

1999 Annual Report

Lt. Col. Bill Craig

LOCKHEED MARTIN



FINANCIAL HIGHLIGHTS

LOCKHEED MARTIN

<i>(In millions, except per share data and number of employees)</i>	1999	1998	1997
Net sales	\$ 25,530	\$ 26,266	\$ 28,069
Net earnings	382 ^{(a)(b)}	1,001 ^{(c)(d)}	1,300 ^(e)
Diluted earnings (loss) per share	.99 ^{(a)(b)}	2.63 ^{(c)(d)}	(1.56) ^{(e)(f)}
Pro forma diluted earnings per share excluding nonrecurring and unusual items	1.50 ^(g)	2.99 ^(g)	2.87 ^(g)
Cash dividends per common share	.88	.82	.80
Total assets	30,012	28,744	28,361
Short-term borrowings	475	1,043	494
Long-term debt (including current maturities)	11,479	9,843	11,404
Stockholders' equity	6,361	6,137	5,176 ^(f)
Negotiated backlog	\$ 45,913	\$ 45,345	\$ 47,059
Employees	147,000	165,000	173,000

(a) Net earnings for 1999 include the effects of nonrecurring and unusual items related to gains from sales of the Corporation's remaining interest in L-3 Communications Holdings, Inc. (L-3), gains from the sale of surplus real estate, and a net gain associated with sales of various non-core businesses and investments and other portfolio shaping items. These gains were more than offset by the effect of the Corporation's adoption of Statement of Position No. 98-5 regarding the costs of start-up activities which resulted in a cumulative effect adjustment. On a combined basis, these nonrecurring and unusual items decreased net earnings \$193 million, or \$.51 per diluted share.

(b) Net earnings for 1999 include the effects of negative adjustments related to changes in estimate on the C-130J airlift aircraft program and the Titan IV launch vehicle program. On a combined basis, these changes in estimate decreased net earnings by \$182 million, or \$.47 per diluted share.

(c) Net earnings for 1998 include the effects of a charge related to the shutdown of CalComp Technology, Inc., a majority-owned subsidiary of the Corporation, partially offset by the effects of nonrecurring and unusual items related to the gain on the initial public offering of L-3's common stock, and gains related to the sales of surplus real estate and other portfolio shaping items. On a combined basis, these nonrecurring and unusual items reduced net earnings by \$136 million, or \$.36 per diluted share.

(d) Net earnings for 1998 include an adjustment resulting from significant improvement in the Atlas launch vehicle program based upon a current evaluation of the program's historical performance. This change in estimate increased net earnings by \$78 million, or \$.21 per diluted share.

(e) Net earnings for 1997 include the effects of a tax-free gain related to a transaction with General Electric Company (GE) to redeem the Corporation's Series A preferred stock, and gains associated with the sale of surplus real estate and other portfolio shaping items. These gains were partially offset by nonrecurring and unusual charges related to the Corporation's decision to exit certain lines of business and impairment in the values of various non-core investments and certain other assets. On a combined basis, these items increased net earnings by \$66 million and decreased diluted loss per share by \$.15.

(f) Loss per share for 1997 includes the effects of a deemed preferred stock dividend resulting from the transaction with GE. The excess of the fair value of the consideration transferred to GE (approximately \$2.8 billion) over the carrying value of the Series A preferred stock (\$1.0 billion) was treated as a deemed preferred stock dividend and deducted from 1997 net earnings in determining net loss applicable to common stock used in the computation of loss per share. The effect of this deemed dividend was to reduce the diluted per share amount by \$4.93.

(g) The calculations of pro forma diluted earnings per share exclude the effects of the nonrecurring and unusual items described in (a), (c), (e) and (f) above and, for 1997, include the pro forma dilutive effects of preferred stock conversion and stock options.

FOCUS

1

ON THE COVER

The F-22 Raptor performed superbly for our Air Force customer last year, meeting all of the demanding flight test requirements.

Contents	
To Our Shareholders	14
Financial Section	20
Corporate Directory	66
General Information	68

In peace and in conflict; in the public sector and in the private our customers rely on technology that must perform.

We must do our jobs, so our customers can do theirs.

That's why customer focus—understanding what the customer requires, and delivering on that promise—is central to Lockheed Martin's mission.

The Theater High Altitude Area Defense

(THAAD) system *[seen here]* for the

U.S. Army successfully intercepted

its targets twice last year, and

now this vital defensive

missile system is

positioned to move

into its Engineering

and Manufacturing

Development phase. The

Army also scored two hits in a

row last year with the PAC-3

(Patriot Advanced Capability)

missile.

CUSTOMERS

RESPONSIVE

4 The U.S. Navy depends on modern surface ships and submarines equipped with capable radar, combat systems, command and control and a variety of other technologies. Making it all work together is key to ensuring that the mission is accomplished, and our men and women at sea arrive home safely. Success as a systems integrator for the Navy, and other customers who depend on advanced technology, demands responsiveness. That responsiveness is evident in work we are doing in Navy information systems, and to develop the next-generation surface combatant, the DD-21.





6



Innovation is the driving force behind advances in science and technology.

Our customers rely on that spirit of innovation for technology solutions that protect our troops, claim the frontiers of space, move the mail, or count the population for the 2000 Census. Cutting-edge robotics *[seen here]* is critical to customers, like NASA, who extend humanity's reach beyond the comfort of Earth by repairing satellites in orbit or building the Space Station.

7

INNOVATIVE



GLOBAL

In a dynamic international partnership, the Spanish Navy, U.S. Navy, Spanish shipbuilder Bazan, and Lockheed Martin are designing and building the most advanced frigates in the world. The F-100, equipped with the electronics of the AEGIS Combat System, will be able to engage simultaneously threats from under the sea, the surface, and the air. This successful F-100 partnership is getting noticed by naval customers globally. In all, Lockheed Martin has 258 international partners in 30 countries.

8

9



DEDICATED



As systems integrators, we know the value of teamwork and putting it all together. And as a team of 147,000 dedicated men and women who come to work every day at Lockheed Martin facilities worldwide, we are committed to serving our customers, our communities and our country. Habitats, like the one here, are instrumental in scientific research on Earth and someday on other worlds.



RELIABLE

In an ever-changing world, customers demand reliable industry partners.

From defending America and its allies, to expanding the horizons of space, Lockheed Martin products and services must perform as promised. The Atlas launcher [seen here] performed flawlessly in 1999 with five successful launches, and achieved 46 consecutive mission successes since 1993. Our space-faring customers also found consistent performance with three successful Space Shuttle missions last year. And speaking of reliable, the U.S. Navy achieved its 87th consecutive successful Trident II D5 Fleet Ballistic Missile test launch during the year, and NASA received the 100th Space Shuttle external tank.



ACCOUNTABLE

Dear Fellow Shareholder:

The year 1999 was a tumultuous one marked by sharp contrasts. In a number of important respects, we experienced a difficult and unacceptably disappointing year, marked by program and financial performance issues primarily in our aeronautics and space systems businesses. We are acutely aware that you, our shareholders, suffered a loss for the year of approximately one half the value of your investment in Lockheed Martin.

While we experienced serious difficulties in some important areas, in others our program performance consistently met or exceeded expectations and we won a number of major competitions. In a particularly encouraging sign, orders increased 8 percent over 1998 and our backlog increased slightly, reversing a two-year trend of declining backlog.

Compared to 1998 results, sales declined 3 percent to \$25.5 billion. Diluted earnings per share adjusted for non-recurring and unusual items dropped from \$2.99 in 1998 to \$1.50 in 1999, and we were forced to reduce our 2000 financial outlook twice in 1999. While free cash flow was disappointingly lower at \$873 million versus 1998's \$1.6 billion, it was well above expectations.

Several program issues had a negative effect on our results: C-130J cost growth along with mission failures involving Titan and THAAD (Theater High-Altitude Area Defense) and increased advanced launch vehicle investment for the Atlas V. On the other hand, by year end we had completed C-130J development and delivered 30 aircraft, Titan had returned to flight, THAAD achieved two successful intercepts and is proceeding to its next phase of development, and Atlas V development was progressing in a more structured plan. While many more steps are required, the direction in performance improvement is noteworthy.

From left to right: John V. Sponyoe, Lockheed Martin Global Telecommunications Chief Executive Officer; Robert J. Stevens, Lockheed Martin Executive Vice President—Finance and Chief Financial Officer; Vance D. Coffman, Lockheed Martin Chairman and Chief Executive Officer; Robert B. Coutts, Executive Vice President, Lockheed Martin Systems Integration; Michael F. Camardo, Executive Vice President, Lockheed Martin Technology Services; Dain M. Hancock, Executive Vice President, Lockheed Martin Aeronautics Co.; Albert E. Smith, Executive Vice President, Lockheed Martin Space Systems Co.

We are taking action to return our performance to the consistently superior level our customers and shareholders expect and have relied upon. We are focusing intently on U.S. and international government customers in aerospace, defense and technology services, who account for approximately 90 percent of our revenue. The outlook for U.S. defense spending, which represented 51 percent of our sales in 1999, is encouraging, with procurement funding increases anticipated during the next several years. Focusing more effectively on core customers will lead to improved customer satisfaction which is a prerequisite for generating increased shareholder value.

While reinvigorating our focus on core customers, we have established increased cash flow and debt reduction as our primary near-term financial priorities. We are managing the business aggressively to optimize cash flow, demanding that appropriate returns are achieved on invested capital, and establishing realistic, credible financial performance plans.

We are driving operating and investment discipline throughout the corporation. We are placing much greater emphasis on the consistent application of improved financial controls and proven management tools such as Value-Based Management, Earned-Value Management and Independent Cost Estimating.

Additionally, we have made a number of senior management changes while streamlining and flattening the organization to improve our customer responsiveness and communication at senior levels. We eliminated the Sector layer and combined various operating units in the aeronautics and space systems business areas into two companies led by corporate executive vice presidents based at major operational centers rather than at corporate headquarters. These actions are expected to result in reductions of 2,800 positions and annual savings of \$200 million.

Because of the need to reduce debt, we identified several businesses for possible divestiture and are in the process of obtaining and evaluating bids for those businesses. We will sell them only if we obtain full and fair value. We sold our Hanford Corporation environmental management subsidiary in December and have added our state and municipal government services unit, Lockheed Martin IMS, to the divestiture candidate list. We anticipate generating more than \$1.5 billion in after-tax cash proceeds if we sell all divestiture candidate units. Divestiture proceeds will be applied to debt reduction.

We continue repositioning our global telecommunications and commercial information technology businesses to approach their high-growth markets more effectively while enhancing shareholder value. Our intent is to facilitate the growth of those adjacent businesses with strategic partners through possible injections of outside capital and domain expertise. This is entirely consistent with our cash and value optimization initiatives.

Our average award fee rating from the U.S. government, an important indicator of their satisfaction with our performance, was 85 percent, reflecting reduced fees related to Titan mission failures. Meanwhile, we achieved a mission success rating of 94 percent by accomplishing 435 of 462 significant events defined at the start of the year.

We also made progress in achieving the highest internationally recognized quality standards for software development and systems engineering. Only 12 organizations worldwide have attained the Software Engineering Institute's highest software development quality rating—Level 5—and four of them are Lockheed Martin operating units.

In our aeronautics business, the F-16 program had an excellent year, delivering 109 units and winning major competitions and follow-on selections involving 124 aircraft including: Greece (50 aircraft), Israel (50) and Egypt (24). The Israeli F-16 program involves options for 60 additional F-16s. Recently, the United Arab Emirates signed a contract with the corporation that results in an order for 80 F-16s. Meanwhile, the U.S. Air Force announced its intention to order 30 more F-16s. The F-22 program performed superbly, meeting demanding flight test criteria established by Congress while remaining within strict government cost caps. Our Joint Strike Fighter design met important test criteria in 1999 as we move toward the flight demonstration of our Preferred Weapon System Concept in 2000.

As mentioned earlier, we met our commitment to deliver 30 C-130Js. For the first time, DoD budget plans call for C-130Js in each of the next five years. This is encouraging and bodes well for the program's long-term future. Elsewhere in airlift, the C-27J made its first flight and received a launch order from Italy for 12 aircraft. Other wins included a contract for phased depot maintenance of the U.S. Customs Service P-3 Orion fleet and the U.S. Air Force Propulsion Business Area contract for military aircraft engine servicing.

In Space Systems, Chapter 11 filings by both Iridium and ICO by mid-year disrupted the commercial space market, which negatively impacted the launch vehicle market. On the positive side, we received a \$1.3 billion order from Astrolink to build four commercial satellites and a \$400 million order from Teledesic for at least six satellite launches. Certain space systems programs were models of consistency. With five successful launches, Atlas achieved its 46th consecutive mission success since 1993 and our United Space Alliance joint venture safely launched and recovered the three Space Shuttle

missions that occurred during 1999. Additionally, the U.S. Navy achieved its 87th consecutive Trident II D-5 Fleet Ballistic Missile test launch during the year.

We achieved five Proton launches through our International Launch Services joint venture, three Titan missions and two Athena launches, including the Ikonos satellite for our Space Imaging joint venture that transmitted the first commercial high-resolution photos from space. The successful launch of the Terra Earth-observing satellite for NASA will help accomplish earth science objectives. Losing the Future Imagery Architecture and Space-Based Infrared System-Low satellite competitions, however, were major disappointments that adversely affected our outlook.

Our systems integration business continued its strong performance, achieving year-over-year growth and exceeding its plan for new orders, cash generation and earnings before interest and taxes. The business also achieved important milestones on air and missile defense and other high-priority programs while strengthening its position in adjacent high-growth markets.

THAAD made significant strides in 1999 by intercepting its designated target twice in a row and winning approval to move into Engineering and Manufacturing Development, for which a contract is expected in early 2000. Similarly, the PAC-3 (Patriot Advanced Capability) Missile program had a successful year, achieving two successful intercepts. It was subsequently approved for low-rate initial production. And NATO awarded an international team including Lockheed Martin and its international partners a contract for the MEADS (Medium Extended Air Defense System) program, which has significant U.S. and international market potential. JASSM (Joint Air-to-Surface Standoff Missile), another important program of the future, achieved its first powered flight. Losing the Multi-Function Radar program adversely affected our outlook.

We completed deployment of the Display System Replacement (DSR) to all 20 Federal Aviation Administration (FAA) Air Route Traffic Control Centers ahead of schedule and earned acceptance of the Host and Oceanic Computer System Replacement (HOCSR) installations, enabling the FAA to meet critical Y2K requirements. General Motors selected Lockheed Martin to provide information management services for three of its units, and we received U.S. government contracts for the F-16 Mission Training Center and C-130 Aircrew Training programs, strengthening our position in the fast-growing training and simulation market.

In technology services, we won a \$3.4 billion contract as part of a consortium with two British firms to manage the United Kingdom's Atomic Weapons Establishment. We won a major contract to provide research and engineering to support development of information warfare systems for the U.S. Navy's Information Warfare Mission Support Program.

In Global Telecommunications, we announced the formation of Astrolink International LLC, which will offer worldwide digital multimedia interactive broadband services from a constellation of four Lockheed Martin-built satellites. The venture involves Lockheed Martin, TRW, Telespazio and Liberty Media, who have provided total initial equity funding commitments of \$1.35 billion. Lockheed Martin Intersputnik, Ltd., a venture between Lockheed Martin and Intersputnik International Organization of Space Communications, launched its first revenue-producing satellite in September.

We remain committed to our telecommunications services strategy and completing our acquisition of COMSAT Corporation. We acquired 49 percent of COMSAT's common stock in 1999. We are optimistic that a recent agreement among congressional leadership on draft legislation that will lift the 50 percent cap on ownership of COMSAT stock will be enacted expeditiously by Congress and enable us to complete the transaction later this year. Acquiring COMSAT is important to strengthening our position in both satellite services and network services markets. In addition, Global Telecommunications intends to further grow by linking with strategic partners to provide outside capital and domain expertise, and by tapping public equity markets at the appropriate time.

Looking ahead, consistent program and financial performance are the keys to restoring customer confidence in Lockheed Martin as well as the financial strength and flexibility that will enhance shareholder value. We are intent on becoming the world's best systems integration company serving the global aerospace, defense and technology services markets. Our primary expertise is providing advanced technology systems and services that help governments around the world accomplish nationally significant goals.

As a result of 1999's disappointments, we have learned important lessons. We understand the challenges we face. The rebuilding of Lockheed Martin is underway. We are focused intently on our customers. We know that we are accountable to you, the owners of this business, and we will deliver.

February 24, 2000



Vance D. Coffman
Chairman and Chief Executive Officer

MISSION SUCCESS



Mission Success is a measurement of performance—it's a commitment to deliver on our promise of technical excellence in everything we do. In 1999, we achieved a 94 percent level of Mission Success on 462 measurable events. One of those success stories is the U.S. Air Force's F-22 Raptor *[seen here]*. Last year, the F-22 met all its demanding flight test criteria, and the aircraft is on its way to meeting the Air Force's requirements as the 21st century air superiority fighter.

FINANCIAL SECTION

Financial Highlights Inside Front Cover

Management's Discussion and Analysis of Financial
Condition and Results of Operations 21

The Corporation's Responsibility for
Financial Reporting 38

Audited Consolidated Financial Statements:

Report of Ernst & Young LLP,
Independent Auditors 39

Consolidated Statement of Earnings 40

Consolidated Statement of Cash Flows 41

Consolidated Balance Sheet 42

Consolidated Statement of Stockholders' Equity 43

Notes to Consolidated Financial Statements 44

Consolidated Financial Data – Ten Year Summary 64

Forward-Looking Statements Inside Back Cover

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 1999

Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. The Corporation serves customers in both domestic and international defense and commercial markets, with its principal customers being agencies of the U.S. Government. The following discussion should be read in conjunction with the audited consolidated financial statements included herein.

Strategic and Organizational Review

In September 1999, Lockheed Martin announced the results to date of its strategic and organizational review that began in June 1999. As a result of this review, the Corporation has implemented a new organizational structure (as more fully described in Note 17 of the Notes to Consolidated Financial Statements, "Information on Industry Segments and Major Customers"), and announced plans to evaluate the repositioning of certain businesses to maximize their value and growth potential and the divestiture of certain non-core business units.

The Corporation is continuing to evaluate alternatives relative to maximizing the value of two business units that serve the commercial information technology markets, including Lockheed Martin's internal information technology needs. These units have been identified by management as having high growth potential, but are distinct from the Corporation's core business segments. The Corporation may seek to maximize the value of these business units through strategic partnerships or joint ventures, or by accessing public equity markets, although the outcome of those efforts cannot be predicted. Management has decided to evaluate for divestiture, subject to appropriate valuation, negotiation and approval, a third business unit originally identified for evaluation relative to maximizing its value. This business unit serves state and local government services markets.

