guarantees.

Lockheed Martin Corporation

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 7 FAIR VALUE MEASUREMENTS

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following (in millions):

	June 24, 2012			December 31, 2011		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Assets						
Equity securities	**$ 74**	**$ 74**	**$**	$ 91	$ 91	$
Mutual funds	**339**	**339**		380	380	
U.S. Government securities	**235**		**235**	211		211
Other securities	**150**		**150**	102		102
Derivatives	**41**		**41**	43		43
Liabilities						
Derivatives	**25**		**25**	26		26

Substantially all assets measured at fair value, other than derivatives, represent investments held in a separate trust to fund certain of our non-qualified deferred compensation plans. The fair values of equity securities and mutual funds were determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair values of U.S. Government and other securities were determined using model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The fair values of derivative instruments, which consist of foreign currency exchange forward and interest rate swap contracts, primarily are determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates, credit spreads, and foreign currency exchange rates. We did not have any transfers of assets or liabilities between levels of the fair value hierarchy during the six months ended June 24, 2012.

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

The aggregate notional amount of our outstanding foreign currency hedges at June 24, 2012 and December 31, 2011 was $1.4 billion and $1.7 billion. The aggregate notional amount of our outstanding interest rate swaps at June 24, 2012 and December 31, 2011 was $475 million and $450 million. Derivative instruments did not have a material impact on net earnings and comprehensive income during the quarters and six months ended June 24, 2012 and June 26, 2011. Substantially all of our derivatives are designated for hedge accounting.

In addition to the financial instruments listed in the table above, we hold other financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying values for cash and cash equivalents, accounts receivable, and accounts payable approximated their fair values. The estimated fair value of our outstanding debt was $8.2 billion and $7.8 billion at June 24, 2012 and December 31, 2011, and the carrying value was $6.5 billion at both June 24, 2012 and December 31, 2011. The estimated fair value was determined based on quoted prices for similar instruments in active markets (Level 2).

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NOTE 8 OTHER

Stockholders Equity

Share Repurchases

During the six months ended June 24, 2012, we repurchased 4.9 million shares of our common stock for $428 million, of which 0.1 million shares purchased for $5 million were settled and paid for in the third quarter of 2012. As of June 24, 2012, we had repurchased a total of 47.9 million shares of our common stock under our share repurchase program for $3.6 billion, and had remaining authorization of $2.9 billion for future share repurchases. As we repurchase our common shares, we reduce common stock for the $1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings.

Stock Option and Restricted Stock Unit Grants

In January 2012, we granted certain employees 3.4 million options to purchase our common stock with an estimated grant date fair value of $10.57 per option, which was estimated using the Black-Scholes option pricing model. Stock options are granted with an exercise price equal to the closing market price of our common stock on the date of grant, which was $82.01. In January 2012, we also granted certain employees 2.0 million restricted stock units (RSUs) with a grant date fair value of $81.93 per RSU. The grant date fair value of RSUs is equal to the closing market price of our common stock on the date of grant less a discount to reflect the delay in payment of cash dividend-equivalents that are made only upon vesting. We recognize the fair value of the awards as compensation expense for substantially all awards ratably over the vesting period, which is typically three years.

Dividends

During the quarter and six months ended June 24, 2012, we declared cash dividends totaling $331 million ($1.00 per share) and $659 million ($2.00 per share). During the quarter and six months ended June 26, 2011, we declared cash dividends totaling $520 million ($1.50 per share) and $786 million ($2.25 per share). The 2011 dividend amounts also include the declaration of our 2011 third quarter dividend totaling $258 million ($.75 per share).