LOCKHEED MARTIN CORP
Form DEF 14A
March 13, 2015

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SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

| | | | |
|---|---|---|---|
| [ ] | Preliminary Proxy Statement | [ ] | Soliciting Material Under Rule 14a-12 |
| [ ] | Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) | | |
| [X] | Definitive Proxy Statement | | |
| [ ] | Definitive Additional Materials | | |

Lockheed Martin Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] CHECK BOX IF
5 DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
5,630,974

8 SHARED VOTING POWER
0

9 SOLE DISPOSITIVE POWER
5,630,974

10 SHARED DISPOSITIVE POWER
0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
5,630,974

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
2.00%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Hopper Investments LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
5,630,974

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
5,630,974

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
5,630,974

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
2.00%

14 TYPE OF REPORTING PERSON
OO

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Barberry Corp.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
5,630,974

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
5,630,974

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
5,630,974

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
2.00%

14 TYPE OF REPORTING PERSON
CO

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Partners Master Fund LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
9,153,164

8 SHARED VOTING POWER
0

9 SOLE DISPOSITIVE POWER
9,153,164

10 SHARED DISPOSITIVE POWER
0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
9,153,164

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
3.25%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Offshore LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
9,153,164

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
9,153,164

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
9,153,164

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
3.25%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Partners LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
13,370,741

8 SHARED VOTING POWER
0

9 SOLE DISPOSITIVE POWER
13,370,741

10 SHARED DISPOSITIVE POWER
0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
13,370,741

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
4.74%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Onshore LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
13,370,741

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
13,370,741

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
13,370,741

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
4.74%

14 TYPE OF REPORTING PERSON
PN

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SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Capital LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
22,523,905

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
22,523,905

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
22,523,905

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
7.99%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
IPH GP LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
22,523,905

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
22,523,905

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
22,523,905

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
7.99%

14 TYPE OF REPORTING PERSON
OO

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SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Enterprises Holdings L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
22,523,905

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
22,523,905

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
22,523,905

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
7.99%

14 TYPE OF REPORTING PERSON
PN

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Icahn Enterprises G.P. Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
22,523,905

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
22,523,905

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
22,523,905

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
7.99%

14 TYPE OF REPORTING PERSON
CO

SCHEDULE 13D

CUSIP No. 436440101

1. NAME OF REPORTING PERSON
Beckton Corp.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
22,523,905

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
22,523,905

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
22,523,905

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
7.99%

14 TYPE OF REPORTING PERSON
CO

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SCHEDULE 13D

CUSIP No. 436440101

1 NAME OF REPORTING PERSON
Carl C. Icahn

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) / /
(b) / /

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)/ /

6 CITIZENSHIP OR PLACE OF ORGANIZATION
United States of America

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

7 SOLE VOTING POWER
0

8 SHARED VOTING POWER
28,154,879

9 SOLE DISPOSITIVE POWER
0

10 SHARED DISPOSITIVE POWER
28,154,879

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
28,154,879

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES/ /

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
9.99%

14 TYPE OF REPORTING PERSON
IN

SCHEDULE 13D

Item 1. Security and Issuer

The Schedule 13D filed with the Securities and Exchange Commission on November 21, 2013, as amended (the "Schedule 13D"), by the Reporting Persons with respect to the shares of Common Stock, $0.01 par value ("Shares"), issued by Hologic, Inc. (the "Issuer"), as amended by Amendment No. 1 to the Schedule 13D filed on December 9, 2013 and Amendment No. 2 to the Schedule 13D filed on December 12, 2013, is hereby further amended to furnish the additional information set forth herein. All capitalized terms contained herein but not otherwise defined shall have the meanings ascribed to such terms in the Schedule 13D.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 of the Schedule 13D is hereby amended by replacing it in its entirety with the following:

The Reporting Persons may be deemed to be the beneficial owner of, in the aggregate, 28,154,879 Shares. The aggregate purchase price of the Shares purchased by the Reporting Persons collectively was approximately $601.4 million (including commissions and premiums for options to purchase Shares). The source of funding for these Shares was the general working capital of the respective purchasers. The Shares are held by the Reporting Persons in margin accounts together with other securities. Such margin accounts may from time to time have debit balances. Part of the purchase price of the Shares was obtained through margin borrowing.