The Corporation is also continuing its evaluation of the divestiture, subject to appropriate valuation, negotiation and approval, of certain business units in the aerospace electronics, control systems and environmental management lines of business. On a combined basis, net sales in 1999 related to the business units being evaluated for divestiture, including the business unit in the state and local government

services market described above, totaled \$1.9 billion. The divestiture of one business unit in the environmental management line of business was consummated in December 1999, the impact of which was not material to the Corporation's net earnings. Relative to all other business units identified for potential divestiture, based on preliminary data, and assuming that the potential divestiture transactions are approved by the Board and ultimately consummated in the future, management estimates that the potential one-time effects, if combined, could result in a net loss on disposition of approximately \$850 million, primarily non-cash. However, the potential proceeds from these transactions, if consummated, could also generate in excess of \$1.5 billion in cash, after transaction costs and associated tax payments, that will be used to repay debt. Financial effects that may result, if any, would be recorded when the transactions are consummated or when losses can be estimated. Management cannot predict the timing of the potential divestitures, the amount of proceeds that may ultimately be realized or whether any or all of the potential transactions will take place.

In a further development related to the strategic and organizational review, the Corporation announced in January 2000 its plans to streamline the Aeronautical Systems and Space Systems segments. These plans provide for the consolidation of multiple business units into one focused company in each segment, and the integration of certain operational and administrative activities within each segment. Management expects these actions to result in future cost savings for the Corporation.

On an ongoing basis, the Corporation will continue to explore the sale of various investment holdings and surplus real estate, review its businesses to identify ways to improve organizational effectiveness and performance, and clarify and focus on its core business strategy.

Transaction Agreement with COMSAT Corporation

In September 1998, the Corporation and COMSAT Corporation (COMSAT) announced that they had entered into an agreement (the Merger Agreement) to combine the companies in a two-phase transaction (the Merger). In connection with the first phase of this transaction, the Corporation completed a cash tender offer (the Tender Offer) on September 18, 1999, after satisfaction of all

December 31, 1999

conditions to its closing. As a result, the Corporation now owns approximately 49 percent of the outstanding common stock of COMSAT and accounts for its investment under the equity method of accounting. The total value of this first phase of the transaction was \$1.2 billion, and such amount is included in investments in equity securities in the December 31, 1999 Consolidated Balance Sheet.

The second phase of the transaction, which will result in consummation of the Merger, is to be accomplished by an exchange of one share of Lockheed Martin common stock for each remaining share of COMSAT common stock. Consummation of the Merger remains contingent upon the satisfaction of certain conditions, including the enactment of federal legislation necessary to remove existing restrictions on the ownership of COMSAT voting stock. Legislation necessary to remove these restrictions cleared the U.S. Senate on July 1, 1999. On November 10, 1999, the U.S. House of Representatives (the House) also passed legislation which, if adopted into law, would remove these restrictions. There are substantial differences between the two bills, and significant issues raised by the House bill in particular which, if not resolved satisfactorily, would likely have a Significant Adverse Effect on COMSAT (as defined in the Merger Agreement). The Corporation hopes these issues will be favorably resolved.

In early 2000, sponsors of the two different bills announced a compromise agreement that, if adopted, would resolve many of the issues raised by the House bill. It is now expected that legislation that reflects the compromise agreement will be enacted before May 2000. There is no assurance that this legislation will be passed or passed in this time frame, or that any legislation that does become law would not have an adverse effect on COMSAT's business. If Congress enacts legislation that the Corporation determines in good faith, after consultation with COMSAT, would reasonably be expected to have a Significant Adverse Effect on COMSAT's business, the Corporation would have the right to elect not to complete the Merger.

Before the Merger can occur, the Corporation must file separate notification and report forms under the Hart Scott-Rodino Antitrust Improvement Act (HSR Act)

with the Federal Trade Commission (FTC) and the U.S. Department of Justice (DOJ) regarding its acquisition of minority interests in two businesses held by COMSAT. In addition, following the passage of legislation, the Federal Communications Commission (FCC) must approve the Merger. The precise nature of the FCC approval requirement will, however, depend upon the details of the final legislation enacted by Congress. There is no assurance as to the timing or whether the FTC, DOJ or FCC will provide the requisite approvals. If the Merger is not completed on or before September 18, 2000, under the terms of the Merger Agreement, Lockheed Martin or COMSAT could terminate the Merger Agreement or elect not to exercise this right, or both parties could agree to extend this date. If consummated, the Merger will be accounted for under the purchase method of accounting. If the Merger is not consummated, the Corporation will not be able to achieve all of its objectives with respect to the COMSAT transaction and will be unable to exercise control over COMSAT.

The market value of the Corporation's investment in COMSAT at December 31, 1999 was approximately \$515 million based on the closing price of its shares on the New York Stock Exchange on that date. As noted previously, completion of the Merger will require the exchange of one share of the Corporation's common stock for each remaining share of COMSAT's common stock. As a result, the price of COMSAT's common stock is closely aligned with the price of Lockheed Martin's common stock and may not reflect the price at which COMSAT's common stock might trade absent the Merger Agreement.

Formation of Lockheed Martin Global Telecommunications

Effective January 1, 1999, investments in several existing joint ventures and certain operating elements of the Corporation were combined with Lockheed Martin Global Telecommunications, Inc. (Global Telecommunications), a wholly-owned subsidiary of the Corporation focused on capturing a greater portion of the worldwide telecommunications services market. The Corporation intends to combine the operations of Global Telecommunications and

COMSAT upon consummation of the Merger. Given the substantial investment necessary for the growth of the global telecommunications services business, support from strategic partners for Global Telecommunications may be sought and public equity markets may be accessed to raise capital, although the Corporation cannot predict the outcome of these efforts.

Divestiture Activities

In March 1997, the Corporation repositioned 10 of its non-core business units as a new independent company, L-3 Communications Holdings, Inc. (L-3), in which the Corporation retained an approximate 35 percent ownership interest at closing. The Corporation's ownership percentage was reduced to approximately 25 percent in the second quarter of 1998 as a result of an initial public offering of L-3's common stock. In 1999, the Corporation sold its remaining shares of L-3 in two separate transactions. On a combined basis, these transactions increased 1999 pretax earnings by \$155 million, and increased net earnings by \$101 million, or \$.26 per diluted share.

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a pretax gain of \$33 million. In October 1999, the Corporation exited its commercial 3D graphics business through a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a pretax gain of \$33 million. On a combined basis, these transactions increased net earnings by \$43 million, or \$.11 per diluted share.

In November 1997, Lockheed Martin exchanged all of the outstanding capital stock of a wholly-owned subsidiary for all of the outstanding Series A preferred stock held by General Electric Company (GE) and certain subsidiaries of GE (the GE Transaction). The Series A preferred stock was convertible into approximately 58 million shares of Lockheed Martin common stock. The Lockheed Martin subsidiary was composed of two non-core commercial business units which contributed approximately five percent of the Corporation's 1997 net sales, Lockheed Martin's investment in a telecommunications partnership and approximately \$1.6 billion in cash. The GE Transaction was

accounted for at fair value, and resulted in the reduction of the Corporation's stockholders' equity by \$2.8 billion and the recognition of a tax-free gain of approximately \$311 million in other income and expenses. Also see the discussion under the caption "Results of Operations" regarding the impact of the GE Transaction on the computation of 1997 earnings per share. In 1998 and 1997, in connection with the GE Transaction, the Corporation issued notes to a wholly-owned subsidiary of GE for \$210 million, bearing interest at 5.73%, and \$1.4 billion, bearing interest at 6.04%, respectively. The notes are due November 17, 2002.

Industry Considerations

The Corporation's primary lines of business are in advanced technology systems, products and services for aerospace and defense, serving both government and commercial customers. In recent years, domestic and worldwide political and economic developments have strongly affected these markets, requiring significant adaptation by market participants.

The U.S. aerospace and defense industry has experienced years of declining budgets for research, development, test and evaluation, and procurement. After over a decade of continuous declines in the U.S. defense budget, the portion of the Federal budget devoted to defense is at one of its lowest levels in modern history. In addition, worldwide defense budgets have been declining with a focus on operational readiness and personnel issues at the expense of acquisition programs, with modernization becoming increasingly popular over acquisition. Consequently, an increasing portion of expenditures for defense is used for upgrading and modernizing existing equipment rather than acquisition of new equipment. Such trends in defense spending have created risks associated with demand and timing of orders relative to certain of the Corporation's existing programs. For example, the Corporation has not received the level of orders anticipated for the C-130J airlift aircraft program which has resulted in lower than expected production levels. The Corporation is continuing to focus its efforts on new orders from foreign and domestic customers, though it cannot predict the outcome of these efforts.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

The industry participants have reacted to shrinking defense budgets by combining to maintain critical mass and attempting to achieve significant cost savings. The U.S. Government had been supportive of industry consolidation activities through 1997, and the Corporation had been at the forefront of these activities. Through its own consolidation activities, the Corporation has been able to pass along savings to its customers, principally the U.S. Department of Defense (DOD). With the more recent decline of significant domestic industry consolidation, major aerospace companies continue to focus on cost savings and efficiency improvements, as well as generation of cash to repay debt incurred during this period of consolidation.

Ongoing consolidation continues within the European aerospace industry resulting in fewer but larger and more capable competitors, potentially resulting in an environment where there could be less demand for products from U.S. companies. Such an environment could affect opportunities for European partnerships and sales potential for U.S. products outside the U.S.

There are signs that the continuing decline in the defense budget may have ended, with proposals being made for modest increases in the next several years. The Corporation's broad mix of programs and capabilities makes it a likely beneficiary of any increased defense spending. However, there are risks associated with certain of the programs for which the Corporation is competing which will be the primary recipients of significant future U.S. Government spending. These programs are very large and likely to be well-funded, but may only involve one prime contractor. For example, the Corporation is involved in the competition for the Joint Strike Fighter (JSF) tactical aircraft program. Because of the magnitude of this program, being unsuccessful in the competition would be significant to any of the competitors' future fighter aircraft operations. Additionally, the JSF program and other large, highly visible programs, such as the Corporation's F-22 tactical fighter program, frequently receive substantial Congressional focus as potential targets for reductions and/or extensions of their funding to pay for other programs. However, the JSF and F-22 programs remain a high priority for the DOD and the armed services, as well as for the Corporation.

As a government contractor, the Corporation is subject to U.S. Government oversight. The government may investigate and make inquiries of the Corporation's business practices and conduct audits of contract performance and cost accounting. Depending on the results of these investigations, the government may make claims against the Corporation. Under U.S. Government procurement regulations and practices, an indictment of a government contractor could result in that contractor being fined and/or suspended for a period of time from eligibility for bidding on, or for award of, new government contracts. A conviction could result in debarment for a specified period of time. Similar government oversight exists in most other countries where the Corporation conducts business. Although the outcome of such investigations and inquiries cannot be predicted, in the opinion of management, there are no claims, audits or investigations pending against the Corporation that are likely to have a material adverse effect on the Corporation's business or its consolidated results of operations, cash flows or financial position.

The Corporation remains exposed to other inherent risks associated with U.S. Government contracting, including technological uncertainties and obsolescence, changes in government policies and dependence on annual Congressional appropriation and allotment of funds. Many of the Corporation's programs involve development and application of state-of-the-art technology aimed at achieving challenging goals. As a result, setbacks and failures can occur. It is important for the Corporation to resolve performance issues related to such programs in a timely manner to achieve success on these programs.

The Corporation also conducts business in related commercial and non-defense markets. Although these lines of business are not dependent on defense budgets, they share many of the risks associated with the Corporation's defense businesses, as well as other risks unique to the commercial marketplace. Such risks include development of competing products, technological feasibility and product obsolescence.

Industry-wide, the launch vehicle industry experienced a reduction in demand in 1999 primarily reflecting start-up issues for certain satellite systems with which the Corporation was not involved, delays in completing certain

satellite systems due to over-capacity of transponders in some regional areas, and launch vehicle failures experienced by the Corporation and its competitors during the past two years. These issues have also resulted in delays for commercial satellite orders, which are expected to continue into 2000. The Corporation has addressed issues associated with prior failures of its Titan and Proton launch vehicles, which have been returned to flight status. The above factors related to reductions in launch vehicle orders have resulted in pricing pressures due to increased competition in the launch vehicle industry. The Corporation has established cost objectives related to its launch vehicle programs intended to allow it to continue to compete in this market while maintaining its focus on successful launches, though it cannot predict the outcome of these efforts.

In connection with expanding its portfolio of offered products and services in commercial space and telecommunications activities, the Corporation has entered into various joint venture, teaming and other business arrangements, including some with foreign partners. The conduct of international business introduces other risks into the Corporation's operations, including fluctuating economic conditions, fluctuations in relative currency values and the potential for unanticipated cost increases and timing issues resulting from the possible deterioration of political relations.

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 50 percent ownership. ILS was formed to market commercial Atlas and Proton launch services worldwide. Contracts for Proton launch services typically require 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 frame. At December 31, 1999, approximately \$724 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and approximately \$848 million of payments to Khrunichev for launches not yet provided was included in inventories. Through year end 1999, launch services provided through LKEI and ILS have been in accordance with contract terms.

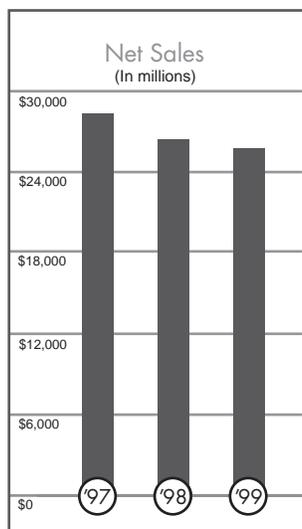
An additional risk exists related to launch vehicle services in Russia. Under a trade agreement in effect since September 1993 between the United States and Russia, as amended most recently in July 1999, the number of Russian launches of U.S. built satellites into geosynchronous and geosynchronous transfer orbit is limited to twenty from trade agreement inception through the year 2000. Officials of the U.S. Government have stated that this limit will not be raised until Russia takes satisfactory action to resolve missile technology proliferation concerns. This limit, if not raised or eliminated, could impair the Corporation's ability to achieve certain of its business objectives related to launch services, satellite manufacture and telecommunications market penetration. At December 31, 1999, no portion of customer advances was associated with launches in excess of the quota, and approximately \$245 million of the \$848 million of payments to Khrunichev disclosed in the prior paragraph were associated with launches in excess of the number currently allowed under the quota. The Corporation determines amounts related to launches in excess of the quota taking into account the number of launches currently allowed under the quota (twenty at December 31, 1999, as discussed above), and without regard to the quota's current expiration date of December 31, 2000. Management is working to achieve a favorable resolution to raise or eliminate the limitation on the number of Russian launches covered by the quota.

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,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

subject to 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



26

under these agreements were included in the Corporation's inventories at December 31, 1999.

Results of Operations

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

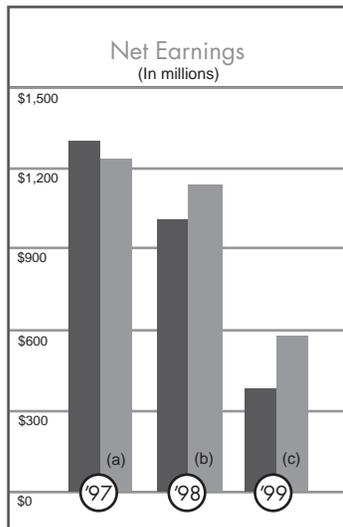
The Corporation's consolidated net sales for 1999 were \$25.5 billion, a decrease of three percent compared to 1998. Net sales during 1998 were \$26.3 billion, a decrease of six percent compared to 1997. The net sales decrease in the Space Systems segment in 1999 more than offset increases in the remaining business segments. In 1998, slight increases in net sales in the Systems Integration and Aeronautical Systems segments compared to 1997 were more than offset by decreases in the other

business segments. The U.S. Government remained the Corporation's largest customer, comprising approximately 71 percent of the Corporation's net sales for 1999 compared to 70 percent in 1998 and 66 percent in 1997.

The Corporation's operating profit (earnings before interest and taxes) for 1999 was approximately \$2.0 billion, a decrease of 20 percent compared to 1998. Operating profit for 1998 was approximately \$2.5 billion, a decrease of nine percent compared to 1997. The reported amounts for the three years presented include the financial impacts of various nonrecurring and unusual items, the details of which are described below. Excluding the effects of these nonrecurring and unusual items for each year, operating profit for 1999 would have decreased by 34 percent compared to 1998, and would have decreased by five percent for 1998 compared to 1997. For 1999 compared to 1998, decreases in operating profit at the Space Systems and Aeronautical Systems segments more than offset the slight increase in operating profit at the Systems Integration and Technology Services segments. For 1998 compared to 1997, increases in operating profit at the Aeronautical Systems and Systems Integration segments were more than offset by reductions in operating profit in the remaining segments. For a more detailed discussion of the operating results of the business segments, see "Discussion of Business Segments" below.

Operating profit in 1999 included the effects of non-recurring and unusual items which on a combined basis, net of state income taxes, increased operating profit by \$249 million. These items included a \$155 million gain related to the sale of the Corporation's remaining interest in L-3, a \$57 million gain associated with the sale of surplus real estate, and a net gain of \$37 million associated with the sale of non-core businesses and investments and other portfolio shaping actions.

Operating profit in 1998 included the effects of non-recurring and unusual items which on a combined basis, net of state income taxes, decreased operating profit by \$162 million. These items included a \$233 million charge related to the timely non-bankruptcy shutdown of CalComp Technology, Inc. (CalComp), a majority-owned subsidiary of the Corporation. The Corporation's decision to finance



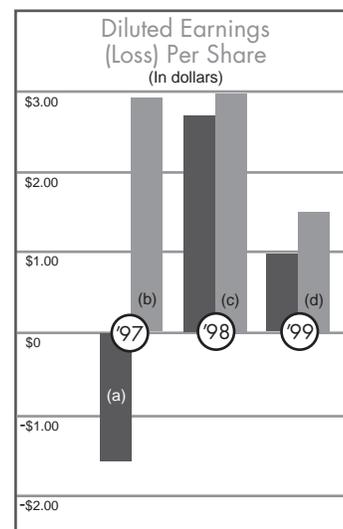
- (a) Excluding the effects of the gain on the transaction with GE, the charges relating to the decision to exit certain lines of business and to impairment in values for certain assets, and gains from sales of surplus real estate and other portfolio shaping items, 1997 net earnings would have been \$1,234 million.
- (b) Excluding the effects of the charge related to CalComp, and gains from sales of surplus real estate and other portfolio shaping items, 1998 net earnings would have been \$1,137 million.
- (c) Excluding the effects of gains from the sale of the Corporation's interest in L-3 and sales of surplus real estate, a net gain from sales of non-core businesses and investments and other portfolio shaping items, and the cumulative effect adjustment related to start-up costs, 1999 net earnings would have been \$575 million.

the shutdown of CalComp resulted in a charge related to the impairment of assets and estimated costs required to accomplish the shutdown of CalComp's operations. The remaining 1998 nonrecurring and unusual items included net gains of \$18 million related to the initial public offering of L-3's stock, \$35 million associated with gains on sales of surplus real estate, and \$18 million associated with other portfolio shaping actions.

Operating profit for 1997 also included the effects of nonrecurring and unusual items which on a combined basis, net of state income taxes, decreased operating profit by \$58 million. These items included the \$311 million tax-free gain resulting from the GE Transaction, and charges totaling \$457 million recorded in the fourth quarter of 1997 related to the Corporation's decision to exit certain lines of business and to the impairment in the values of various

non-core investments and certain other assets. In addition, 1997 included nonrecurring and unusual items related to a \$19 million gain associated with the sale of surplus real estate and a net gain of \$69 million associated with the sale of non-core businesses and investments and other portfolio shaping actions.

The Corporation's reported net earnings for 1999 were \$382 million, a decrease of 62 percent compared to 1998. Reported net earnings for 1998 were \$1.0 billion, a decrease of 23 percent compared to the reported 1997 net



- (a) Includes the effects of a deemed preferred stock dividend in determining net loss applicable to common stock in the computation of loss per share which resulted from the GE Transaction. The effect of this deemed dividend was to reduce the diluted per share amount by \$4.93.
- (b) Excluding the effects of the deemed preferred stock dividend, the gain on the transaction with GE, the charges relating to the decision to exit certain lines of business and to impairment in values for certain assets, and gains from sales of surplus real estate and other portfolio shaping items, and including the dilutive effects of preferred stock conversion and stock options, 1997 diluted earnings per share would have been \$2.87.
- (c) Excluding the effects of the charge related to CalComp, and gains from sales of surplus real estate and other portfolio shaping items, 1998 diluted earnings per share would have been \$2.99.
- (d) Excluding the effects of gains from the sale of the Corporation's interest in L-3 and sales of surplus real estate, a net gain from sales of non-core businesses and investments and other portfolio shaping items, and the cumulative effect adjustment related to start-up costs, 1999 diluted earnings per share would have been \$1.50.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

earnings of \$1.3 billion. The 1999 reported amount includes the combined after-tax effects of the nonrecurring and unusual items discussed above of \$162 million, including \$101 million related to the gain on the sale of the Corporation's remaining interest in L-3, \$37 million associated with gains on the sale of surplus real estate, and a \$24 million net gain associated with the sale of non-core businesses and investments and other portfolio shaping actions. Nonrecurring and unusual items for 1999 also include the effects of the Corporation's adoption of Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities," effective January 1, 1999, which resulted in the recognition of a cumulative effect adjustment that reduced 1999 net earnings by \$355 million. On a combined basis, these nonrecurring and unusual items decreased 1999 net earnings by \$193 million, or \$.51 per diluted share. The after-tax effects of the nonrecurring and unusual items in 1998 discussed above included \$183 million related to the charge for CalComp, \$12 million related to a gain on the initial public offering of L-3's stock, \$23 million associated with gains on the sale of surplus real estate, and a gain of \$12 million associated with the sale of non-core businesses and investments and other portfolio shaping actions. On a combined basis, these items decreased 1998 net earnings by \$136 million, or \$.36 per diluted share. The after-tax effects of the nonrecurring and unusual items in 1997 discussed above included the \$311 million tax-free gain resulting from the GE Transaction, \$303 million related to the charges recorded in the fourth quarter, \$12 million associated with a gain on the sale of surplus real estate, and a net gain of \$46 million associated with other portfolio shaping actions. On a combined basis, these items increased 1997 net earnings by \$66 million, or \$.15 per diluted share.

The Corporation reported diluted earnings (loss) per share of \$.99, \$2.63, and \$(1.56) for 1999, 1998, and 1997, respectively. For the purposes of determining the 1997 net loss applicable to common stock used in the calculation of earnings per share, the excess fair value of the assets transferred to GE over the carrying value of the preferred stock (approximately \$1.8 billion) was treated

as a deemed preferred stock dividend and deducted from 1997 net earnings. This deemed dividend had a significant impact on the 1997 loss per share calculations, but did not impact reported 1997 net earnings. The effect of this deemed dividend was to reduce basic and diluted earnings per share amounts by \$4.93. If the nonrecurring and unusual items described above were excluded from the calculation of earnings per share, and, for 1997, if the dilutive effects of preferred stock conversion and stock options were factored into the diluted earnings per share calculation, diluted earnings per share for 1999, 1998 and 1997 would have been \$1.50, \$2.99 and \$2.87, respectively.

Discussion of Business Segments

In September 1999, the Corporation announced the results of the strategic and organizational review that began in June 1999. As a result of this review, the Corporation has implemented a new organizational structure, effective October 1, 1999, that realigns its core lines of business into four principal business segments. The four principal business segments are Systems Integration, Space Systems, Aeronautical Systems, and Technology Services. All other activities of the Corporation fall within the Corporate and Other segment. Prior period amounts have been adjusted to conform with the new organizational structure.

The following table displays net sales for the Lockheed Martin business segments for 1999, 1998 and 1997, which correspond to the segment information presented in Note 17 of the Notes to Consolidated Financial Statements:

<i>(In millions)</i>	1999	1998	1997
Net Sales			
Systems Integration	\$10,954	\$10,895	\$10,853
Space Systems	5,825	7,039	7,931
Aeronautical Systems	5,499	5,459	5,319
Technology Services	2,261	1,935	1,989
Corporate and Other	991	938	1,977
	\$25,530	\$26,266	\$28,069

Operating profit (loss) by industry segment for 1999, 1998 and 1997, including the effects of the nonrecurring and unusual items discussed previously, is displayed in the

table below. This information also corresponds to the segment information presented in Note 17 of the Notes to Consolidated Financial Statements.

<i>(In millions)</i>	1999	1998	1997
Operating Profit (Loss)			
Systems Integration	\$ 967	\$ 949	\$ 843
Space Systems	474	954	1,090
Aeronautical Systems	247	649	561
Technology Services	137	135	187
Corporate and Other	184	(165)	98
	\$2,009	\$2,522	\$2,779

The following table displays the pretax impact of the nonrecurring and unusual items discussed earlier and the related effects on each segment's operating profit (loss) for each of the three years presented:

<i>(In millions)</i>	1999	1998	1997
Nonrecurring and Unusual Items—			
Profit (Loss):			
Consolidated Effects			
Sale of remaining interest in L-3	\$155	\$ —	\$ —
Sales of surplus real estate	57	35	19
Divestitures and other			
portfolio shaping items	37	18	69
Initial public offering of L-3	—	18	—
Charge for shutdown of CalComp	—	(233)	—
GE Transaction	—	—	311
Charges for exit from businesses and impairment of assets	—	—	(457)
	\$249	\$(162)	\$ (58)
Segment Effects			
Systems Integration	\$ 13	\$ 4	\$ (65)
Space Systems	21	—	(60)
Aeronautical Systems	—	—	(31)
Technology Services	—	—	(12)
Corporate and Other	215	(166)	110
	\$249	\$(162)	\$ (58)

In an effort to make the following discussion of significant operating results of each business segment more understandable, the effects of these nonrecurring and unusual items discussed earlier have been excluded. The Space Systems and Aeronautical Systems 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 significant number of smaller programs in the Systems Integration and Technology Services segments, the impacts of performance by individual programs typically are not as material to these segments' overall results of operations.

Systems Integration

Net sales of the Systems Integration segment increased by one percent in 1999 compared to 1998, and also increased by one percent in 1998 compared to 1997. The increase in 1999 was comprised of an \$80 million increase in volume on tactical training systems and a \$65 million increase in postal systems activities. These increases were partially offset by a decrease of \$100 million in classified activities and space electronics programs. The remaining increase is primarily attributable to increased electronics activities in the United Kingdom. The 1998 increase resulted from an increase in production deliveries of postal systems equipment of \$180 million and a \$170 million increase in volume on surface ship systems. These increases were partially offset by a \$215 million decrease in fire control systems, air defense systems and defense information systems program activities. An additional \$70 million decrease related to the absence in 1998 of sales associated with the segment's Commercial Electronics business, which was divested early in 1998. The remaining decrease is attributable to a decline in volume on various other systems integration activities.

Operating profit for the segment increased by one percent in 1999 compared to 1998, and increased by four percent in 1998 compared to 1997. The 1999 increase is comprised of a \$50 million increase related to the tactical training systems and postal systems volume increases discussed in the preceding paragraph as well as improved performance on missile and fire control programs. These increases were partially offset by a \$15 million penalty on the Theater High Altitude Area Defense (THAAD) program booked in the second quarter and the absence in 1999 of a \$16 million favorable arbitration resolution

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

recorded in 1998. The remaining decrease relates to the decline in volume on various other systems integration activities. The increase in operating profit in 1998 compared to 1997 was comprised of \$45 million in improved margins on naval electronics programs, a \$15 million increase from deliveries of control systems, approximately \$20 million related to volume increase in postal systems activities and \$16 million from the previously mentioned favorable arbitration resolution. These increases were partially offset by a \$32 million decrease in air defense systems, an \$11 million decrease in operating profit on fire control systems and, to a lesser extent, other volume decreases that impacted net sales.

Space Systems

Net sales of the Space Systems segment decreased by 17 percent in 1999 compared to 1998, and decreased by 11 percent in 1998 compared to 1997. Almost half of the segment's 1999 net sales decrease resulted from volume decreases on military satellite programs and classified activities. Net sales were also reduced by a \$185 million decrease in commercial and civil satellite activities as a result of the maturity of certain programs and lower market demand. Net sales were further reduced by a \$50 million decrease from 1998 in launch vehicle activities. In addition, during the second quarter of 1999, the segment recorded a \$90 million negative adjustment related to the Titan IV program which included the effects of changes in estimates for award and incentive fees resulting from the launch failure on April 30, 1999, as well as a more conservative assessment of future program performance. The remaining decrease is related to a decline in volume on various other space systems activities. The segment's 1998 net sales activity was adversely impacted by a decrease in commercial launch vehicle activity resulting from delays in the availability of commercial satellites due primarily to supplier issues. This reduction accounted for approximately 20 percent of the 1998 decrease and was mainly attributable to the Atlas and Proton commercial launch vehicles. The 1998 net sales further decreased by \$165 million due to a reduction in volume on the Trident fleet ballistic missile program and \$85 million due to a reduction in commercial

and civil satellite activities. Approximately 40 percent of the remaining decrease was due to additional reductions in 1998 net sales relating to a net decrease in military satellite programs and classified activities, with the remainder due to various other space systems activities.

Operating profit for the segment decreased by 53 percent in 1999 compared to 1998, and decreased by 17 percent in 1998 compared to 1997. A contributing factor to the decrease in the segment's operating profit in 1999 compared to 1998 was the impact of a third quarter 1998 favorable adjustment of approximately \$120 million, net of state income taxes, which resulted from a significant improvement in the Atlas program related to the retirement of technical and program risk based upon an evaluation of historical performance. In addition, 1999 operating profit was adversely affected by the impact of the \$90 million Titan IV program adjustment discussed above. Operating profit in 1999 was also adversely impacted by increased period costs (principally start-up costs) related to launch vehicle investments which accounted for approximately 15 percent of the decrease, by a reduction in Trident fleet ballistic missile activities that reduced operating profit by approximately \$30 million, and by a launch vehicle contract cancellation which resulted in a charge of \$30 million. The remainder of the decrease is attributable to the decline in sales related to military satellite and classified activities discussed above as well as a reduction in commercial satellite activities. The 1998 decrease resulted from the same issues that impacted net sales, as discussed above, with the Trident fleet ballistic missile program and classified activities accounting for approximately 75 percent of the total decrease. In addition, \$75 million of the decrease was attributable to reductions in commercial launch vehicle activities, and \$30 million related to a decline in commercial and civil satellite activities. These decreases were partially offset by the previously discussed \$120 million favorable Atlas program adjustment and \$15 million contributed by enhanced performance on the military satellite programs. The remaining decrease was due to reduced operating profit related to various other activities of the segment.

Aeronautical Systems

Net sales of the Aeronautical Systems segment increased by one percent in 1999 compared to 1998, and increased by three percent in 1998 compared to 1997. The 1999 increase was comprised of \$715 million in increased sales related to C-130J airlift aircraft program activities offset by a \$717 million decrease in F-16 sales and deliveries. The remaining increase was attributable to increased sales on various other aircraft programs. The 1998 net sales increase was primarily due to \$116 million in increased volume related to F-16 fighter aircraft. Activities related to the F-22 program and other tactical aircraft programs accounted for the remaining increase in sales.

Operating profit for the segment decreased by 62 percent in 1999 compared to 1998 after increasing 10 percent during 1998 compared to 1997. The 1999 decrease principally reflects adjustments during the second quarter that resulted from changes in estimates in the C-130J program due to cost growth and a reduction in production rates, based on a current evaluation of the program's performance. This adjustment negatively impacted operating profit by \$210 million. Additionally, until further favorable progress occurs in terms of orders and cost, the Corporation does not intend to record profit on future deliveries of the aircraft, and will reduce production levels over time from 16 to 8 aircraft per year. Of the remaining decrease, \$80 million resulted from reduced F-16 deliveries, with the remaining decrease due to volume decreases on various other aircraft programs. Operating profit increased during 1998 by \$60 million as a result of increased F-16 aircraft deliveries and the absence of approximately \$60 million in C-130J development costs incurred in 1997. These increases were partially offset by approximately \$30 million related to a decrease in operating profit on the F-22 program, as well as decreases associated with various other military aircraft programs.

Technology Services

Net sales of the Technology Services segment increased by 17 percent in 1999 compared to 1998 after having decreased three percent in 1998 compared to 1997. The increase in 1999 net sales is mainly the result of an approximate \$300 million increase in volume on the

Consolidated Space Operations Contract, which was awarded in September 1998. The 1998 decrease was primarily attributable to the absence in 1998 of approximately \$240 million in sales related to the segment's Aerostructures business unit, which was divested in November 1997 as part of the GE Transaction. Excluding the effect of this divestiture, 1998 net sales would have increased by 11 percent. This increase resulted mainly from \$110 million in higher sales volume related to the aircraft maintenance and logistics lines of business and a \$70 million increase in certain technology services programs.

Operating profit for the segment increased by one percent in 1999 compared to 1998 after having decreased 32 percent in 1998 compared to 1997. The increase in 1999 operating profit is attributable to the Consolidated Space Operations Contract as well as increases related to improved performance in the segment's aircraft maintenance and logistics lines of business, partially offset by decreases attributable to the timing of award fees on certain energy-related contracts. The operating profit decrease for 1998 was primarily attributable to the absence in 1998 of \$62 million in operating profit related to the segment's Aerostructures business unit, as discussed above. Excluding the effect of this divestiture, the 1998 operating profit would have only decreased by one percent due to performance issues related to certain of the segment's aircraft maintenance and logistics contracts and the absence in 1998 of profit associated with a Space Station contract, which was canceled in 1997.

Corporate and Other

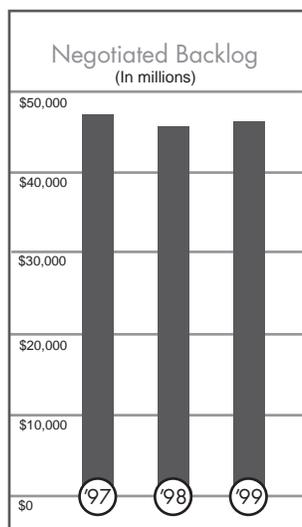
Net sales of the Corporate and Other segment increased by six percent in 1999 compared to 1998 after having decreased 53 percent in 1998 compared to 1997. The 1999 increases of \$75 million in the information technology outsourcing business, \$65 million in state and municipal services, and \$75 million in Global Telecommunications programs more than offset the absence in 1999 of the \$155 million net sales of the CalComp subsidiary during 1998. The majority of this segment's 1998 decrease is due to the absence in 1998 of \$1.2 billion in net sales of the segment's Access Graphics business unit which was divested in the fourth quarter of 1997. In addition,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

approximately 13 percent of the decrease is due to the absence in 1998 of net sales resulting from the Corporation's repositioning of 10 business units to form L-3 effective in March 1997. Excluding the impact of these divestitures, the segment's net sales for 1998 would have increased 62 percent compared to 1997. Approximately \$155 million of this increase resulted from higher sales volume on state and municipal programs, with the remainder primarily due to increases in net sales related to various information technology outsourcing programs.

Operating profit for this segment decreased by \$32 million in 1999 compared to 1998 after having increased by \$13 million in 1998 compared to 1997. The decrease in 1999 reflects \$103 million in operating losses on Global Telecommunications partially offset by the absence of the 1998 operating losses of \$70 million on CalComp and Real 3D. Adjusting the 1997 results for the effects of Access Graphics and L-3 divestitures discussed in the preceding paragraph, on a comparable basis, operating profit for 1998 would have decreased by \$13 million. The operating profit decrease from 1997 to 1998 resulted from unfavorable performance in the segment's commercial products businesses, primarily CalComp, partially offset by increases related to state and municipal programs and information technology outsourcing programs.



Backlog

Total negotiated backlog of \$45.9 billion at December 31, 1999 included both unfilled firm orders for the Corporation's products for which funding has been authorized and appropriated by the customer (Congress, in the case of U.S. Government agencies) and firm orders for which funding has not been appropriated.

The following table shows total backlog by segment at the end of each of the last three years:

(In millions)	1999	1998	1997
Backlog			
Systems Integration	\$15,220	\$14,025	\$14,126
Space Systems	14,749	15,829	16,380
Aeronautical Systems	9,003	10,265	13,019
Technology Services	4,399	3,503	2,107
Corporate and Other	2,542	1,723	1,427
	\$45,913	\$45,345	\$47,059

Total Systems Integration backlog increased by nine percent in 1999 compared to 1998, after having decreased by one percent in 1998 compared to 1997. Approximately one half of the 1999 increase was comprised of new orders for missile systems, with the remaining increase primarily attributable to increased orders for various platform integration activities and increased surface ship system awards. During 1998, backlog decreased due to a reduction of orders for missile systems and increased deliveries related to air traffic control programs. These decreases were partially offset by increased orders for certain radar electronics and surface ship systems.

Total Space Systems backlog decreased by seven percent in 1999 compared to 1998, and decreased by three percent in 1998 compared to 1997. The decrease in 1999 was mainly attributable to a significant decrease in launch vehicle backlog as a result of decreases in new orders as well as a decrease in backlog associated with military satellites and classified activities. Approximately one half of these decreases were offset by new orders for commercial and civil satellites. The decrease in 1998 resulted

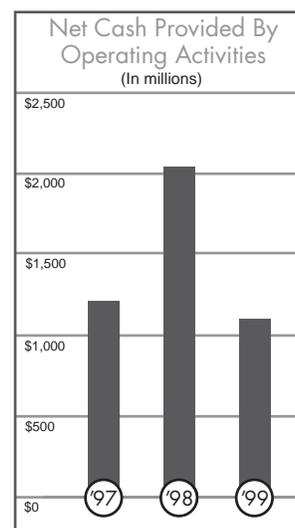
principally from a decrease in backlog on military and classified satellite programs in addition to decreases related to contract modifications to the Titan IV program. These reductions were partially offset by increased orders on commercial launch vehicle and satellite programs. During 1998, the Corporation entered into an agreement with the U.S. Government that provides \$500 million of funding to develop the Evolved Expendable Launch Vehicle. The Corporation will use its best efforts to design a prototype to comply with the launch capability requirements included in the agreement. Since this agreement does not constitute a procurement contract, funding has been excluded from backlog for 1998 and 1999.