Item 4. Purpose of Transaction

Item 4 of the Schedule 13D is hereby amended by adding the following as the next to last paragraph of Item 4:

As further described in Item 5(c), the Reporting Persons sold 6,000,000 Shares on August 4, 2015. Reference is made to Item 6 below for certain restrictions on the ability of the Reporting Persons to sell or otherwise dispose of the remaining Shares which the Reporting Persons own.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended by replacing it in its entirety with the following:

(a) The Reporting Persons may be deemed to beneficially own, in the aggregate, 28,154,879 Shares, representing approximately 9.99% of the Issuer's outstanding Shares (based upon the 281,802,585 Shares stated to be outstanding as of July 24, 2015 by the Issuer in the Issuer's Form 10-Q filed with the Securities and Exchange Commission on July 29, 2015).

(b) For purposes of this Schedule 13D:

High River has sole voting power and sole dispositive power with regard to 5,630,974 Shares. Each of Hopper, Barberry and Mr. Icahn has shared voting power and shared dispositive power with regard to such Shares. Icahn Master has sole voting power and sole dispositive power with regard to 9,153,164 Shares. Each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such Shares. Icahn Partners has sole voting power and sole dispositive power with regard to 13,370,741 Shares. Each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn has shared voting power and shared dispositive power with regard to such Shares.

Each of Hopper, Barberry and Mr. Icahn, by virtue of their relationships to High River (as disclosed in Item 2), may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended, the "Act") the Shares which High River directly beneficially owns. Each of Hopper, Barberry and Mr. Icahn disclaims beneficial ownership of such Shares for all other purposes. Each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn, by virtue of their relationships to Icahn Master (as disclosed in Item 2), may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Act) the Shares which Icahn Master directly beneficially owns. Each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn disclaims beneficial ownership of such Shares for all other purposes. Each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn, by virtue of their relationships to Icahn Partners (as disclosed in Item 2), may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Act) the Shares which Icahn Partners directly beneficially owns. Each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn disclaims beneficial ownership of such Shares for all other purposes.

(c) The following table sets forth all transactions with respect to Shares effected during the past sixty (60) days by any of the Reporting Persons. Except as otherwise noted below, all such transactions were sales of Shares effected in the open market, as further described in Item 6.

| Name of Reporting Person | Date of Transaction | Amount of Securities | Price Per Share (U.S. $) |
|---|---|---|---|
| High River Limited Partnership | 8/4/2015 | (1,200,000)* | 40.47 |
| Icahn Partners LP | 8/4/2015 | (2,848,347)* | 40.47 |
| Icahn Partners Master Fund LP | 8/4/2015 | (1,951,653)* | 40.47 |

*Sale was made to a market-maker pursuant to Section 144(f)(1)(ii) of the Securities Act of 1933, as amended

Item 6. Contracts, Arrangements, Understandings or Relationship with Respect to Securities of the Issuer

Item 6 of the Schedule 13D is hereby amended by adding the following:

In connection with the sales of Shares effected on August 4, 2015 (as further described in Item 5(c)), High River, Icahn Master and Icahn Partners agreed with the market-maker who effected the sale not to offer, issue, sell or otherwise dispose of (or announce an intention of doing so) any Shares or any securities convertible into or exchangeable for or carrying rights to acquire Shares without the prior written consent of such market-maker prior to the expiry of thirty (30) days following August 3, 2015.

SIGNATURE

After reasonable inquiry and to the best of each of the undersigned knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: August 4, 2015

ICAHN PARTNERS MASTER FUND LP
ICAHN OFFSHORE LP
ICAHN PARTNERS LP
ICAHN ONSHORE LP
BECKTON CORP.
HOPPER INVESTMENTS LLC
BARBERRY CORP.
HIGH RIVER LIMITED PARTNERSHIP
By: Hopper Investments LLC, general partner
By: Barberry Corp.

By: /s/ Edward E. Mattner
Name: Edward E. Mattner
Title: Authorized Signatory

ICAHN CAPITAL LP
By: IPH GP LLC, its general partner
By: Icahn Enterprises Holdings L.P., its sole member
By: Icahn Enterprises G.P. Inc., its general partner
IPH GP LLC
By: Icahn Enterprises Holdings L.P., its sole member
By: Icahn Enterprises G.P. Inc., its general partner
ICAHN ENTERPRISES HOLDINGS L.P.
By: Icahn Enterprises G.P. Inc., its general partner
ICAHN ENTERPRISES G.P. INC.

By: /s/ SungHwan Cho
Name: SungHwan Cho
Title: Chief Financial Officer

/s/ Carl C. Icahn
CARL C. ICAHN

[Signature Page to Amendment No. 3 to Schedule 13D – Hologic, Inc.]
style="FONT-SIZE: 6pt; LINE-HEIGHT: 9.5pt" color=#005596>

The qualifications of the director whose resignation has been tendered;

The director s past and expected future contributions to the Corporation;

The overall composition of the Board and its committees;

Whether accepting the tendered resignation would cause the Corporation to fail to meet any applicable rule or regulation (including NYSE listing standards and the federal securities laws); and

The percentage of outstanding shares represented by the votes cast at the Annual Meeting.