Total Aeronautical Systems backlog decreased by 12 percent in 1999 compared to 1998, and decreased by 21 percent in 1998 compared to 1997. The decline in 1999 backlog was comprised of approximately equal decreases on the F-16 tactical fighter program and C-130J airlift aircraft program related to the timing of new orders and sales recorded during 1999. An increase in orders associated with the F-22 tactical fighter program offset approximately one-third of the aforementioned decreases. In January 2000, the Corporation received orders from the government of Israel for F-16 fighter aircraft in an agreement estimated to be worth approximately \$1.5 billion. During 1998, the government of the United Arab Emirates (UAE) selected the Corporation's F-16 as its advanced fighter aircraft. In March 2000, an agreement was reached for the sale of 80 F-16 fighter aircraft with an estimated value of \$6.4 billion, pending various government approvals. The segment's 1998 backlog was impacted by a significant decrease in new order activity from the prior year, principally related to the decrease in backlog on F-16 tactical fighter programs due to the timing of new orders. An additional decrease resulted from decreases in backlog on the C-130J airlift aircraft and F-22 tactical fighter programs.

Total Technology Services backlog increased by 26 percent in 1999 compared to 1998, after having increased significantly, over 66 percent, in 1998 compared to 1997. The increase in 1999 was attributable to the booking of new orders associated with the 1999 award of an aircraft engine maintenance contract by the United States Air Force which was partially offset by sales on existing information

management service contracts. The increase from 1997 to 1998 is primarily attributed to the 1998 award of the Consolidated Space Operations Contract by the National Aeronautics and Space Administration, and increases related to the receipt of new information management services contracts.

Total Corporate and Other backlog increased by 48 percent in 1999 compared to 1998, and increased by 21 percent in 1998 compared to 1997. Slightly more than one half of the 1999 increase was primarily due to new orders on information outsourcing contracts with the remainder of the increase reflecting new orders associated with the Corporation's Global Telecommunications line of business. The 1998 increase was mainly attributable to an increase on various information services and state and municipal services programs.



Liquidity and Cash Flows

Operating Activities

Operating activities provided \$1.1 billion in cash during 1999, compared to \$2.0 billion and \$1.2 billion provided in 1998 and 1997, respectively. The significant decrease

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

in cash provided by operations during 1999 compared to 1998 resulted from the decrease in earnings before cumulative effect of change in accounting between the periods and increased working capital requirements. The significant increase in cash provided by operations during 1998 compared to 1997 was a result of improved operating cash flow and reduced net federal income tax payment activity.

Investing Activities

The Corporation used \$1.6 billion in cash for investing activities during 1999, compared to \$455 million used during 1998 and \$185 million provided during 1997. For the three years presented, cash used for additions to property, plant and equipment declined four percent in 1999 after a seven percent decrease in 1998. During 1999, \$1.2 billion was used to acquire the Corporation's 49 percent interest in COMSAT, as discussed previously, which was the primary reason for the increase in the use of cash in 1999 compared to 1998. Also in 1999, \$263 million of cash was provided related to the sale of the Corporation's remaining interest in L-3, which was partially offset by \$103 million of cash used for additional investments in Astrolink International, LLC and other acquisition and divestiture activities. During 1998, \$134 million of net cash was provided by divestiture and acquisition activities. In 1997, cash was principally provided by the disposition of the Armament Systems and Defense Systems businesses and the repositioning of 10 business units to form L-3 in March 1997.

Financing Activities

Financing activities provided \$731 million in cash during 1999, compared to \$1.3 billion used during 1998 and \$1.4 billion used during 1997. The \$2.0 billion increase in cash provided by financing activities in 1999 as compared to the cash used during 1998 reflects the Corporation's issuance of \$3.0 billion in long-term debt securities in the fourth quarter of 1999, partially offset by repayments of long-term debt totaling \$1.1 billion and a net decrease of \$868 million in short-term borrowings outstanding. The debt issuance, which represented the entire amount registered under its previously filed shelf registration statement, included Notes and Debentures ranging in maturity from six years to 30 years, with interest rates ranging from 7.95% to 8.5%. The proceeds from the debt issuance were used

for general corporate purposes, including the repayment of commercial paper and borrowings under the Corporation's short-term and long-term credit facilities. During 1998, operating activities generated significantly more cash, which allowed the Corporation to reduce its total debt by more than \$1.0 billion. During 1997, the Corporation also was able to decrease its short-term borrowings significantly, while long-term debt was increased to finance the GE Transaction. Approximately \$52 million of long-term debt will mature in 2000.

The Corporation paid dividends of \$345 million in 1999 compared to \$310 million and \$299 million during 1998 and 1997, respectively. During the first quarter of 2000, the Corporation's Board of Directors approved management's recommendation to reduce the quarterly cash dividend per common share from \$.22 per share, or \$.88 annually, to \$.11 per share, or \$.44 annually. The decreased dividend will be effective for dividends declared in the first quarter of 2000.

Other

The Corporation receives advances on certain contracts to finance inventories. At December 31, 1999, approximately \$1.85 billion in advances and progress payments related to work in process were received from customers and recorded as a reduction to inventories in the Corporation's Consolidated Balance Sheet. Also at December 31, 1999, approximately \$486 million of customer advances and progress payments were recorded in receivables as an offset to unbilled costs and accrued profits. Approximately \$4.7 billion of customer advances and amounts in excess of costs incurred, which are typically from foreign governments and commercial customers, are included in current liabilities at the end of 1999.

Capital Structure and Resources

Total debt, including short-term borrowings, increased by \$1.1 billion during 1999 from approximately \$10.9 billion at December 31, 1998. This increase was comprised of the issuance of \$3.0 billion in long-term debt securities, offset by repayments of long-term debt of \$1.1 billion and net repayments of short-term debt of \$868 million. The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures. At year-end 1999,

the Corporation held cash and cash equivalents of \$455 million which were used to pay down its commercial paper borrowings in January 2000. Total stockholders' equity was \$6.4 billion at December 31, 1999, an increase of approximately \$224 million from the December 31, 1998 balance. This increase resulted from 1999 net earnings of \$382 million and employee stock option and ESOP activities of \$189 million, partially offset by the payment of dividends of \$345 million. As a result of the above factors, the Corporation's debt to total capitalization ratio increased from 64 percent at December 31, 1998 to 65 percent at December 31, 1999.

At the end of 1999, the Corporation had in place a short-term revolving credit facility in the amount of \$1.0 billion which matures on May 26, 2000, and a long-term revolving credit facility in the amount of \$3.5 billion, which matures on December 20, 2001 (collectively, the Credit Facilities). No borrowings were outstanding under these facilities at December 31, 1999. The Credit Facilities support commercial paper borrowings of approximately \$475 million outstanding at December 31, 1999, all of which are classified as short-term borrowings.

The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts. At December 31, 1999, the Corporation had contingent liabilities on outstanding letters of credit, guarantees and other arrangements aggregating approximately \$1.1 billion.

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 management continually reviews the changing 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 invest in its core businesses and reduce debt, 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 February 2000, the Corporation and Loral Space & Communications Ltd. (Loral Space) filed certain notices under the HSR Act with the FTC and the DOJ in connection with the Corporation's plan to convert its 45.9 million shares of Loral Space Series A Preferred Stock (the Preferred Stock) into an equal number of shares of Loral Space common stock. The Corporation will be able to convert the Preferred Stock following expiration on March 5, 2000 of the waiting period required by the HSR Act, unless such period is extended by a request from the FTC for additional information. Also in February 2000, the Corporation and Loral Space entered into an agreement which will facilitate the Corporation's ability to divest its interest in Loral Space, but in no case earlier than mid-May 2000.

Year 2000 Issues

Lockheed Martin completed its Year 2000 Compliance Program (the Program). The Program was designed to minimize risk to the Corporation's business units and its customers in advance of the century change using a standard six-phase industry approach. The six phases included: Awareness, Assessment, Renovation, Validation, Implementation and Post-Implementation. The Corporation experienced no significant Year 2000-related issues with respect to its internal information technology (IT), its external IT systems or its non-IT systems. Based on information currently available, the Corporation is not aware of any continued exposure to issues associated with the century change.

The Corporation incurred total costs of approximately \$75 million to complete the Program which included internal costs as well as costs for outside consulting services, but did not include estimated costs for system replacements which were not accelerated due to Year 2000 issues. The

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

December 31, 1999

costs incurred for the Program are allowable in establishing prices for the Corporation's products and services under contracts with the U.S. Government. Therefore, a substantial portion of these costs is being reflected in the Corporation's sales and cost of sales. The total costs incurred were not material to the Corporation's consolidated results of operations, cash flows or financial position for any prior period. The Corporation anticipates no material expenditures relating to Year 2000 issues subsequent to December 31, 1999.

Environmental Matters

As more fully described in Note 16 of the Notes to Consolidated Financial Statements, the Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with its facilities in Redlands, California. The Corporation estimates that expenditures required to implement work currently approved by the Regional Board related to the Redlands facilities will be approximately \$140 million. Also in connection with its Redlands facilities, the Corporation is coordinating with the U.S. Air Force, which is conducting studies of the potential health effects of exposure to perchlorates, a regional groundwater contaminant. The results of these studies indicate that the Corporation's current efforts with water purveyors regarding perchlorate issues are appropriate; however, the Corporation currently cannot project the extent of its ultimate clean-up obligation, if any, with respect to perchlorates. The Corporation has also entered into two consent decrees with the U.S. Environmental Protection Agency (EPA) relating to certain property in Burbank, California, and is operating under a clean-up and abatement order from the Regional Board regarding its Burbank facilities. In addition, the Corporation is one of several parties responding to administrative orders from the EPA regarding the city of Glendale, California. The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and the Regional Board order related to the Burbank property, and the administrative orders related to the city of Glendale, will be approximately \$100 million.

The Corporation is a party to various other proceedings and potential proceedings related to environmental clean-up issues, including matters at various sites where it has been designated a Potentially Responsible Party (PRP) by the EPA or by a state agency. In the event the Corporation is ultimately found to have liability at those sites where it has been designated a PRP, the Corporation anticipates that the actual burden for the costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-ups and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing environmental laws, however, responsible parties are jointly and severally liable and, therefore, the Corporation is potentially liable for the full cost of funding such remediation. In the unlikely event that the Corporation was required to fund the entire cost of such remediation, the statutory framework provides that the Corporation may pursue rights of contribution from the other PRPs. Among the variables management must assess in evaluating costs associated with these sites are changing cost estimates, continually evolving governmental environmental standards and cost allowability issues. Therefore, the nature of these environmental matters makes it extremely difficult to estimate the timing and amount of any future costs that may be necessary for remedial actions.

The Corporation records appropriate financial statement accruals for environmental issues in the period in which it is probable that a liability has been incurred and the amounts can be reasonably estimated. In addition to the matters with respect to the Redlands and Burbank properties and the city of Glendale described above, the Corporation has accrued approximately \$200 million at December 31, 1999 for other matters in which an estimate of financial exposure could be determined. Management believes, however, that it is unlikely that any additional liability the Corporation may incur for known environmental issues would have a material adverse effect on its consolidated results of operations or financial position.

Also as more fully described in Note 16 to the Notes to 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 found in Pit 9. The Corporation has been unsuccessful to date in reaching any agreements with the DOE on cost recovery or other contract restructuring matters. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, at the DOE's direction, terminated the Pit 9 contract for default. At the same time, the Corporation filed a lawsuit seeking to overturn the default termination. Subsequently, the Corporation took actions to raise the status of its request for equitable adjustment to a formal claim. Also in 1998, the management contractor, again 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 in which discovery has been pending since August 2, 1999. On October 1, 1999, the U.S. Court of Federal Claims stayed the DOE's motion to dismiss the Corporation's lawsuit, finding that the Court has jurisdiction. The Court ordered discovery to commence and gave leave to the DOE to convert its motion to dismiss to a motion for summary judgment if supported by discovery. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

Other Matters

The Corporation's primary exposure to market risk relates to interest rates and foreign currency exchange rates. Financial instruments held by the Corporation which are subject to interest rate risk principally include variable rate commercial paper and 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 December 31, 1999. Based on its portfolio of variable rate short-term debt and fixed rate long-term debt outstanding at December 31, 1999, the Corporation's exposure to interest rate risk is not material.

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, and related gains and losses on the contracts are recognized in income when the hedged transaction occurs. At December 31, 1999, the amounts of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material. Based on the above, the Corporation's exposure to foreign currency exchange risk is not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

As described more fully in Note 1 of the Notes to Consolidated Financial Statements, the Corporation does not intend to adopt Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," prior to the current required date of January 1, 2001. The Statement will require the recognition of all derivatives as either assets or liabilities in the Consolidated Balance Sheet, and the periodic measurement of those instruments at 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. In general, these provisions of the Statement could result in a greater degree of income statement volatility than current accounting practice. The Corporation is continuing its process of analyzing and assessing the impact that the adoption of SFAS No. 133 is expected to have on its consolidated results of operations, cash flows and financial position, but has not yet reached any conclusions.

The management of Lockheed Martin Corporation prepared and is responsible for the consolidated financial statements and all related financial information contained in this report. The consolidated financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis after consideration of the Corporation's adoption of the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities" as discussed in Note 1 of the Notes to Consolidated Financial Statements.

The Corporation maintains a system of internal accounting controls designed and intended to provide reasonable assurance that assets are safeguarded, transactions are properly executed and recorded in accordance with management's authorization, and accountability for assets is maintained. An environment that establishes an appropriate level of control consciousness is maintained and monitored and includes examinations by an internal audit staff and by the independent auditors in connection with their annual audit.

The Corporation's management recognizes its responsibility to foster a strong ethical climate. Management has issued written policy statements which document the Corporation's business code of ethics. The importance of ethical behavior is regularly communicated to all employees through the distribution of written codes of ethics and standards of business conduct, and through ongoing education and review programs designed to create a strong compliance environment.

The Audit and Ethics Committee of the Board of Directors is composed of seven outside directors. This Committee meets periodically with the independent auditors, internal auditors and management to review their activities. Both the independent auditors and the internal auditors have unrestricted access to meet with members of the Audit and Ethics Committee, with or without management representatives present.

The consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report follows.



Robert J. Stevens

Executive Vice President—Finance and Chief Financial Officer



Christopher E. Kubasik

Vice President and Controller

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheet of Lockheed Martin Corporation as of December 31, 1999 and 1998, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Corporation at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, in 1999 the Corporation adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities."

Ernst & Young LLP

Washington, D.C.
January 21, 2000

CONSOLIDATED STATEMENT OF EARNINGS

Lockheed Martin Corporation

<i>(In millions, except per share data)</i>	<i>Year ended December 31,</i>		
	1999	1998	1997
Net sales	\$25,530	\$26,266	\$28,069
Cost of sales	23,865	23,914	25,772
Earnings from operations	1,665	2,352	2,297
Other income and expenses, net	344	170	482
	2,009	2,522	2,779
Interest expense	809	861	842
Earnings before income taxes and cumulative effect of change in accounting	1,200	1,661	1,937
Income tax expense	463	660	637
Earnings before cumulative effect of change in accounting	737	1,001	1,300
Cumulative effect of change in accounting	(355)	—	—
Net earnings	\$ 382	\$ 1,001	\$ 1,300
Earnings (loss) per common share:*			
Basic:			
Before cumulative effect of change in accounting	\$ 1.93	\$ 2.66	\$ (1.56)
Cumulative effect of change in accounting	(.93)	—	—
	\$ 1.00	\$ 2.66	\$ (1.56)
Diluted:			
Before cumulative effect of change in accounting	\$ 1.92	\$ 2.63	\$ (1.56)
Cumulative effect of change in accounting	(.93)	—	—
	\$.99	\$ 2.63	\$ (1.56)

*As more fully described in Notes 3 and 5, in 1997 the Corporation reacquired all of its outstanding Series A preferred stock resulting in a deemed dividend of \$1,826 million. For purposes of computing net loss applicable to common stock for basic and diluted loss per share, the deemed preferred stock dividend was deducted from 1997 net earnings.

See accompanying Notes to Consolidated Financial Statements.

<i>(In millions)</i>	Year ended December 31,		
	1999	1998	1997
Operating Activities			
Earnings before cumulative effect of change in accounting	\$ 737	\$ 1,001	\$ 1,300
Adjustments to reconcile earnings to net cash provided by operating activities:			
Depreciation and amortization	529	569	606
Amortization of intangible assets	440	436	446
Deferred federal income taxes	293	203	155
GE Transaction	—	—	(311)
Changes in operating assets and liabilities:			
Receivables	130	809	(572)
Inventories	(404)	(1,183)	(687)
Customer advances and amounts in excess of costs incurred	313	329	1,048
Income taxes	(284)	189	(560)
Other	(677)	(322)	(217)
Net cash provided by operating activities	1,077	2,031	1,208
Investing Activities			
Expenditures for property, plant and equipment	(669)	(697)	(750)
Consummation of COMSAT Tender Offer	(1,203)	—	—
Sale of remaining interest in L-3	263	—	—
Divestiture of L-3 companies	—	—	464
Divestiture of Armament Systems and Defense Systems	—	—	450
Other acquisition and divestiture activities	(103)	134	12
Other	74	108	9
Net cash (used for) provided by investing activities	(1,638)	(455)	185
Financing Activities			
Net decrease in short-term borrowings	(868)	(151)	(866)
Increases in long-term debt	2,994	266	1,505
Repayments and extinguishments of long-term debt	(1,067)	(1,136)	(219)
Issuances of common stock	17	91	110
Dividends on common stock	(345)	(310)	(299)
Dividends on preferred stock	—	—	(53)
Redemption of preferred stock	—	(51)	(1,571)
Net cash provided by (used for) financing activities	731	(1,291)	(1,393)
Net increase in cash and cash equivalents	170	285	—
Cash and cash equivalents at beginning of year	285	—	—
Cash and cash equivalents at end of year	\$ 455	\$ 285	\$ —

See accompanying Notes to Consolidated Financial Statements.