Any director whose resignation has been tendered may not participate in the deliberations of the Governance Committee or in the Board s consideration of the Governance Committee s recommendation with respect to such director. In the event that a majority of the members of the Governance Committee have offered to resign as a result of their failure to receive the required vote for election by the stockholders, then the independent members of the Governance Committee who have not offered to resign, without further action by the Board, will constitute a committee of the Board for the purpose of considering the offered resignations, and will recommend to the Board whether to accept or reject those offers and, if appropriate, make a recommendation to take other actions. If there are no such independent directors, then all of the independent directors, excluding the director whose offer to resign is being considered, without further action of the Board, will constitute a committee of the Board to consider each offer to resign, make a recommendation to the Board to accept or reject that offer, and, if appropriate, make a recommendation to take other actions.

The Board will act on a tendered resignation within 90 days following certification of the stockholder vote for the annual meeting and will promptly disclose its decision and rationale as to whether to accept the resignation (or the reasons for rejecting the resignation, if applicable) in a press release, in a filing with the Securities and Exchange Commission ( SEC ), or by other public announcement, including a posting on the Corporation s website.

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If a director s resignation is accepted by the Board, or if a nominee for director who is not an incumbent director is not elected, the Board may fill the resulting vacancy or may decrease the size of the Board pursuant to the Corporation s Bylaws. The Board may not fill any vacancy so created with a director who was nominated but not elected at the annual meeting by the vote required under the Corporation s Bylaws.

## Management Succession Planning

Management has established semi-annual talent reviews that coincide with our business operating reviews, as well as quarterly reviews within each of our operating businesses. During these reviews, the executive leadership team discusses succession plans for key positions and identifies top talent for development in future leadership roles.

The Board also is actively engaged in talent management. Annually, the Board evaluates our succession strategy and leadership pipeline for key roles. High potential leaders are given exposure and visibility to Board members through formal presentations and informal events. More broadly, the Board is regularly updated on key talent indicators for the overall workforce, including diversity, recruiting, and development programs. Board members also are active partners, engaging and spending time with our high potential leaders throughout the year at Board meetings and other events.

## Enterprise Risk Management

Enterprise Risk Management is monitored by the Board, the Audit Committee and the SA Committee. Management reviews enterprise risk through the Risk and Compliance Committee ( RCC ) and the Integrated Risk Council.

The Audit Committee reviews our policies and practices with respect to risk assessment and risk management, including discussing with management the Corporation s major financial risk exposures and the steps that have been taken to monitor and control such exposures. The Audit Committee reports the results of its review to the Board.

Matters of risk management are brought to the attention of the Audit Committee by the Executive Vice President and CFO, who serves as the Corporation s Chief Risk Officer, or by the Vice President, Corporate Internal Audit, who regularly reviews and assesses internal processes and controls for ongoing compliance with internal policies and legal and regulatory requirements, as well as for potential deficiencies that could result in a failure of an internal control process. The SA Committee of the Board reviews and assesses mitigation plans in areas identified as the most significant risks.

The RCC, comprised of representatives of the direct reports to the President and CEO, is charged with overseeing the Corporation s Enterprise Risk Management program and with the integration and dissemination of risk information to management and throughout the Corporation. This Committee met eight times in 2014 and reports to the Integrated Risk Council made up of the Executive Vice President and CFO; Senior Vice President, General Counsel and Corporate Secretary; Senior Vice President, Communications; Vice President, Ethics and Sustainability; and Vice President, Corporate Internal Audit. At the request of the Audit Committee, the RCC has undertaken to regularly survey our businesses to identify risks, analyze the probability of occurrence and potential impact to our business of those risks, and assess mitigation efforts.

We employ a number of additional risk identification and mitigation strategies. A panel of executives reviews all major proposals to ensure the technical and pricing structures are consistent with our tolerance for risk. Corporate management conducts reviews of ongoing business performance and financial results and future opportunities through the long-range planning process, executive management meetings, and staff meetings.

## Stockholder Right to Call Special Meeting

As part of the Board s continuous review of, and commitment to, best corporate governance practices and as a result of dialogue with stockholders, in recent years the Corporation has adopted a number of governance changes. The Board amended the Bylaws in 2010 to reduce the percentage of shares that an individual stockholder or a group of stockholders must own to cause the Corporate Secretary of the Corporation to call a special meeting of stockholders. Any stockholder who individually owns 10 percent, or stockholders who in the aggregate own 25 percent, of the outstanding common stock may demand the calling of a special meeting to consider any business properly before the stockholders. Our Bylaws do not restrict the timing of a request for a special meeting. The only subject matter restriction is that we are not required to call a special meeting to consider a matter that is substantially the same as voted on at a special meeting within the preceding 12 months unless requested by a majority of all stockholders.

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**Corporate Governance**

The Board believes that our current governance practice strikes an appropriate balance between permitting stockholders to raise important matters at any time and ensuring that all stockholders are afforded an opportunity for meaningful participation in a deliberative and democratic process based on accurate and complete public disclosure. The 25 percent threshold is consistent with many of the companies in our comparator group. The Board added the 10 percent threshold in light of our institutional ownership profile.

## No Poison Pill

The Corporation does not have a Stockholder Rights Plan, otherwise known as a Poison Pill. Through our Governance Guidelines, the Board has communicated that it has no intention of adopting one at this time. The Board has indicated that, if it were to adopt a Stockholder Rights Plan, the Board would seek stockholder ratification within 12 months of the date of adoption.

## Director Independence

Eleven of our current directors are independent under applicable NYSE listing standards. Under the NYSE listing standards and our Governance Guidelines, a director is not independent if the director has a direct or indirect material relationship with the Corporation. The Governance Committee annually reviews the independence of all directors and reports its findings to the full Board. To assist in this review, the Board has adopted director independence guidelines that are included in our Governance Guidelines, which are available on our Corporation s website at *http://www.lockheedmartin.com/corporate-governance.*

Our director independence guidelines set forth certain relationships between the Corporation and directors and their immediate family members, or affiliated entities, that the Board, in its judgment, has deemed to be material or immaterial for purposes of assessing a director s independence. In the event a director has a relationship with the Corporation that is not addressed in the independence guidelines, the independent members of the Board determine whether the relationship is material.

The Board has determined that the following directors are independent: Daniel F. Akerson, Nolan D. Archibald, Rosalind G. Brewer, David B. Burritt, James O. Ellis, Jr., Thomas J. Falk, Gwendolyn S. King, James M. Loy, Douglas H. McCorkindale, Joseph W. Ralston, and Anne Stevens. Marillyn A. Hewson is an employee of the Corporation and is not independent under the NYSE listing standards or our Governance Guidelines. In determining that each of the non-management directors is independent, the Board considered the relationships described under Certain Relationships and Related Person Transactions of Directors, Executive Officers, and 5 Percent Stockholders, on page 15, which it determined were immaterial to the individual s independence.

The Governance Committee and Board considered that the Corporation in the ordinary course of business purchases products and services from, or sells products and services to, companies or subsidiaries or parents of companies at which some of our directors (or their immediate family members) are or have been directors or officers and to other institutions with which some of these individuals have or have had relationships. These relationships included: Mr. Akerson (The Carlyle Group, Northrop Grumman Corporation, and PricewaterhouseCoopers); Mr. Archibald (Brunswick Corporation); Mrs. Brewer (Walmart Stores, Inc. which includes Sam s Club); Mr. Ellis (Level 3 Communications, Inc., Dominion Resources, Inc., Draper Laboratory, The Georgia Institute of Technology, Inmarsat plc, and Stanford University, Hoover Institution); Mr. Falk (Catalyst, Inc.); Mrs. King (ESPN); Mr. Ralston (The Timken Company and URS Corporation); and Ms. Stevens (XL Group plc). In determining that these relationships did not affect the independence of those directors, the Board considered that none of the directors had any direct or indirect material interest in, or received any special compensation in connection with, the Corporation s business relationships with those companies. In addition to their consideration of these ordinary course of business transactions, the Governance Committee and the Board relied upon the director independence guidelines included in our Governance Guidelines to conclude that contributions to a tax-exempt organization by the Corporation or its foundation did not create any direct or indirect material interest for the purpose of assessing director independence.

The Governance Committee also concluded that all members of each of the Audit Committee, the Compensation Committee, and the Governance Committee are independent within the meaning of our Governance Guidelines and NYSE listing standards, including the additional independence requirements applicable to members of the Audit Committee, Compensation Committee, and Governance Committee.

## Related Person Transaction Policy

The Board has approved a written policy and procedures for the review, approval, and ratification of transactions among the Corporation and its directors, executive officers, and their related interests. A copy of the policy is available on the Corporation s website at *http://www.lockheedmartin.com/corporate-governance*. Under the policy, all related person transactions (as defined in the policy) are to be reviewed by the Governance Committee. The Governance Committee may approve or ratify related person transactions at its discretion if deemed fair and reasonable to the Corporation. This may include situations where the Corporation provides products or services to related persons on an arm s length basis on terms comparable to those provided to unrelated third parties. Any director who participates in or is the subject of an existing or potential related person transaction may not participate in the decision-making process of the Governance Committee with respect to that transaction.