<i>(In millions)</i>	<i>December 31,</i>	
	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	\$ 455	\$ 285
Receivables	4,348	4,178
Inventories	4,051	4,293
Deferred income taxes	1,237	1,109
Other current assets	605	746
Total current assets	10,696	10,611
Property, plant and equipment	3,634	3,513
Investments in equity securities	2,210	948
Intangible assets related to contracts and programs acquired	1,259	1,418
Cost in excess of net assets acquired	9,162	9,521
Other assets	3,051	2,733
	\$30,012	\$28,744
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,228	\$ 1,382
Customer advances and amounts in excess of costs incurred	4,655	4,012
Salaries, benefits and payroll taxes	941	842
Income taxes	51	553
Short-term borrowings	475	1,043
Current maturities of long-term debt	52	886
Other current liabilities	1,410	1,549
Total current liabilities	8,812	10,267
Long-term debt	11,427	8,957
Post-retirement benefit liabilities	1,805	1,903
Other liabilities	1,607	1,480
Stockholders' equity:		
Common stock, \$1 par value per share	398	393
Additional paid-in capital	222	70
Retained earnings	5,901	5,864
Unearned ESOP shares	(150)	(182)
Accumulated other comprehensive income (loss)	(10)	(8)
Total stockholders' equity	6,361	6,137
	\$30,012	\$28,744

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Lockheed Martin Corporation

<i>(In millions, except per share data)</i>	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at December 31, 1996	\$ 1,000	\$ 193	\$ 92	\$ 5,823	\$(252)	\$ —	\$ 6,856	—
Net earnings	—	—	—	1,300	—	—	1,300	\$1,300
Dividends declared on preferred stock (\$2.65 per share)	—	—	—	(53)	—	—	(53)	—
Dividends declared on common stock (\$.80 per share)	—	—	—	(299)	—	—	(299)	—
Stock awards and options, and ESOP activity	—	1	161	—	36	—	198	—
Redemption of preferred stock	(1,000)	—	(228)	(1,598)	—	—	(2,826)	—
Balance at December 31, 1997	—	194	25	5,173	(216)	—	5,176	<u>\$1,300</u>
Net earnings	—	—	—	1,001	—	—	1,001	<u>\$1,001</u>
Dividends declared on common stock (\$.82 per share)	—	—	—	(310)	—	—	(310)	—
Stock awards and options, and ESOP activity	—	2	204	—	34	—	240	—
Stock issued for acquisitions	—	—	38	—	—	—	38	—
Other comprehensive income (loss)	—	—	—	—	—	(8)	(8)	(8)
Two-for-one stock split	—	197	(197)	—	—	—	—	—
Balance at December 31, 1998	—	393	70	5,864	(182)	(8)	6,137	<u>\$ 993</u>
Net earnings	—	—	—	382	—	—	382	<u>\$ 382</u>
Dividends declared on common stock (\$.88 per share)	—	—	—	(345)	—	—	(345)	—
Stock awards and options, and ESOP activity	—	5	152	—	32	—	189	—
Other comprehensive income (loss)	—	—	—	—	—	(2)	(2)	(2)
Balance at December 31, 1999	\$ —	\$ 398	\$ 222	\$ 5,901	\$(150)	\$(10)	\$ 6,361	\$ 380

See accompanying Notes to Consolidated Financial Statements.

Note 1—Summary of Significant Accounting Policies

Organization—Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. Its products and services range from aircraft, spacecraft and launch vehicles to missiles, electronics, information systems, telecommunications and energy management. The Corporation serves customers in both domestic and international defense and commercial markets, with its principal customers being agencies of the U.S. Government.

Basis of consolidation and use of estimates—The consolidated financial statements include the accounts of wholly-owned and majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenues utilized in the earnings recognition process, that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Common stock split—On December 31, 1998, the Corporation effected a two-for-one split of the Corporation's common stock in the form of a stock dividend. All references to shares of common stock and per share amounts in periods prior to December 1998 were restated to reflect the stock split.

Classifications—Receivables and inventories are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, these items are included in current assets. Certain amounts for prior years have been reclassified to conform with the 1999 presentation.

Cash and cash equivalents—Cash and cash equivalents are net of outstanding checks that are funded daily as presented for payment. Cash equivalents are generally comprised of highly liquid instruments with maturities of three months or less when purchased. Due to the short maturity of these instruments, carrying value on the Corporation's Consolidated Balance Sheet approximates fair value.

Receivables—Receivables consist of amounts billed and currently due from customers, and include unbilled costs and accrued profits primarily related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. As such revenues are recognized, appropriate amounts of customer advances and progress payments are reflected as an offset to the related accounts receivable balance.

Inventories—Inventories are stated at the lower of cost or estimated net realizable value. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production, allocable operating overhead and, where appropriate, research and development and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances and progress payments. Such advances and progress payments are reflected as an offset against the related inventory balances. General and administrative expenses related to commercial products and services provided essentially under commercial terms and conditions are expensed as incurred. Costs of other product and supply inventories are principally determined by the first-in, first-out or average cost methods.

Property, plant and equipment—Property, plant and equipment are carried principally at cost. Depreciation is provided on plant and equipment generally using accelerated methods during the first half of the estimated useful lives of the assets; thereafter, straight-line depreciation generally is used. Estimated useful lives generally range from 8 years to

40 years for buildings and 2 years to 20 years for machinery and equipment.

Investments in equity securities—Investments in equity securities include the Corporation's ownership interests in affiliated companies accounted for under the equity method of accounting. Under this method of accounting, which generally applies to investments that represent a 20 percent to 50 percent ownership of the equity securities of the investees, the Corporation's share of the earnings of the affiliated companies is included in other income and expenses. The Corporation recognizes currently gains or losses arising from issuances of stock by wholly-owned or majority-owned subsidiaries, or by equity method investees. These gains or losses are also included in other income and expenses. Investments in equity securities also include the Corporation's ownership interests in companies in which its investment represents less than 20 percent. These investments are generally accounted for under the cost method of accounting.

Intangible assets—Intangible assets related to contracts and programs acquired are amortized over the estimated periods of benefit (15 years or less) and are displayed on the Consolidated Balance Sheet net of accumulated amortization of \$958 million and \$800 million at December 31, 1999 and 1998, respectively. Cost in excess of net assets acquired (goodwill) is amortized ratably over appropriate periods, primarily 40 years, and is displayed on the Consolidated Balance Sheet net of accumulated amortization of \$1,373 million and \$1,103 million at December 31, 1999 and 1998, respectively. The carrying values of intangible assets, as well as other long-lived assets, are reviewed for impairment if changes in the facts and circumstances indicate potential impairment of their carrying values. Any impairment determined is recorded in the current period and is measured by comparing the discounted cash flows of the related business operations to the appropriate carrying values.

Customer advances and amounts in excess of costs incurred—The Corporation receives advances and progress payments from customers in excess of costs incurred on certain contracts, including contracts with agencies of the U.S. Government. Such advances and progress payments, other than those reflected as an offset to accounts receivable or inventories as discussed above, are classified as current liabilities.

Environmental matters—The Corporation records a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. A substantial portion of these costs are expected to be reflected in sales and cost of sales pursuant to U.S. Government agreement or regulation. At the time a liability is recorded for future environmental costs, an asset is recorded for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government. The portion of those costs expected to be allocated to commercial business is reflected in cost of sales at the time the liability is established.

Sales and earnings—Sales and anticipated profits under long-term fixed-price production contracts are recorded on a percentage of completion basis, generally using units of delivery as the measurement basis for effort accomplished. Estimated contract profits are taken into earnings in proportion to recorded sales. Sales under certain long-term fixed-price contracts which, among other things, provide for the delivery of minimal quantities or require a significant amount of development effort in relation to total contract value, are recorded upon achievement of performance milestones or using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion.

Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs. Sales of products and

services provided essentially under commercial terms and conditions are recorded upon shipment or completion of specified tasks.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions which increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs.

When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts or programs in progress are charged to earnings when identified.

Research and development and similar costs—Corporation-sponsored research and development costs primarily include research and development and bid and proposal efforts related to government products and services. Except for certain arrangements described below, these costs are generally included as part of the general and administrative costs that are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Corporation-sponsored product development costs not otherwise allocable are charged to expense when incurred. Under certain arrangements in which a customer shares in product development costs, the Corporation's portion of such unreimbursed costs is expensed as incurred. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for as contract costs.

Derivative financial instruments—The Corporation may use derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. Forward exchange contracts are designated as qualifying

hedges of firm commitments or specific anticipated transactions. Gains and losses on these contracts are recognized in income when the hedged transactions occur. At December 31, 1999, the amounts of forward exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

Stock-based compensation—The Corporation measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Corporation has adopted those provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which require disclosure of the pro forma effect on net earnings and earnings per share as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options awarded.

Comprehensive income—Comprehensive income for the Corporation consists primarily of net earnings, foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. At December 31, 1999 and 1998, the accumulated balances of other comprehensive income related to foreign currency translation adjustments were insignificant. Prior to 1998, such adjustments were recorded in other liabilities and were also insignificant. In October 1999, the Corporation sold its remaining interest in L-3 Communications Holdings, Inc. (L-3) (see Note 3), and reclassified to net earnings \$30 million of unrealized gains previously recorded as comprehensive income.

New accounting pronouncements adopted—Effective January 1, 1999, the Corporation adopted the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) No. 98-5, "Reporting on the Costs of

Start-Up Activities.” This SOP requires that, at the effective date of adoption, costs of start-up activities previously capitalized be expensed and reported as a cumulative effect of a change in accounting principle, and further requires that such costs subsequent to adoption be expensed as incurred. The adoption of SOP No. 98-5 resulted in the recognition of a cumulative effect adjustment which reduced net earnings for the year ended December 31, 1999 by \$355 million, or \$.93 per diluted share. The cumulative effect adjustment was recorded net of income tax benefits of \$227 million, and was primarily composed of approximately \$560 million of costs which were included in inventories as of December 31, 1998.

Effective January 1, 1999, the Corporation adopted the AICPA’s SOP No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” This SOP, which requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use, affects the future cash flows under contracts with the U.S. Government. However, the impact of the adoption of SOP No. 98-1 was not material to the Corporation’s consolidated results of operations, cash flows or financial position.

New accounting pronouncement to be adopted—In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the Consolidated Balance Sheet, and the periodic measurement of those instruments at 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. In general, these provisions of the Statement could result in a greater degree of income statement volatility than current accounting practice. At adoption, existing hedging relationships must be designated anew and documented pursuant to the provisions of the Statement. The Corporation does not intend to adopt

SFAS No. 133, as amended, prior to the required date of January 1, 2001. The Corporation is continuing its process of analyzing and assessing the impact that the adoption of SFAS No. 133 is expected to have on its consolidated results of operations, cash flows and financial position, but has not yet reached any conclusions.

Note 2—Transaction Agreement with COMSAT Corporation

In September 1998, the Corporation and COMSAT Corporation (COMSAT) announced that they had entered into an Agreement and Plan of Merger (the Merger Agreement) to combine the companies in a two-phase transaction with a total estimated value of approximately \$2.7 billion at the date of the announcement (the Merger). The Merger Agreement was approved by the respective Boards of Directors of the Corporation and COMSAT.

In connection with the first phase of this transaction, subsequent to obtaining all necessary regulatory approvals and approval of the Merger by the stockholders of COMSAT, the Corporation completed a cash tender offer (the Tender Offer) on September 18, 1999. On that date, the Corporation accepted for payment approximately 26 million shares of COMSAT common stock, representing approximately 49 percent of the outstanding common stock of COMSAT, for \$45.50 a share pursuant to the terms of the Merger Agreement. The total value of this phase of the transaction was \$1.2 billion, and such amount is included in investments in equity securities in the December 31, 1999 Consolidated Balance Sheet. The Corporation accounts for its 49 percent investment in COMSAT under the equity method of accounting.

The second phase of the transaction, which will result in consummation of the Merger, is to be accomplished by an exchange of one share of Lockheed Martin common stock for each remaining share of COMSAT common stock. Consummation of the Merger remains contingent upon the satisfaction of certain conditions, including the enactment of federal legislation necessary to remove existing restrictions

on ownership of COMSAT voting stock. Legislation necessary to remove these restrictions cleared the U.S. Senate on July 1, 1999. On November 10, 1999, the U.S. House of Representatives (the House) also passed legislation which, if adopted into law, would remove these restrictions. There are substantial differences between the two bills, and significant issues raised by the House bill in particular which, if not resolved satisfactorily, would likely have a Significant Adverse Effect on COMSAT (as defined in the Merger Agreement). The Corporation hopes these issues will be favorably resolved.

In early 2000, sponsors of the two different bills announced a compromise agreement that, if adopted, would resolve many of the issues raised by the House bill. It is now expected that legislation that reflects the compromise agreement will be enacted before May 2000. There is no assurance that this legislation will be passed or passed in this time frame, or that any legislation that does become law would not have an adverse effect on COMSAT's business. If Congress enacts legislation that the Corporation determines in good faith, after consultation with COMSAT, would reasonably be expected to have a Significant Adverse Effect on COMSAT's business, the Corporation would have the right to elect not to complete the Merger.

Before the Merger can occur, the Corporation must file separate notification and report forms under the Hart Scott-Rodino Antitrust Improvement Act with the Federal Trade Commission (FTC) and the U.S. Department of Justice (DOJ) regarding its acquisition of minority interests in two businesses held by COMSAT. In addition, following the passage of legislation, the Federal Communications Commission (FCC) must approve the Merger. The precise nature of the FCC approval requirement will, however, depend upon the details of the final legislation enacted by Congress. There is no assurance as to the timing or whether the FTC, DOJ or FCC will provide the requisite approvals. If the Merger is not completed on or before September 18, 2000, under the terms of the Merger Agreement, Lockheed Martin or COMSAT could terminate the Merger Agreement or elect not to exercise this right, or both parties could agree to extend this date. If consummated, the Merger will

be accounted for under the purchase method of accounting. If the Merger is not consummated, the Corporation will not be able to achieve all of its objectives with respect to the COMSAT transaction and will be unable to exercise control over COMSAT.

Effective January 1, 1999, investments in several existing joint ventures and elements of the Corporation were combined with Lockheed Martin Global Telecommunications, Inc. (Global Telecommunications), a wholly-owned subsidiary of the Corporation focused on capturing a greater portion of the worldwide telecommunications services market. The Corporation intends to combine the operations of Global Telecommunications and COMSAT upon consummation of the Merger noted above.

Note 3—Divestiture Activities

The Corporation executed a definitive agreement in March 1997 to reposition 10 of its non-core business units as a new independent company, L-3, in which the Corporation retained an approximate 35 percent ownership interest at closing. The transaction did not have a material impact on the Corporation's 1997 earnings. During May 1998, L-3 completed an initial public offering resulting in the issuance of an additional 6.9 million shares of its common stock to the public. This transaction resulted in a reduction in the Corporation's ownership to approximately 25 percent and the recognition of a pretax gain of \$18 million. The gain increased net earnings by \$12 million, or \$.03 per diluted share. In February 1999, the Corporation sold 4.5 million of its shares in L-3 as part of a secondary public offering by L-3. This transaction resulted in a reduction in the Corporation's ownership to approximately seven percent and the recognition of a pretax gain of \$114 million. The gain increased net earnings by \$74 million, or \$.19 per diluted share. After this transaction was consummated, the Corporation began accounting for its remaining investment in L-3 as an available-for-sale investment. In October 1999, the Corporation sold its remaining interest in L-3. This transaction resulted in the recognition of a pretax gain of \$41 million which increased net earnings by \$27 million, or \$.07 per diluted share.

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a pretax gain of \$33 million. In October 1999, the Corporation exited its commercial 3D graphics business through consummation of a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a pretax gain of \$33 million. On a combined basis, these transactions increased net earnings by \$43 million, or \$.11 per diluted share.

In November 1997, the Corporation exchanged all of the outstanding capital stock of a wholly-owned subsidiary, LMT Sub, for all of the outstanding Series A preferred stock held by General Electric Company (the GE Transaction). LMT Sub was composed of two non-core commercial business units which contributed approximately five percent of the Corporation's 1997 net sales, Lockheed Martin's investment in a telecommunications partnership, and approximately \$1.6 billion in cash, of which \$1.4 billion was subsequently refinanced with a 6.04% note, due November 17, 2002, from Lockheed Martin to LMT Sub. The fair value of the non-cash net assets exchanged was approximately \$1.2 billion. During the second quarter of 1998, the final determination of the closing net worth of the businesses exchanged was completed, resulting in a payment of \$51 million from the Corporation to MRA Systems, Inc. (formerly LMT Sub). Subsequently, the remainder of the cash included in the transaction was refinanced with a 5.73% note for \$210 million, due November 17, 2002, from Lockheed Martin to MRA Systems, Inc.

The GE Transaction was accounted for at fair value, and resulted in the reduction of the Corporation's stockholders' equity by \$2.8 billion and the recognition of a tax-free gain of approximately \$311 million during the fourth quarter of 1997. The final settlement payment in 1998 did not impact the gain previously recorded on the transaction. For purposes of determining net loss applicable to common stock used in the computation of loss per share for 1997, the excess of the fair value of the consideration transferred to GE (approximately \$2.8 billion) over the carrying value

of the Series A preferred stock (\$1.0 billion) was treated as a deemed preferred stock dividend and deducted from 1997 net earnings in accordance with the requirements of the Emerging Issues Task Force's Issue D-42. This deemed dividend had a significant impact on the loss per share calculations, but did not impact reported 1997 net earnings. The effect of this deemed dividend was to reduce the basic and diluted loss per share amounts by \$4.93.

Note 4—Restructuring and Other Charges

In the fourth quarter of 1998, the Corporation recorded a nonrecurring and unusual pretax charge, net of state income tax benefits, of \$233 million related to actions surrounding the decision to fund a timely non-bankruptcy shutdown of the business of CalComp Technology, Inc. (CalComp), a majority-owned subsidiary. The pretax charge reflected the effects of impairment related to goodwill of approximately \$75 million; writedowns of approximately \$73 million to reflect other assets at estimated recoverable values; estimated severance and other costs related to employees of approximately \$25 million; estimated costs related to warranty obligations, and purchase and other commitments of approximately \$37 million; and other estimated exit costs, primarily related to facilities, of approximately \$23 million. This charge decreased net earnings by \$183 million, or \$.48 per diluted share.

As of December 31, 1999, CalComp had, among other actions, consummated sales of substantially all of its assets, terminated substantially all of its work force, and initiated the corporate dissolution process under the applicable state statutes and, for its foreign subsidiaries, foreign government statutes. The financial impacts of these actions were less than anticipated in the Corporation's plans and estimates and, in the fourth quarter of 1999, the Corporation reversed approximately 10 percent of the original pretax charge recorded in 1998. While uncertainty remains concerning the resolution of matters in dispute or litigation, management believes that the remaining

amount recorded is adequate to provide for resolution of these matters and to complete the dissolution process.

During the fourth quarter of 1997, the Corporation recorded nonrecurring and unusual pretax charges, net of state income tax benefits, totaling \$457 million, which reduced net earnings by \$303 million. The charges were identified in connection with the Corporation's review, which concluded in the fourth quarter, of non-strategic lines of business, non-core investments and certain other assets. Approximately \$200 million of the pretax charges reflected the estimated effects of exiting non-strategic lines of business, including amounts related to the fixed price systems development line of business in the area of children and family services, and related to increases in estimated exposures relative to the environmental remediation lines of business initially identified in 1996 and for which initial estimates of exposure were provided in the fourth quarter of 1996. These increases in estimated exposures were based on more current information, including deterioration in a partner's financial condition as evidenced by the partner seeking protection under the bankruptcy laws. The remaining charges reflected impairment in the values of various non-core investments and certain other assets in keeping with the Corporation's continued focus on core operations. These charges, in combination with the gain recognized on the GE Transaction (see Note 3), decreased loss per diluted share for 1997 by \$.02.

During the fourth quarter of 1996, the Corporation recorded nonrecurring pretax charges, net of state income tax benefits, of \$307 million, which decreased net earnings by \$209 million. Approximately one-half of the charges reflected the estimated effects of terminating a business relationship formed to provide environmental remediation services to government and commercial customers worldwide, and the initial estimated effects related to management's decision to exit a certain environmental remediation line of business. Charges of approximately \$85 million were identified in connection with an evaluation of the

Corporation's future strategic focus, and reflected impairment in the values of non-core investments and certain other assets which were other than temporary in nature. The remaining charges of approximately \$75 million pertained to costs for facility closings and transfers of programs related to the Corporation's acquisition of Loral Corporation in April 1996 (the Loral Transaction).

As of December 31, 1999, initiatives undertaken as part of the 1997 and 1996 charges relating to the Corporation's reviews of non-core investments and certain other assets which resulted in impairment in values of those assets, facility closings and transfers of programs resulting from the consummation of the Loral Transaction, and the termination of a business relationship formed to provide environmental remediation services, which in total represented approximately 75 percent of the amounts originally recorded, have been completed consistent with the Corporation's original plans and estimates. Actions contemplated as part of the Corporation's exit from a certain environmental remediation line of business and a fixed price systems development line of business in the area of children and family services have not been completed. In 1999, the Corporation recorded an additional charge of approximately \$40 million related to the exit from these lines of business. During 1998 and 1997, the effects on the Corporation's net earnings of adjustments associated with these charges were not material. The amounts recorded in the Consolidated Balance Sheet at December 31, 1999 related to these actions are, in the opinion of management, adequate to complete the remaining initiatives originally contemplated in the 1997 and 1996 charges.

During 1995, the Corporation recorded pretax charges of \$690 million from merger related expenses in connection with the formation of Lockheed Martin and the related corporate-wide consolidation plan. The charges represented the portion of the accrued costs and net realizable value adjustments that were not probable of recovery. In

addition, the Corporation has incurred costs through the end of 1999 which were anticipated in the 1995 consolidation plan but had not met the requirements for accrual earlier. These costs include relocation of personnel and programs, retraining, process re-engineering and certain capital expenditures, among others. As of December 31, 1999, cumulative merger related and consolidation payments were approximately \$1.2 billion. Consistent with the original 1995 consolidation plan, consolidation actions were substantially completed by December 31, 1999.

Under existing U.S. Government regulations, certain costs incurred for consolidation actions that can be demonstrated to result in savings in excess of the cost to implement can be deferred and amortized for government contracting purposes and included as allowable costs in future pricing of the Corporation's products and services. Included in the Consolidated Balance Sheet at December 31, 1999 is approximately \$375 million of deferred costs that will be recognized in future sales and cost of sales.

Note 5—Earnings Per Share

Basic and diluted earnings per share for 1999 and 1998 are computed based on net earnings. For these years, the weighted average number of common shares outstanding during each year was used in the calculation of basic earnings per share, and this number of shares was increased by the effects of dilutive stock options based on the treasury stock method in the calculation of diluted earnings per share. Basic loss per share for 1997 was computed based on net earnings, less the dividend requirement for preferred stock to the date of redemption, and less the deemed preferred stock dividend resulting from the November 1997 GE Transaction representing the excess of the fair value of the consideration transferred to GE (approximately \$2.8 billion) over the carrying value of the Lockheed Martin preferred stock redeemed (\$1.0 billion). The weighted average number of common shares outstanding during the year was used in this calculation. The diluted loss per share for 1997

was computed in the same manner as basic loss per share, as adjustments related to the assumed conversion of the preferred stock (50.6 million common shares) and the related dividend requirement for the preferred stock to the date of redemption (\$53 million), and the dilutive effect of stock options (5.8 million common shares), were not made since they would have had antidilutive effects.

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

<i>(In millions, except per share data)</i>	1999	1998	1997
Net earnings (loss) applicable to common stock:			
Earnings before cumulative effect of change in accounting	\$ 737	\$ 1,001	\$ 1,300
Cumulative effect of change in accounting	(355)	—	—
Net earnings	382	1,001	1,300
Dividends on preferred stock	—	—	(53)
Deemed preferred stock dividend	—	—	(1,826)
Net earnings (loss) applicable to common stock for basic and diluted computations	\$ 382	\$ 1,001	\$ (579)
Average common shares outstanding:			
Average number of common shares outstanding for basic computations	382.3	376.5	370.6
Dilutive stock options—based on the treasury stock method	1.8	4.6	—
Average number of common shares outstanding for diluted computations	384.1	381.1	370.6
Earnings (loss) per share:			
Basic:			
Before cumulative effect of change in accounting	\$ 1.93	\$ 2.66	\$ (1.56)
Cumulative effect of change in accounting	(.93)	—	—
	\$ 1.00	\$ 2.66	\$ (1.56)
Diluted:			
Before cumulative effect of change in accounting	\$ 1.92	\$ 2.63	\$ (1.56)
Cumulative effect of change in accounting	(.93)	—	—
	\$.99	\$ 2.63	\$ (1.56)

Note 6—Receivables

<i>(In millions)</i>	1999	1998
U.S. Government:		
Amounts billed	\$ 927	\$ 987
Unbilled costs and accrued profits	2,300	2,440
Less customer advances and progress payments	(395)	(491)
Commercial and foreign governments:		
Amounts billed	644	635
Unbilled costs and accrued profits, primarily related to commercial contracts	963	638
Less customer advances and progress payments	(91)	(31)
	\$4,348	\$4,178

Approximately \$385 million of the December 31, 1999 unbilled costs and accrued profits are not expected to be recovered within one year.

Note 7—Inventories

<i>(In millions)</i>	1999	1998
Work in process, commercial launch vehicles	\$ 1,514	\$ 1,326
Work in process, primarily related to other long-term contracts and programs in progress	3,879	4,872
Less customer advances and progress payments	(1,848)	(2,499)
	3,545	3,699
Other inventories	506	594
	\$ 4,051	\$ 4,293

Work in process inventories related to commercial launch vehicles included costs for launch vehicles, both under contract and not under contract, including unamortized deferred costs related to the commercial Atlas and the Evolved Expendable Launch Vehicle (Atlas V) programs. Work in process inventories related to other long-term contracts and programs included approximately \$150 million of unamortized deferred costs at December 31, 1999

for aircraft not under contract related to the Corporation's C-130J program.

Included in 1999 and 1998 commercial launch vehicle inventories were 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 \$903 million and \$840 million, respectively, for the manufacture of launch vehicles and related launch services.

Approximately \$1.5 billion of costs included in 1999 inventories, including approximately \$652 million advanced to the Russian manufacturers, are not expected to be recovered within one year.

Included in 1998 inventories were capitalized costs related to start-up activities of approximately \$560 million which were included in the cumulative effect adjustment related to the Corporation's adoption of SOP No. 98-5 effective January 1, 1999.

An analysis of general and administrative costs, including research and development costs, included in work in process inventories follows:

<i>(In millions)</i>	1999	1998	1997
Beginning of year	\$ 693	\$ 533	\$ 460
Incurred during the year	2,354	2,469	2,245
Charged to cost of sales during the year:			
Research and development	(822)	(864)	(788)
Other general and administrative	(1,732)	(1,445)	(1,384)
End of year	\$ 493	\$ 693	\$ 533

In addition, included in cost of sales in 1999, 1998 and 1997 were general and administrative costs, including research and development costs, of approximately \$509 million, \$490 million and \$539 million, respectively, incurred by commercial business units or programs.

Note 8—Property, Plant and Equipment

<i>(In millions)</i>	1999	1998
Land	\$ 218	\$ 235
Buildings	3,027	2,979
Machinery and equipment	5,662	5,459
	8,907	8,673
Less accumulated depreciation and amortization	(5,273)	(5,160)
	\$ 3,634	\$ 3,513

Note 9—Investments in Equity Securities

<i>(In millions)</i>	1999	1998
Equity method investments:		
COMSAT Corporation	\$ 1,188	\$ —
ACeS International, Ltd.	163	162
Astrolink International, LLC	148	—
Americom Asia-Pacific, LLC	114	105
Space Imaging LLC	86	99
L-3 Communications Holdings, Inc.	—	77
Other	72	85
	1,771	528
Cost method investments:		
Loral Space & Communications Ltd.	393	393
Other	46	27
	439	420
	\$ 2,210	\$ 948

At December 31, 1999, the carrying value of the Corporation's 49 percent investment in COMSAT exceeded the Corporation's share of COMSAT's net assets by approximately \$900 million, and this amount is being amortized ratably over 30 years. The Corporation also has commitments to provide funding to Astrolink International, LLC totaling approximately \$270 million at December 31, 1999.

The estimated fair value of the Corporation's investment in Loral Space & Communications Ltd., which consists of 45.9 million shares of Loral Space Series A Preferred Stock, was \$750 million at December 31, 1999.

Note 10—Debt

Type (Maturity Dates)	Range of Interest Rates	1999	1998
<i>(In millions, except interest rate data)</i>			
Notes (2000–2022)	5.7 – 9.4%	\$ 6,778	\$ 6,014
Debentures (2011–2036)	7.0 – 9.1%	4,407	3,160
Commercial paper	5.4 – 6.0%	—	300
ESOP obligations (2000–2004)	8.4%	217	256
Other obligations (2000–2016)	1.0 – 12.7%	77	113
		11,479	9,843
Less current maturities		(52)	(886)
		\$11,427	\$8,957

During the fourth quarter of 1999, the Corporation issued \$3.0 billion of long-term fixed rate debt securities, the entire amount registered under its previously filed shelf registration statement. These Notes and Debentures range in maturity from six years to 30 years, with interest rates ranging from 7.95% to 8.5%.

As of December 31, 1999, the Corporation had \$1.3 billion of notes outstanding which had been issued to a wholly-owned subsidiary of GE in connection with the GE Transaction. The notes are due November 17, 2002 and bear interest at a rate of approximately 6%. The agreements relating to these notes require that, so long as the aggregate principal amount of the notes exceeds \$1.0 billion, the Corporation will recommend to its stockholders the election of one person designated by GE to serve as a director of the Corporation.

The registered holders of \$300 million of 40 year Debentures issued in 1996 may elect, between March 1 and April 1, 2008, to have their Debentures repaid by the Corporation on May 1, 2008.

Included in Debentures are \$112 million of 7% obligations (\$175 million at face value) which were originally sold at approximately 54 percent of their principal amount.

These Debentures, which are redeemable in whole or in part at the Corporation's option at 100 percent of their face value, have an effective yield of 13.25%.

A leveraged employee stock ownership plan (ESOP) incorporated into the Corporation's salaried savings plan borrowed \$500 million through a private placement of notes in 1989. These notes are being repaid in quarterly installments over terms ending in 2004. The ESOP note agreement stipulates that, in the event that the ratings assigned to the Corporation's long-term senior unsecured debt are below investment grade, holders of the notes may require the Corporation to purchase the notes and pay accrued interest. These notes are obligations of the ESOP but are guaranteed by the Corporation and included as debt in the Corporation's Consolidated Balance Sheet.

At the end of 1999, the Corporation had a long-term revolving credit facility, which matures on December 20, 2001, in the amount of \$3.5 billion, and a short-term revolving credit facility, which matures on May 26, 2000, in the amount of \$1.0 billion (collectively, the Credit Facilities). Borrowings under the Credit Facilities would be unsecured and bear interest, at the Corporation's option, at rates based on the Eurodollar rate or a bank Base Rate (as defined). Each bank's obligation to make loans under the Credit Facilities is subject to, among other things, compliance by the Corporation with various representations, warranties, covenants and agreements, including, but not limited to, covenants limiting the ability of the Corporation and certain of its subsidiaries to encumber their assets and a covenant not to exceed a maximum leverage ratio. There were no borrowings outstanding under the Credit Facilities at December 31, 1999.

The Credit Facilities support commercial paper borrowings of approximately \$475 million and \$1.3 billion outstanding at December 31, 1999 and 1998, respectively, of which \$300 million was classified as long-term debt in the Corporation's Consolidated Balance Sheet at December 31, 1998 based on management's ability and intention to maintain that amount of debt outstanding for at least one year.

The weighted average interest rates for commercial paper outstanding at December 31, 1999 and 1998 were 6.6% and 5.8%, respectively.

The Corporation's long-term debt maturities for the five years following December 31, 1999 are: \$52 million in 2000; \$816 million in 2001; \$1,336 million in 2002; \$858 million in 2003; \$828 million in 2004; and \$7,589 million thereafter.

Certain of the Corporation's other financing agreements contain restrictive covenants relating to debt, limitations on encumbrances and sale and lease-back transactions, and provisions which relate to certain changes in control.

The estimated fair values of the Corporation's long-term debt instruments at December 31, 1999, aggregated approximately \$10.9 billion, compared with a carrying amount of approximately \$11.5 billion. The fair values were estimated based on quoted market prices for those instruments publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for similar issues, or on current rates offered to the Corporation for debt with similar remaining maturities. Unless otherwise indicated elsewhere in the Notes to Consolidated Financial Statements, the carrying values of the Corporation's other financial instruments approximate their fair values.

Interest payments were \$790 million in 1999, \$856 million in 1998 and \$815 million in 1997.

Note 11—Income Taxes

The provision for federal and foreign income taxes consisted of the following components:

<i>(In millions)</i>	1999	1998	1997
Federal income taxes:			
Current	\$136	\$432	\$448
Deferred	293	203	155
Total federal income taxes	429	635	603
Foreign income taxes	34	25	34
Total income taxes provided	\$463	\$660	\$637

Net provisions for state income taxes are included in general and administrative expenses, which are primarily allocable to government contracts. Such state income taxes were \$22 million for 1999, \$70 million for 1998 and \$62 million for 1997.

The Corporation's effective income tax rate varied from the statutory federal income tax rate because of the following differences:

	1999	1998	1997
Statutory federal tax rate	35.0%	35.0%	35.0%
Increase (reduction) in tax rate from:			
Nondeductible amortization	7.6	5.5	4.9
Revisions to prior years' estimated liabilities	(6.0)	(2.4)	(5.7)
Divestitures	—	1.1	(2.4)
Other, net	2.0	.5	1.1
	38.6%	39.7%	32.9%

The primary components of the Corporation's federal deferred income tax assets and liabilities at December 31 were as follows:

(In millions)	1999	1998
Deferred tax assets related to:		
Accumulated post-retirement benefit obligations	\$ 632	\$ 666
Contract accounting methods	587	635
Accrued compensation and benefits	248	181
Other	165	240
	1,632	1,722
Deferred tax liabilities related to:		
Intangible assets	436	444
Prepaid pension asset	383	338
Property, plant and equipment	93	147
	912	929
Net deferred tax assets	\$ 720	\$ 793

At December 31, 1999 and 1998, other liabilities included net long-term deferred tax liabilities of \$517 million and \$316 million, respectively.

Federal and foreign income tax payments, net of refunds received, were \$530 million in 1999, \$228 million in 1998 and \$986 million in 1997.

Note 12—Other Income and Expenses, Net

(In millions)	1999	1998	1997
Equity in earnings of equity investees	\$ 18	\$ 39	\$ 48
Interest income	33	38	40
Sales of surplus real estate	57	35	19
Royalty income	17	19	52
Sale of remaining interest in L-3	155	—	—
Sale of Airport Group International	33	—	—
Real 3D disposition	33	—	—
GE Transaction	—	—	311
Other portfolio shaping activities	(9)	18	69
Other	7	21	(57)
	\$344	\$170	\$482

Note 13—Stockholders' Equity and Related Items

Capital structure—At December 31, 1999, the authorized capital of the Corporation was composed of 1.5 billion shares of common stock (approximately 398 million shares issued), 50 million shares of series preferred stock (no shares issued), and 20 million shares of Series A preferred stock (no shares outstanding).

In 1995, the Corporation's Board of Directors authorized a common stock repurchase plan for the repurchase of up to 18 million common shares to counter the dilutive effect of common stock issued under certain of the Corporation's benefit and compensation programs and for other purposes related to such plans. No shares were repurchased in 1999, 1998 or 1997 under this plan.

Stock option and award plans—In March 1995, the stockholders approved the Lockheed Martin 1995 Omnibus Performance Award Plan (the Omnibus Plan). Under the Omnibus Plan, employees of the Corporation may be granted stock-based incentive awards, including options to purchase common stock, stock appreciation rights, restricted stock or other stock-based incentive awards. Employees may also be granted cash-based incentive awards, such as performance units. These awards may be granted either individually or in combination with other awards. The Omnibus Plan requires that options to purchase common stock have an exercise price of not less than 100 percent of the market value of the underlying stock on the date of grant. The number of shares of Lockheed Martin common stock reserved

December 31, 1999

for issuance under the Omnibus Plan at December 31, 1999 was 38 million shares. The Omnibus Plan does not impose any minimum vesting periods on options or other awards. The maximum term of an option or any other award is 10 years. The Omnibus Plan allows the Corporation to provide for financing of purchases of its common stock, subject to certain conditions, by interest-bearing notes payable to the Corporation.

In December 1999, 175,000 shares of restricted common stock were awarded under the Omnibus Plan to certain senior executives of the Corporation. The shares were recorded based on the market value of the Corporation's common stock on the date of the award. The award requires the recipients to pay the \$1 par value of each share of stock and provides for payment to be made in cash or in the form of a recourse note to the Corporation. Recipients are entitled to cash dividends and to vote their respective shares, but are prohibited from selling or transferring shares prior to vesting. One-third of the restricted shares will vest in two years from the date of grant, with the remainder vesting four years from the grant date. The impact of these awards was not material to stockholders' equity or compensation expense in 1999.

The following table summarizes employee stock option and restricted stock activity related to the Corporation's plans during 1997, 1998 and 1999:

	Number of Shares (In thousands)		Weighted Average Exercise Price
	Available for Grant	Options Outstanding	
December 31, 1996	14,646	19,316	\$25.33
Granted	(5,796)	5,796	45.60
Exercised	—	(3,519)	20.86
Terminated	654	(716)	40.84
December 31, 1997	9,504	20,877	31.18
Additions	17,000	—	—
Granted	(5,090)	5,090	52.06
Exercised	—	(2,697)	24.70
Terminated	220	(223)	49.03
December 31, 1998	21,634	23,047	36.38
Granted	(5,444)	5,444	37.01
Exercised	—	(656)	19.76
Terminated	565	(567)	42.51
	16,755	27,268	36.78
Restricted stock awards	(175)	—	—
December 31, 1999	16,580	27,268	\$36.78

Approximately 19.7 million, 15.5 million and 13.0 million outstanding options were exercisable by employees at December 31, 1999, 1998 and 1997, respectively.