Under the policy, and consistent with applicable SEC regulations and NYSE listing standards, a related person transaction is any transaction in which the Corporation was, is, or will be a participant, where the amount involved exceeds $120,000, and in which a related person had, has, or will have a direct or indirect material interest. A related person includes any director and director-nominee, or executive officer of the company, any person who is known to be the beneficial owner of more than five percent of any class of the company s voting securities, or an immediate family member of any person described above.

The policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons, and to notify the Corporation of changes in that information. Based on that information, the Corporation maintains a master list of related persons for purposes of tracking and reporting related person transactions.

Because it may not be possible or practical to pre-approve all related person transactions, the policy contemplates that the Governance Committee may ratify transactions after they commence or pre-approve categories of transactions or relationships. If the Governance Committee declines to approve or ratify a transaction, the related person transaction is referred to management to make a recommendation to the Governance Committee concerning whether the transaction should be terminated or amended in a manner that is acceptable to the Governance Committee.

## Certain Relationships and Related Person Transactions of Directors, Executive Officers, and 5 Percent Stockholders

The following transactions or relationships are considered to be related person transactions under our corporate policy and applicable SEC regulations and NYSE listing standards.

Two of our directors, Mr. Loy and Mr. Ralston, are employed as Senior Counselor and Vice Chairman, respectively, of The Cohen Group, a consulting business that performs services for the Corporation. In 2014, we paid The Cohen Group $762,817 for consulting services and related expenses. Neither Mr. Loy nor Mr. Ralston s compensation earned at The Cohen Group is impacted by the consulting services delivered to the Corporation. The Board annually assesses and reviews the Corporation s relationship with The Cohen Group and has determined that the breadth of military experience coupled with their top security clearances bring a unique value to the Board, particularly with the oversight of our classified programs. Neither Mr. Loy nor Mr. Ralston serves on our Audit, Compensation, or Governance Committees.

We currently employ approximately 112,000 employees and have an active recruitment program for soliciting job applications from qualified candidates. We seek to hire the most qualified candidates and consequently do not preclude the employment of family members of current directors and executive officers. A related person transaction (and compensation) involved a Board member s (Joseph Ralston) brother-in-law, Mark E. Dougherty, who is employed as a Capture Management Principal. Mr. Dougherty s 2014 base salary was $169,250, and he received an employee incentive plan award of $16,900. His base salary was increased to $174,253 for 2015. Mr. Dougherty may participate in other employee benefit plans and arrangements that generally are made available to other employees at the same level (including health, welfare, vacation, and retirement plans). His compensation was established in accordance with the Corporation s employment and compensation practices applicable to employees with equivalent qualifications, experience, and responsibilities. Mr. Dougherty did not serve as an executive officer of the Corporation during 2014.

From time to time, the Corporation has purchased services in the ordinary course of business from financial institutions that beneficially own five percent or more of Lockheed Martin s common stock. In 2014, the Corporation paid $4,798,501 to State Street Bank and Trust Company, an affiliate of State Street Corporation, for credit facility and benefit plan administration fees; $582,497 to BlackRock, Inc. and its affiliates for investment management of fixed-income assets held in the Corporation s master savings trust; and $6,964,647 to Capital Guardian, an affiliate of Capital World Investors, for investment management fees.

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# ETHICS AND SUSTAINABILITY

## Governance Structure

The Ethics and Sustainability Committee (the ES Committee ) of the Board of Directors oversees efforts in corporate responsibility, human rights, environmental stewardship, political contributions, employee health and safety, ethical business practices, community outreach, philanthropy, diversity and inclusion and equal opportunity, as well as the Corporation s record of compliance with related laws and regulations.

**Independent Reporting**

The **Vice President**, Ethics and Sustainability, has a dual reporting relationship, both to the Chairman, President and CEO and also independently to the Board of Directors.

**Ethics and Sustainability Committee**

**4 Independent Directors** comprise this Board committee, which provides oversight for the Ethics and Sustainability programs, approves the Code of Conduct and reviews trends, risk areas and new initiatives.

**Executive Leadership Team**

The **Chairman, President and CEO**, with her executive leadership team, review the operations of the Ethics and Sustainability programs at least twice annually.

**Business Segment Steering Committees**

The **Executive Vice President** of each Business Segment, as well as of Lockheed Martin International, chairs a steering committee that regularly reviews the ethics program within that Business Segment.