Information regarding options outstanding at December 31, 1999 follows (number of options in thousands):

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options Outstanding:			
Less than \$20.00	3,328	\$15.82	2.7
\$20.00-\$29.99	4,922	26.33	4.9
\$30.00-\$39.99	9,220	37.19	8.3
\$40.00-\$50.00	4,980	45.53	7.0
Greater than \$50.00	4,818	52.09	9.0
	<u>27,268</u>	<u>\$36.78</u>	<u>6.9</u>
Options Exercisable:			
Less than \$20.00	3,328	\$15.82	
\$20.00-\$29.99	4,922	26.33	
\$30.00-\$39.99	4,006	37.42	
\$40.00-\$50.00	4,975	45.53	
Greater than \$50.00	2,454	52.11	
	<u>19,685</u>	<u>\$34.87</u>	

All stock options granted in 1999, 1998 and 1997 under the Omnibus Plan have 10 year terms and vest over a two year service period. Exercise prices of options awarded in those years were equal to the market price of the stock on the date of grant. Pro forma information regarding net earnings and earnings per share as required by SFAS No. 123 has been prepared as if the Corporation had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 4.64 percent, 5.39 percent and 6.36 percent; dividend yields of 2.4 percent, 1.9 percent and 1.5 percent; volatility factors related to the expected market price of the Corporation's common stock of .247, .174 and .163; and a weighted average expected option life of five years. The weighted average fair values of options granted during 1999, 1998 and 1997 were \$8.53, \$10.96 and \$10.94, respectively.

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods. The Corporation's pro forma information follows:

<i>(In millions, except per share data)</i>	1999	1998	1997
Pro forma net earnings	\$351	\$ 965	\$1,267
Pro forma earnings (loss) per share:			
Basic	\$.92	\$2.56	\$ (1.65)
Diluted	\$.91	\$2.53	\$ (1.65)

Note 14—Post-Retirement Benefit Plans

Defined contribution plans—The Corporation maintains a number of defined contribution plans which cover substantially all employees, the most significant of which are the 401(k) plans for salaried employees and hourly employees. Under the provisions of these 401(k) plans, employees' eligible contributions are matched by the Corporation at established rates. The Corporation's matching obligations were \$222 million in 1999, \$226 million in 1998 and \$212 million in 1997.

The Lockheed Martin Corporation Salaried Savings Plan includes an ESOP which purchased 34.8 million shares of the Corporation's common stock with the proceeds from a \$500 million note issue which is guaranteed by the Corporation. The Corporation's match consisted of shares of its common stock, which was partially fulfilled with stock released from the ESOP at approximately 2.4 million shares per year based upon the debt repayment schedule through the year 2004, with the remainder being fulfilled through purchases of common stock from terminating participants or in the open market, or through newly issued shares from the Corporation. Interest incurred on the ESOP debt totaled \$20 million, \$23 million and \$26 million in 1999, 1998 and 1997, respectively. Dividends received by the ESOP with respect to unallocated shares held are used for debt service. The ESOP held approximately 42.6 million issued shares of the Corporation's common stock at December 31, 1999, of which approximately 32.2 million were allocated and 10.4 million were unallocated. Unallocated common shares held by the ESOP are

considered outstanding for voting and other Corporate purposes, but excluded from weighted average outstanding shares in calculating earnings per share. For 1999, 1998 and 1997, the weighted average unallocated ESOP shares excluded in calculating earnings per share totaled approximately 11.3 million, 13.6 million and 15.8 million common shares, respectively. The fair value of the unallocated ESOP shares at December 31, 1999 was approximately \$228 million.

Certain plans for hourly employees include non-leveraged ESOPs. The Corporation's match to these plans was made through cash contributions to the ESOP trusts which were used, in part, to purchase common stock from terminating participants and in the open market for allocation to participant accounts. These ESOP trusts held approximately 3.7 million issued and outstanding shares of common stock at December 31, 1999.

Dividends paid to the salaried and hourly ESOP trusts on the allocated shares are paid annually by the ESOP trusts to the participants based upon the number of shares allocated to each participant.

Defined benefit pension plans, and retiree medical and life insurance plans—Most employees are covered by defined benefit pension plans, and certain health care and life insurance benefits are provided to eligible retirees by the Corporation. The Corporation has made contributions to trusts (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans) established to pay future benefits to eligible retirees and dependents. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for 1999 and 1998 were based on assumptions in effect at the end of the respective preceding years. Effective October 1997, the Corporation changed its expected long-term rate of return on assets related to its defined benefit pension and retiree medical plans.

December 31, 1999

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

(In millions)	Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	1999	1998	1999	1998
Change in Benefit Obligations				
Benefit obligations				
at beginning of year	\$18,146	\$16,326	\$2,685	\$2,526
Service cost	564	491	43	40
Interest cost	1,245	1,197	177	178
Benefits paid	(1,110)	(1,117)	(208)	(210)
Amendments	77	259	3	(72)
Divestitures	—	(9)	—	(11)
Actuarial (gains) losses	(852)	995	(23)	205
Participants' contributions	3	4	29	29
Benefit obligations at end of year	\$18,073	\$18,146	\$2,706	\$2,685
Change in Plan Assets				
Fair value of plan assets				
at beginning of year	\$22,811	\$20,642	\$1,002	\$895
Actual return on plan assets	3,211	3,140	116	86
Corporation's contributions	149	152	118	120
Benefits paid	(1,110)	(1,117)	(124)	(128)
Participants' contributions	3	4	29	29
Divestitures	—	(10)	—	—
Fair value of plan assets at end of year	\$25,064	\$22,811	\$1,141	\$1,002
Funded (unfunded) status of the plans	\$6,991	\$4,665	\$(1,565)	\$(1,683)
Unrecognized net actuarial gain	(6,240)	(4,142)	(191)	(156)
Unrecognized prior service cost	659	651	(49)	(64)
Unrecognized transition asset	(13)	(17)	—	—
Prepaid (accrued) benefit cost	\$1,397	\$1,157	\$(1,805)	\$(1,903)

The net pension cost and the net post-retirement benefit cost related to the Corporation's plans include the following components:

(In millions)	1999	1998	1997
Defined Benefit Pension Plans			
Service cost	\$564	\$491	\$444
Interest cost	1,245	1,197	1,163
Expected return on plan assets	(1,920)	(1,715)	(1,542)
Amortization of prior service cost	69	58	54
Recognized net actuarial (gains) losses	(43)	(22)	—
Amortization of transition asset	(4)	(89)	(90)
Net pension (income) cost	\$ (89)	\$ (80)	\$ 29
Retiree Medical and Life Insurance Plans			
Service cost	\$43	\$40	\$39
Interest cost	177	178	191
Expected return on plan assets	(90)	(79)	(64)
Amortization of prior service cost	(12)	(6)	(6)
Recognized net actuarial gains	(8)	(15)	(9)
Net post-retirement cost	\$110	\$118	\$151

The following actuarial assumptions were used to determine the benefit obligations and the net costs related to the Corporation's defined benefit pension and post-retirement benefit plans, as appropriate:

	1999	1998	1997
Discount rates	7.75%	7.0%	7.5%
Expected long-term rates of return on assets	9.5	9.5	9.5
Rates of increase in future compensation levels	5.5	5.5	6.0

The medical trend rates used in measuring the post-retirement benefit obligation were 6.0 percent in 1999 and 6.7 percent in 1998, and were assumed to gradually decrease to 4.5 percent by the year 2004. An increase or decrease of one percentage point in the assumed medical trend rates would result in a change in the benefit obligation of approximately 4.6 percent and (3.6) percent, respectively, at December 31, 1999, and a change in the 1999 post-retirement service cost plus interest cost of approximately 7.2 percent and (5.8) percent, respectively. The medical trend rate for 2000 is 7.8 percent.

Note 15—Leases

Total rental expense under operating leases, net of immaterial amounts of sublease rentals and contingent rentals, was \$287 million, \$285 million and \$295 million for 1999, 1998 and 1997, respectively.

Future minimum lease commitments at December 31, 1999 for all operating leases that have a remaining term of more than one year were approximately \$1,013 million (\$247 million in 2000, \$200 million in 2001, \$156 million in 2002, \$112 million in 2003, \$89 million in 2004, and \$209 million in later years). Certain major plant facilities and equipment are furnished by the U.S. Government under short-term or cancelable arrangements.

Note 16—Commitments and 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 \$140 million. The Corporation is also coordinating with the U.S. Air Force,

which is conducting preliminary studies of the potential health effects of exposure to perchlorates in connection with several sites across the country, including the Redlands site. The results of these studies indicate that current efforts with water purveyors regarding perchlorate issues are appropriate; however, the Corporation currently cannot project the extent of its ultimate clean-up obligation, if any, with respect to perchlorates.

The Corporation entered into a consent decree with the U.S. Environmental Protection Agency (EPA) in 1991 relating to certain property in Burbank, California, which obligated the Corporation to design and construct facilities to monitor, extract and treat groundwater, and to operate and maintain such facilities for approximately eight years. The Corporation entered into a follow-on consent decree in 1998 which obligates the Corporation to fund the continued operation and maintenance of these facilities through the year 2018; however, the responsibility for the actual operations of these facilities will be assumed by the city of Burbank late in 2000. The Corporation has also been operating under a cleanup and abatement order from the Regional Board affecting its facilities and former facilities in Burbank, California. This order requires site assessment and action to abate groundwater contamination by a combination of groundwater and soil cleanup and treatment. Also as a result of its former operations at the Burbank facilities, the Corporation is participating as one of several parties under administrative orders from the EPA to design, build and operate a groundwater treatment system in Glendale, California as part of the San Fernando Superfund site that includes Burbank. The city of Glendale is expected to assume responsibility for the actual operations of the Glendale treatment plant. The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and the Regional Board order related to the Burbank property, and the administrative orders related to the city of Glendale, will be approximately \$100 million. Under an agreement reached with the U.S. Government and filed with the U.S. District Court in January 2000, an amount equal to approximately 50 percent of these future expenditures will be reimbursed by the U.S. Government as

a responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

The Corporation is involved in other proceedings and potential proceedings relating to environmental matters, 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 \$200 million for the other cases in which an estimate of financial exposure can be determined has been recorded.

Under an agreement with the U.S. Government in 1990, the Burbank groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, 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. Although the Defense Contract Audit Agency has questioned certain elements of the Corporation's practices with respect to the aforementioned agreement, it is management's opinion that the treatment of these environmental costs is appropriate and consistent with the terms of such agreement. On October 4, 1999, the Corporation requested the issuance of a final decision regarding the propriety of the Corporation's U.S. Government accounting practices for the treatment of environmental costs. A final decision is expected to be issued by March 31, 2000. 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 allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible future recovery 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 threatened the viability of the overall Pit 9 program. Based on an investigation by management to identify and quantify the overall effect of these matters, the Corporation submitted a request for equitable adjustment (REA) to the DOE on March 31, 1997 that sought, among other things, the recovery of a portion of unanticipated costs incurred by the Corporation and the restructuring of the contract to provide for a more equitable sharing of the risks associated with the Pit 9 project. The Corporation has been unsuccessful in reaching any agreements with the DOE on cost recovery or other contract restructuring matters.

On June 1, 1998, the DOE, through Lockheed Martin Idaho Technologies Company (LMITCO), its management contractor, terminated the Pit 9 contract for default. On that same date, 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. In addition, on July 21, 1998, the Corporation withdrew the REA previously submitted to the DOE and replaced it with a certified REA. The certified REA is similar in substance to the REA previously submitted, but its certification, based upon more detailed factual and contractual analysis, raises its status to that of a formal claim. On August 11, 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. The Corporation is defending this action while continuing to pursue its certified REA. Discovery has been ongoing since August 2, 1999. On October 1, 1999, the U.S. Court of Federal Claims stayed the DOE's motion to dismiss the Corporation's lawsuit, finding that the Court has jurisdiction. The Court ordered discovery to commence and gave leave to the DOE to convert its motion to dismiss to a motion for summary judgment if supported by discovery. The Corporation continues to assert its position in the litigation while continuing its efforts to resolve the dispute through non-litigation means.

Letters of credit and other matters—The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts. At December 31, 1999, the Corporation had contingent liabilities on outstanding letters of credit, guarantees, and other arrangements aggregating approximately \$1.1 billion.

Note 17—Information on Industry Segments and Major Customers

On September 27, 1999, Lockheed Martin announced the results to date of its strategic and organizational review that began June 9, 1999. As a result of this review, the Corporation has implemented a new organizational structure which was effective October 1, 1999 that realigns its core lines of business into four principal business segments. All other activities of the Corporation fall within the Corporate and Other segment. Prior period amounts have been adjusted to conform with the new organizational structure.

Transactions between segments are generally negotiated and accounted for under terms and conditions that are similar to other government and commercial contracts; however, these intercompany transactions are eliminated in consolidation. Other accounting policies of the business segments are the same as those described in "Note 1—Summary of Significant Accounting Policies."

Systems Integration—Engaged in the design, development, integration and production of high performance electronic systems for undersea, shipboard, land, and airborne applications. Major product lines include missiles and fire control systems; air and theater missile defense systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; avionics and ground combat vehicle integration; platform integration systems; command, control, communications, computers and intelligence (C4I) systems for naval, airborne and ground applications; surveillance and reconnaissance systems; air traffic control systems; and postal automation systems.

Space Systems—Engaged in the design, development, engineering and production of civil, commercial and military space systems. Major product lines include spacecraft, space launch vehicles, manned space systems and their supporting ground systems and services; and strategic fleet ballistic missiles. In addition to its consolidated business units, the segment has investments in joint ventures that are principally engaged in businesses which complement and enhance other activities of the segment.

Aeronautical Systems—Engaged in design, research and development, and production of tactical aircraft, surveillance/command systems, reconnaissance systems, platform systems integration and advanced development programs. Major programs include the F-22 air-superiority fighter, the Joint Strike Fighter, the F-16 multi-role fighter, the C-130J airlift aircraft, the X-33 reusable launch vehicle technology demonstrator, and Airborne Early Warning & Control systems programs.

Technology Services—Provides a wide array of management, engineering, scientific, logistic and information services to federal agencies and other customers. Major product lines include engineering, science and information services for NASA; aircraft maintenance and modification services; operation, maintenance, training, and logistics support for military and civilian systems; launch, mission, and analysis services for military, classified and commercial satellites; research, development, engineering and science

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1999

in support of nuclear weapons stewardship and naval reactor programs.

Corporate and Other—Includes commercial information technology and state and local government services lines of business. Also includes Global Telecommunications, a wholly-owned subsidiary of the Corporation, which was formed effective January 1, 1999 from the combination of investments in several existing joint ventures and certain other elements of the Corporation. Such investments were transferred from the Systems Integration and Space Systems segments. The prior period amounts related to these joint ventures and elements transferred were not material to the respective segments, and therefore, segment information in prior periods was not restated to conform with the 1999 presentation. In addition, this segment includes the Corporation's investment in COMSAT and certain other joint ventures and businesses.

Selected Financial Data by Business Segment

<i>(In millions)</i>	1999	1998	1997
Net sales			
Systems Integration	\$10,954	\$10,895	\$10,853
Space Systems	5,825	7,039	7,931
Aeronautical Systems	5,499	5,459	5,319
Technology Services	2,261	1,935	1,989
Corporate and Other	991	938	1,977
	\$25,530	\$26,266	\$28,069
Operating profit (loss)			
Systems Integration	\$ 967	\$ 949	\$ 843
Space Systems	474	954	1,090
Aeronautical Systems	247	649	561
Technology Services	137	135	187
Corporate and Other	184	(165)	98
	\$ 2,009	\$ 2,522	\$ 2,779
Intersegment revenue			
Systems Integration	\$ 636	\$ 692	\$ 548
Space Systems	101	44	35
Aeronautical Systems	88	60	73
Technology Services	641	507	445
Corporate and Other	67	46	96
	\$ 1,533	\$ 1,349	\$ 1,197
Depreciation and amortization			
Systems Integration	\$ 242	\$ 269	\$ 282
Space Systems	146	160	177
Aeronautical Systems	82	74	81
Technology Services	14	12	16
Corporate and Other	45	54	50
	\$ 529	\$ 569	\$ 606

<i>(In millions)</i>	1999	1998	1997
Amortization of intangible assets			
Systems Integration	\$ 304	\$ 304	\$ 308
Space Systems	29	29	29
Aeronautical Systems	80	80	80
Technology Services	18	18	17
Corporate and Other	9	5	12
	\$ 440	\$ 436	\$ 446

<i>(In millions)</i>	1999	1998	1997
Nonrecurring and unusual items—profit (loss)			
Systems Integration	\$ 13	\$ 4	\$ (65)
Space Systems	21	—	(60)
Aeronautical Systems	—	—	(31)
Technology Services	—	—	(12)
Corporate and Other	215	(166)	110
	\$ 249	\$ (162)	\$ (58)

<i>(In millions)</i>	1999	1998	1997
Expenditures for property, plant and equipment			
Systems Integration	\$ 237	\$ 220	\$ 256
Space Systems	113	271	293
Aeronautical Systems	123	100	72
Technology Services	24	25	43
Corporate and Other	172	81	86
	\$ 669	\$ 697	\$ 750

<i>(In millions)</i>	1999	1998	1997
Investments in equity method investees			
Systems Integration	\$ 26	\$ 19	\$ 4
Space Systems	101	115	121
Aeronautical Systems	5	—	—
Technology Services	19	20	29
Corporate and Other	1,620	374	63
	\$ 1,771	\$ 528	\$ 217

<i>(In millions)</i>	1999	1998	1997
Assets^(a)			
Systems Integration	\$13,252	\$13,435	\$13,968
Space Systems	5,017	5,228	4,599
Aeronautical Systems	3,206	3,593	3,507
Technology Services	1,484	1,421	1,284
Corporate and Other	7,053	5,067	5,003
	\$30,012	\$28,744	\$28,361

(a) The Corporation has no significant long-lived assets located in foreign countries.

Net Sales by Customer Category

<i>(In millions)</i>	1999	1998	1997
U.S. Government			
Systems Integration	\$ 8,349	\$ 8,295	\$ 8,228
Space Systems	4,722	5,589	6,100
Aeronautical Systems	2,979	2,706	2,541
Technology Services	2,033	1,718	1,518
Corporate and Other	15	—	9
	\$18,098	\$18,308	\$18,396

(In millions)	1999	1998	1997
Foreign governments^{(a)(b)}			
Systems Integration	\$ 2,167	\$ 2,157	\$ 1,930
Space Systems	146	37	94
Aeronautical Systems	2,501	2,721	2,737
Technology Services	106	97	100
Corporate and Other	—	1	—
	\$ 4,920	\$ 5,013	\$ 4,861
Commercial^(b)			
Systems Integration	\$ 438	\$ 443	\$ 695
Space Systems	957	1,413	1,737
Aeronautical Systems	19	32	41
Technology Services	122	120	371
Corporate and Other	976	937	1,968
	\$ 2,512	\$ 2,945	\$ 4,812

(a) Sales made to foreign governments through the U.S. Government are included in the foreign governments category above.

(b) Export sales, included in the foreign governments and commercial categories above, were approximately \$5.7 billion, \$6.1 billion and \$5.9 billion in 1999, 1998 and 1997, respectively.

Note 18—Summary of Quarterly Information (Unaudited)

(In millions, except per share data)	1999 Quarters			
	First ^(a)	Second ^(b)	Third ^(c)	Fourth ^(d)
Net sales	\$6,188	\$6,203	\$6,157	\$6,982
Earnings from operations	487	131	488	559
Earnings (loss) before cumulative effect of change in accounting	268	(41)	217	293
Net (loss) earnings	(87)	(41)	217	293
Diluted earnings (loss) per share before cumulative effect of change in accounting	.70	(.11)	.57	.76
Diluted (loss) earnings per share	(.23)	(.11)	.57	.76

(In millions, except per share data)	1998 Quarters			
	First	Second ^(e)	Third ^(f)	Fourth ^(g)
Net sales	\$6,217	\$6,520	\$6,349	\$7,180
Earnings from operations	618	638	696	400
Net earnings	269	289	318	125
Diluted earnings per share	.71	.76	.83	.33

(a) Net loss for the first quarter of 1999 includes a nonrecurring and unusual gain from the Corporation's sale of 4.5 million of its shares of L-3 as part of a secondary public offering by L-3. The gain favorably impacted the net loss by \$74 million, or \$.19 per diluted share. Net loss also includes the effect of the Corporation's adoption of SOP No. 98-5 pertaining to the costs of start-up activities which resulted in the recognition of a cumulative effect adjustment that negatively impacted the net loss by \$355 million, or \$.93 per diluted share.

- (b) Net loss for the second quarter of 1999 includes the effects of negative adjustments related to changes in estimate on the C-130J airlift aircraft program due to cost growth and a reduction in production rates, based on a current evaluation of the program's performance. These adjustments, net of state income tax benefits, negatively impacted (loss) earnings before income taxes and cumulative effect of change in accounting by \$197 million, and increased the net loss by \$128 million, or \$.33 per diluted share. Net loss for the second quarter also includes the effects of negative adjustments related to changes in estimate on the Titan IV program due to reduced award and incentive fees resulting from the Titan IV launch failure on April 30, 1999 as well as a more conservative assessment of future program performance. These adjustments, net of state income tax benefits, negatively impacted (loss) earnings before income taxes and cumulative effect of change in accounting by \$84 million, and increased the net loss by \$54 million, or \$.14 per diluted share. Also, net earnings for the second quarter of 1999 include a nonrecurring and unusual item related to portfolio shaping activities which increased the net loss by \$12 million, or \$.03 per diluted share.
- (c) Net earnings for the third quarter of 1999 include nonrecurring and unusual items related to gains from the sale of surplus real estate and a net gain associated with sales of various non-core businesses and investments and other portfolio shaping items. On a combined basis, these nonrecurring and unusual items increased net earnings by \$34 million, or \$.09 per diluted share.
- (d) Net earnings for the fourth quarter of 1999 include a nonrecurring and unusual gain from the Corporation's sale of its remaining interest in L-3, which increased net earnings by \$27 million, or \$.07 per diluted share. Net earnings for the fourth quarter of 1999 also include nonrecurring and unusual gains related to the Corporation's sale of surplus real estate, and a net gain associated with sales of various non-core businesses and investments and other portfolio shaping items. On a combined basis, these items increased net earnings by \$39 million, or \$.10 per diluted share.
- (e) Net earnings for the second quarter of 1998 include a nonrecurring and unusual gain related to the initial public offering of L-3's stock. This gain increased net earnings by \$12 million, or \$.03 per diluted share.
- (f) Net earnings for the third quarter of 1998 include an adjustment resulting from significant improvement in the Atlas launch vehicle program based upon a current evaluation of the program's historical performance. This change in estimate, net of state income taxes, increased pretax earnings by \$120 million and increased net earnings by \$78 million, or \$.21 per diluted share. Net earnings for the third quarter of 1998 include a nonrecurring and unusual gain related to the Corporation's portfolio shaping actions which increased net earnings by \$12 million, or \$.03 per diluted share.
- (g) Net earnings for the fourth quarter of 1998 include an adjustment resulting from the impact of the restructure of a commercial satellite program which increased net earnings by approximately \$32 million, or \$.08 per diluted share. Net earnings for the fourth quarter of 1998 include the effects of a nonrecurring and unusual after-tax charge of \$183 million, or \$.48 per diluted share, related to CalComp, a majority-owned subsidiary of the Corporation (see Note 4), and a nonrecurring and unusual gain related to the Corporation's sale of surplus real estate which increased net income by \$23 million, or \$.06 per diluted share.

CONSOLIDATED FINANCIAL DATA—TEN YEAR SUMMARY^(a)

(In millions, except per share data)

	1999(b)	1998(c)	1997(d)
Operating Results			
Net sales	\$25,530	\$26,266	\$28,069
Costs and expenses	23,865	23,914	25,772
Earnings from operations	1,665	2,352	2,297
Other income and expenses, net	344	170	482
	2,009	2,522	2,779
Interest expense	809	861	842
Earnings before income taxes and cumulative effect of changes in accounting	1,200	1,661	1,937
Income tax expense	463	660	637
Earnings before cumulative effect of changes in accounting	737	1,001	1,300
Cumulative effect of changes in accounting	(355)	—	—
Net earnings (loss)	\$ 382	\$ 1,001	\$ 1,300
Earnings (Loss) Per Common Share			
Basic:			
Before cumulative effect of changes in accounting	\$ 1.93	\$ 2.66	\$ (1.56)
Cumulative effect of changes in accounting	(.93)	—	—
	\$ 1.00	\$ 2.66	\$ (1.56)
Diluted:			
Before cumulative effect of changes in accounting	\$ 1.92	\$ 2.63	\$ (1.56)
Cumulative effect of changes in accounting	(.93)	—	—
	\$.99	\$ 2.63	\$ (1.56)
Cash dividends	\$.88	\$.82	\$.80
Condensed Balance Sheet Data			
Current assets	\$10,696	\$10,611	\$10,105
Property, plant and equipment	3,634	3,513	3,669
Intangible assets related to contracts and programs acquired	1,259	1,418	1,566
Cost in excess of net assets acquired	9,162	9,521	9,856
Other assets	5,261	3,681	3,165
Total	\$30,012	\$28,744	\$28,361
Short-term borrowings	\$ 475	\$ 1,043	\$ 494
Current maturities of long-term debt	52	886	876
Other current liabilities	8,285	8,338	7,819
Long-term debt	11,427	8,957	10,528
Post-retirement benefit liabilities	1,805	1,903	1,993
Other liabilities	1,607	1,480	1,475
Stockholders' equity	6,361	6,137	5,176
Total	\$30,012	\$28,744	\$28,361
Common Shares Outstanding at Year End	397.8	393.3	388.8

Notes to Ten Year Summary

(a) The Corporation was formed in 1995 from the combination of Lockheed Corporation and Martin Marietta Corporation. All financial information prior to 1995 was derived from the financial statements of those companies under the pooling of interests method of accounting.

(b) Includes the effects of nonrecurring and unusual items which, on a combined basis, increased pretax earnings by \$249 million, \$162 million after tax, or \$.42 per diluted share. Also includes a cumulative effect adjustment relating to the adoption of SOP No. 98-5 regarding costs for start-up activities which resulted in a nonrecurring and unusual charge that reduced net earnings by \$355 million, or \$.93 per diluted share.

(c) Includes the effects of nonrecurring and unusual items which, on a combined basis, decreased pretax earnings by \$162 million, \$136 million after tax, or \$.36 per diluted share.

(d) Includes the effects of a nonrecurring and unusual tax-free gain of \$311 million and the aggregate effects of other nonrecurring and unusual items which decreased pretax earnings by \$369 million, \$245 million after tax. On a combined basis, these items decreased diluted loss per share by \$.15. Loss per share also includes the effects of the deemed preferred stock dividend resulting from the GE Transaction which reduced the basic and diluted per share amounts by \$.493.

1996(e)	1995(f)	1994(g)	1993(h)	1992(i)	1991	1990
\$26,875	\$22,853	\$22,906	\$22,397	\$16,030	\$15,871	\$16,089
24,594	21,571	21,127	20,857	14,891	14,767	15,178
2,281	1,282	1,779	1,540	1,139	1,104	911
452	95	200	44	42	(49)	34
2,733	1,377	1,979	1,584	1,181	1,055	945
700	288	304	278	177	176	180
2,033	1,089	1,675	1,306	1,004	879	765
686	407	620	477	355	261	161
1,347	682	1,055	829	649	618	604
—	—	(37)	—	(1,010)	—	—
\$ 1,347	\$ 682	\$ 1,018	\$ 829	\$ (361)	\$ 618	\$ 604
\$ 3.40	\$ 1.64	\$ 2.66	\$ 2.00	\$ 1.66	\$ 1.53	\$ 1.48
—	—	(.10)	—	(2.58)	—	—
\$ 3.40	\$ 1.64	\$ 2.56	\$ 2.00	\$ (.92)	\$ 1.53	\$ 1.48
\$ 3.04	\$ 1.54	\$ 2.43	\$ 1.88	\$ 1.65	\$ 1.52	\$ 1.48
—	—	(.09)	—	(2.57)	—	—
\$ 3.04	\$ 1.54	\$ 2.34	\$ 1.88	\$ (.92)	\$ 1.52	\$ 1.48
\$.80	\$.67	\$.57	\$.55	\$.52	\$.49	\$.45
\$10,346	\$ 8,208	\$ 8,143	\$ 6,961	\$ 5,157	\$ 5,553	\$ 5,442
3,721	3,134	3,455	3,643	3,139	3,155	3,200
1,767	1,553	1,696	1,832	42	52	59
10,394	2,794	2,831	2,697	841	864	882
3,312	1,869	1,854	1,949	1,648	895	883
\$29,540	\$17,558	\$17,979	\$17,082	\$10,827	\$10,519	\$10,466
\$ 1,110	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
180	722	285	346	327	298	30
7,382	4,462	5,177	4,690	3,176	3,833	4,235
10,188	3,010	3,594	4,026	1,803	1,997	2,392
2,077	1,795	1,859	1,848	1,579	54	—
1,747	1,136	978	971	460	112	38
6,856	6,433	6,086	5,201	3,482	4,225	3,771
\$29,540	\$17,558	\$17,979	\$17,082	\$10,827	\$10,519	\$10,466
385.5	397.2	398.3	395.8	388.1	402.7	401.4

(e) Reflects the business combination with Loral Corporation effective April 1996. Includes the effects of a nonrecurring and unusual pretax gain of \$365 million, \$351 million after tax, and nonrecurring and unusual pretax charges of \$307 million, \$209 million after tax which, on a combined basis, increased diluted earnings per share by \$.32.

(f) Includes the effects of nonrecurring and unusual charges for merger related and consolidation expenses totaling \$690 million, \$436 million after tax, or \$.99 per diluted share.

(g) Reflects the acquisition of General Dynamics Space Systems Division effective May 1994.

(h) Reflects the acquisition of General Dynamics Fort Worth Division effective February 1993 and the acquisition of GE Aerospace effective April 1993.

(i) Reflects the Corporation's adoption of SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

BOARD OF DIRECTORS

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*Senior Fellow for Public Policy Research
American Enterprise Institute*

Vance D. Coffman

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Lockheed Martin Corporation*

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University of Southern California*

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Stanford University*

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PECO Energy Company*

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*Retired Vice Chairman and
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General Electric Company*

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*Chairman
Alliance Capital Management
International*

Carlisle A. H. Trost

Retired Chief of Naval Operations

James R. Ukropina

*Partner
O'Melveny & Myers*

Douglas C. Yearley

*Chairman of the Board
Phelps Dodge Corporation*

COMMITTEES

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Mrs. King and Messrs. Gibbons, Hurtt,
Savage, Ukropina and Yearley*

Executive Committee

*Mr. Augustine, Chairman
Messrs. Bennett, Coffman, Hood, Hurtt,
Murphy, Trost and Yearley*

Finance Committee

*Mr. Yearley, Chairman
Mrs. Cheney and Messrs. Augustine,
Bennett, Flournoy and Hood*

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Compensation Committee**

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Mrs. King and Messrs. Hurtt, Murphy
and Savage*

Nominating Committee

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Mrs. Cheney and Messrs. Flournoy,
Gibbons, Trost and Ukropina*

Stock Option Subcommittee

*Mr. Hood, Chairman
Mrs. King and Messrs. Murphy
and Savage*

OFFICERS

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William F. Ballhaus, Jr.
Vice President

James F. Berry
Vice President

Dennis R. Boxx
Vice President

John M. Brophy
Vice President

William B. Bullock
Vice President

Charles T. Burbage
Vice President

Michael F. Camardo
*Executive Vice President,
Technology Services*

Joseph R. Cleveland
Vice President

Vance D. Coffman
*Chairman and
Chief Executive Officer*

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*Executive Vice President,
Systems Integration*

Brian D. Dailey
Vice President

Peter DeMayo
Vice President

Terrance Drabant
Vice President

Philip J. Duke
*Executive Vice President,
Shared Services*

Robert T. Elrod
Vice President

Terry A. Graham
Vice President

John Hallal
Vice President

Dain M. Hancock
*Executive Vice President,
Aeronautical Systems*

Marcus C. Hansen
Vice President

Marillyn A. Hewson
Vice President

Jay F. Honeycutt
Vice President

Jack W. Hugus
Vice President

Arthur E. Johnson
Vice President

Christopher E. Kubasik
Vice President and Controller

Peter L. Kujawski
Vice President

Gary P. Mann
Vice President

G. Thomas Marsh
Vice President

Janet L. McGregor
Vice President and Treasurer

Frank H. Menaker, Jr.
*Senior Vice President and
General Counsel*

Frank C. Meyer
Vice President

John E. Montague
Vice President

Daniel W. Patterson
Vice President

David J. Posek
Vice President

Terry F. Powell
Vice President

James R. Ryan
Vice President

Albert E. Smith
*Executive Vice President,
Space Systems*

Michael A. Smith
Vice President

John V. Sponyoe
*Vice President and
Chief Executive Officer,
Lockheed Martin Global
Telecommunications*

Robert J. Stevens
*Executive Vice President—
Finance and
Chief Financial Officer*

Robert H. Trice, Jr.
Vice President

Lillian M. Trippett
*Vice President and Corporate
Secretary*

Anthony G. Tuffo
Vice President

Anthony Van Schaick
Vice President

As of December 31, 1999, there were approximately 35,983 holders of record of Lockheed Martin common stock and 397,783,144 shares outstanding.

Common Stock Prices

<i>(In dollars)</i>	High	Low	Close
1999 Quarters			
1st	43	34⁵/₈	37³/₄
2nd	46	33³/₄	37¹/₄
3rd	39¹⁵/₁₆	30³/₁₆	32¹¹/₁₆
4th	33³/₈	16³/₈	21⁷/₈
1998 Quarters			
1st	58¹⁵/₁₆	48³/₄	56¹/₄
2nd	58¹/₂	49³¹/₃₂	52¹⁵/₁₆
3rd	54¹/₄	43⁵/₈	50¹³/₃₂
4th	56³/₄	41	42³/₈

Transfer Agent & Registrar

First Chicago Trust Company
 A Division of EquiServe
 P.O. Box 2500
 Jersey City, New Jersey 07303-2500
 Telephone: 1-800-519-3111
 TDD for the hearing impaired: 201-222-4955
 Internet: <http://www.equiserve.com>

Dividend Reinvestment Plan

Lockheed Martin's Dividend Reinvestment and Stock Purchase Plan offers stockholders an opportunity to purchase additional shares through automatic dividend reinvestment and/or voluntary cash investments. For more information, contact our transfer agent, First Chicago Trust Company at 1-800-519-3111.

Independent Auditors

Ernst & Young LLP
 1225 Connecticut Avenue, N.W.
 Washington, D.C. 20036

Common Stock

Stock symbol: LMT
 Listed: New York Stock Exchange

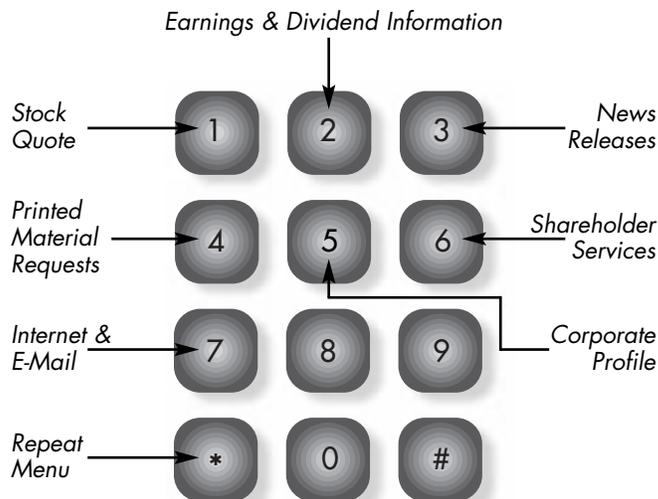
Annual Report on Form 10-K

Stockholders may obtain, without charge, a copy of Lockheed Martin's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the year ended December 31, 1999 by writing to:

Lockheed Martin Investor Relations
 6801 Rockledge Drive
 Bethesda, MD 20817

For accessing the Lockheed Martin Investor Relations homepage on the Internet use the Uniform Resource Locator: <http://www.shareholder.com/lmt>

**Lockheed Martin Shareholder Direct
 1-800-LMT-9758**



Financial results, stock quotes, earnings and dividend news as well as other Lockheed Martin announcements are available by calling the above toll-free number. The information will be read to the caller and can also be received by mail, fax or e-mail. You may also reach Shareholder Services for account information or Investor Relations for additional information on Lockheed Martin via the toll-free number.

This Annual Report 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; the timely outcome of legislation and other agency actions required in order to consummate the transaction with COMSAT; 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 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, and 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; 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 Annual Report. 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 Annual Report, 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 the "Transaction Agreement with COMSAT Corporation," the discussion of "Competition and Risk" and the discussion of "Government Contracts and Regulations" on pages 3 through 6, pages 23 through 26 and pages 26 through 28, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 21 through 37 of this Annual Report, and "Note 1—Summary of Significant Accounting Policies," "Note 2—Transaction Agreement with COMSAT Corporation" and "Note 16—Commitments and Contingencies" of the Notes to Consolidated Financial Statements on pages 44 through 47, pages 47 through 48 and pages 59 through 61, respectively, of the Audited Consolidated Financial Statements included in this Annual Report and incorporated by reference into the Form 10-K.