## Ethics

Ethical business practice is the foundation of Lockheed Martin s operations. Our values Do What s Right, Respect Others, and Perform with Excellence underpin our business decisions and our interactions with all stakeholders. In 2014, we introduced a digital, interactive, mobile Code of Conduct, which was the first electronic version among our industry peers. All of our employees and directors received the redesigned, updated code during 2014.

Lockheed Martin s Code of Conduct has been in place since the Corporation was formed in 1995. The Code of Conduct (which is available on the Corporation s website at *http://www.lockheedmartin.com/us/who-we-are/ethics/code.html*) applies to all Board members, officers, and employees and provides our policies and expectations on a number of topics, including our commitment to good citizenship, promoting a positive and safe work environment, providing transparency in our public disclosures, zero tolerance for corruption, avoiding conflicts of interest, honoring the confidentiality of sensitive information, preservation and use of company assets, compliance with all laws, preventing retaliation, and operating with integrity in all that we do. To implement this Code of Conduct, Board members, officers, and employees participate annually in ethics training. There were no waivers from any provisions of our Code of Conduct or amendments applicable to any Board member or executive officer in 2014.

## Corporate Sustainability

Our sustainability mission is to foster innovation, integrity and security to protect the environment, strengthen communities, and propel responsible growth. In 2014, we published our third annual sustainability report, which discloses performance indicators on our environmental, social, and governance responsibilities, and conforms to the Global Reporting Initiative (GRI) G4 Core Guidelines. A copy of the report is available at *http://www.lockheedmartin.com/sustainability*. Lockheed Martin is prioritizing six high impact sustainability issues, based on a multi-step process to determine what affects our ability to generate long-term stockholder value through environmental, governance, social, and economic progress. We implemented and reported on our 2014 Sustainability Management Plan progress, which includes 41 measures to gauge performance through 2015 on objectives across the six high impact sustainability issues. This set of issues is intended to help us to identify better business opportunities, strengthen enterprise risk management mechanisms, enhance our reputation and stakeholder confidence, drive energy and resource

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efficiency, and maximize our investments of financial, human, and natural capital. We report on our performance twice a year to our executive leadership team.

In 2014, Lockheed Martin accomplished the following:

**Sustainability Management Plan.** Reported our full year progress on our Sustainability Management Plan, which we use to manage, measure, and disclose performance against the six high impact sustainability issues listed above.

**Innovative Leadership in Ethics.** Introduced remote and small site customer learning materials and combined anti-retaliation program monitoring, training and education to prevent and detect retaliation, thereby encouraging reporting of ethical concerns or violations.

## Supplier and Community Engagement

In 2014, Lockheed Martin partnered with suppliers, the community, and non-governmental organizations to strengthen our communities and propel responsible growth including:

Achieved approximately $4.9 billion in total spending with nearly 10,600 small businesses, including businesses owned by women, veterans and service-disabled veterans, small, disadvantaged businesses, and businesses located in historically under-utilized business zones. Small businesses represent approximately 65 percent of our entire supplier base.

Provided training to 15 current, past or potential protégé small businesses under various government agency Mentor-Protégé programs.

Hired approximately 2,350 military veterans, representing approximately 34 percent of all external hires.

Encouraged participation in the Electronic Industry Citizenship Coalition and the Global e Sustainability Initiative (EICC-GeSI) Conflict Free Sourcing Initiative.

Issued a letter and training package to approximately 13,600 impacted suppliers regarding counterfeit parts.

Contributed more than $24.5 million to nearly a thousand organizations, with a strategic focus on advancing science, technology, engineering, and math (STEM) education and supporting military and veteran causes. Separately, our employees donated more than $19.3 million and reported volunteering more than one million hours to worthy causes. Over the last decade, employees have reported volunteering more than 11.5 million hours of their own time in service to their communities.

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# COMMITTEES OF THE BOARD OF DIRECTORS

The Board has seven standing committees. The following table lists our Board committees, the chairs of each committee, the directors who served in 2014 on them, and the number of committee meetings held in 2014. Charters for each committee are available on the Corporation s website at *http://www.lockheedmartin.com/corporate-governance*.

## 2014 Membership on Board Committees

| Director | Age | Director Since | Independent | Audit | Classified Business and Security | Ethics and Sustainability | Executive | Management Development and Compensation | Nominating and Corporate Governance | Strategic Affairs |
|---|---|---|---|---|---|---|---|---|---|---|
| Daniel F. Akerson | 66 | 2014 | Yes | X | | | | X | | |
| Nolan D. Archibald | 71 | 2002 | Yes | | | | X | | X | Chair |
| Rosalind G. Brewer | 52 | 2011 | Yes | | | X | | X | | |
| David B. Burritt | 59 | 2008 | Yes | Chair | | | X | X | | X |
| James O. Ellis, Jr. | 67 | 2004 | Yes | | Chair | | X | | X | X |
| Thomas J. Falk | 56 | 2010 | Yes | X | | | | | X | |
| Marillyn A. Hewson | 61 | 2012 | No | | | | Chair | | | |
| Gwendolyn S. King | 74 | 1995 | Yes | | | Chair | X | | X | |
| James M. Loy | 72 | 2005 | Yes | | X | X | | | | X |
| Douglas H. McCorkindale* | 75 | 2001 | Yes | X | X | | X | X | Chair | |
| Joseph W. Ralston | 71 | 2003 | Yes | | X | X | | | | X |
| Anne Stevens | 66 | 2002 | Yes | X | | | X | Chair | | |
| Meetings held in 2014 | | | | 7 | 2 | 3 | 0 | 4 | 4 | 5 |

* *Lead Director until 2015 Annual Meeting.*

### Audit Committee

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities relating to the financial condition of the Corporation, the integrity of the Corporation s financial statements, and the Corporation s compliance with legal and regulatory requirements. In addition, the Audit Committee has oversight of the Corporation s internal audit organization including enterprise risk management processes. It is directly responsible for the qualifications, independence and performance of the Corporation s independent auditors. The Audit Committee also is responsible for reviewing the allocation of resources, the Corporation s financial condition and capital structure, and policies regarding derivatives and capital expenditures. The functions of the Audit Committee are further described under the heading Audit Committee Report on page 20.

All the members of the Audit Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations, and our Governance Guidelines. In order to be considered independent under applicable SEC regulations, a member of the Audit Committee cannot accept any consulting, advisory, or other compensatory fee from the Corporation, or be an affiliated person of the Corporation or its subsidiaries.

The Board has determined that Mr. Burritt, Chairman of the Audit Committee, Mr. Akerson, Mr. Falk, and Mr. McCorkindale are qualified audit committee financial experts within the meaning of applicable SEC regulations. All members of the Audit Committee have accounting and related financial management expertise sufficient to be considered financially literate within the meaning of the NYSE listing standards.

Subject to his re-election and following the Annual Meeting, Mr. Falk will be Chairman of the Audit Committee.

## Classified Business and Security Committee

The Classified Business and Security Committee (the CBS Committee ) assists the Board in fulfilling its oversight responsibilities relating to the Corporation s classified business activities and the security of personnel, data, and facilities. The CBS Committee consists of three or more directors who meet the independence requirements of the NYSE listing standards and who possess the appropriate security clearance credentials, at least one of whom must be a member of the Audit Committee, and none of whom are officers or employees of the Corporation and are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the CBS Committee. All members hold high-level security clearances.

Subject to his re-election and following the Annual Meeting, Mr. Ralston will be Chairman of the CBS Committee.

## Ethics and Sustainability Committee

The purpose of the ES Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Corporation s ethical conduct, sustainability, environmental stewardship, and employee health and safety. The ES Committee monitors compliance and recommends changes to our Code of Conduct. It reviews our policies, procedures, and compliance with respect to sustainability, including corporate responsibility, human rights, environmental stewardship, employee health and safety, ethical business practices, community outreach, philanthropy, diversity, inclusion, and equal opportunity. It oversees matters pertaining to community and public relations, including government relations, political contributions and expenditures, and charitable contributions.

Subject to his re-election and following the Annual Meeting, Mr. Loy will be Chairman of the ES Committee.

## Executive Committee

The Executive Committee serves primarily as a means for taking action requiring Board approval between regularly scheduled meetings of the Board. The Executive Committee is authorized to act for the full Board on all matters other than those specifically reserved by Maryland law to the full Board. The Chairman of the Board chairs the Executive Committee.

## Management Development and Compensation Committee

The Compensation Committee reviews and approves the corporate goals and objectives relevant to the compensation of the CEO, evaluates the performance of the CEO, and, either as a committee or together with the other independent members of the Board, determines and approves the compensation philosophy and levels for the CEO and other members of senior management.

Additional information regarding the role of the Compensation Committee and our compensation practices and procedures is provided under the captions Compensation Committee Report on page 29, Compensation Discussion and Analysis ( CD&A ) beginning on page 30, and Other Corporate Governance Considerations in Compensation on page 48.

All members of the Compensation Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations, and our Governance Guidelines.

Subject to his re-election and following the Annual Meeting, Mr. Akerson will be Chairman of the Compensation Committee.

## Nominating and Corporate Governance Committee

The Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including our Governance Guidelines. The Governance Committee assists the Board by selecting candidates to be nominated to the Board, making recommendations concerning the composition of Board committees, and by overseeing the evaluation of the Board and its committees.

The Governance Committee reviews and recommends to the Board the compensation of directors. Our executive officers generally do not play a role in determining director pay other than to gather publicly available information.

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**Committees of the Board of Directors**

All members of the Governance Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations, and our Governance Guidelines.

Subject to his re-election and following the Annual Meeting, Mr. Archibald will be Chairman of the Governance Committee.

### Strategic Affairs Committee

The SA Committee reviews and recommends to the Board management s long-term strategy for the Corporation and reviews risks and opportunities to the strategy as identified by the Corporation s Enterprise Risk Management processes. The SA Committee reviews and recommends to the Board certain significant strategic decisions regarding exit from existing lines of business and entry into new lines of business, acquisitions, joint ventures, investments or dispositions of businesses and assets, and the financing of related transactions.

Subject to his re-election and following the Annual Meeting, Mr. Ellis will be Chairman of the SA Committee.

# Audit Committee Report

We oversee Lockheed Martin s financial reporting process on behalf of the Board. Lockheed Martin s management is responsible for the financial reporting process and preparation of the quarterly and annual consolidated financial statements, including maintaining an effective system of internal control over financial reporting. In addition to our oversight of the Corporation s internal audit organization, we are directly responsible for the appointment, compensation, retention, oversight, and termination of the Corporation s independent auditors, Ernst & Young LLP, an independent registered public accounting firm. The independent auditors are responsible for auditing the annual consolidated financial statements and expressing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles, and for expressing an opinion on the effectiveness of internal control over financial reporting.

In connection with the December 31, 2014 audited consolidated financial statements, we have:

Reviewed and discussed the Corporation s audited consolidated financial statements with management, including discussions regarding critical accounting policies, financial accounting and reporting principles and practices, the quality of such principles and practices, the reasonableness of significant judgments and estimates, and the effectiveness of internal control over financial reporting.

Discussed with the independent auditors the quality of the financial statements, the clarity of the related disclosures, the effectiveness of internal control over financial reporting, and other items required to be discussed under Public Company Accounting Oversight Board ( PCAOB ) Auditing Standard No. 16, *Communications with Audit Committees.*

Received from the independent auditors written disclosures regarding the auditors independence required by PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, and discussed with the independent auditors any matters affecting their independence.

Based on the reviews and discussions above, we recommended to the Board that the audited consolidated financial statements for 2014 be included in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC. The Board approved our recommendation.

Submitted on February 9, 2015 by the Audit Committee:

David B. Burritt, *Chairman*
Daniel F. Akerson
Thomas J. Falk
Douglas H. McCorkindale
Anne Stevens

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# PROPOSAL 1: ELECTION OF DIRECTORS

There are 11 director-nominees for election to the Board at the Annual Meeting. Each director-nominee currently serves as a director. Each director-nominee was recommended for nomination by the Governance Committee. The Governance Committee has determined that all the director-nominees, except for Marillyn A. Hewson, Chairman, President and CEO, are independent under the listing standards of the NYSE and our Governance Guidelines. The Board ratified the slate of director-nominees and recommends that our stockholders vote for the election of all the individuals nominated by the Board.

The Board has fixed the number of directors to 11 at the present time. The Governance Committee and the Board will continue to review and assess additional candidates for the Board; any candidates identified after the 2015 Annual Meeting will be considered by the Board as candidates to serve until the 2016 Annual Meeting.

The director-nominees are expected to attend the 2015 Annual Meeting. All director-nominees who are elected will serve a one-year term that will end at the 2016 Annual Meeting. If any of the director-nominees are unable or unwilling to stand for election at the 2015 Annual Meeting (an event which is not anticipated), the Board may reduce its size or designate a substitute. If a substitute is designated, proxy holders may vote for the substitute nominee or refrain from voting for any other director-nominee at their discretion. Directors ages are reported as of the 2015 Annual Meeting.

In 2014, the Board met a total of nine times. All directors attended more than 75 percent of the total Board and committee meetings to which they were assigned. All incumbent directors attended the 2014 Annual Meeting, except for Ms. Stevens (who was out of the country).

## Board Composition, Qualifications, and Diversity

We have no agreements obligating the Corporation to nominate a particular candidate as a director, and none of our directors represents a special interest or a particular stockholder or group of stockholders.

We believe that our business accomplishments are a result of the efforts of our employees around the world, and that a diverse employee population will result in a better understanding of our customers needs. Our success with a diverse workforce also informs our views about the value of a board of directors that has persons of diverse skills, experiences, and backgrounds. To this end, the Board seeks to identify candidates with areas of knowledge or experience that will expand or complement the Board s existing expertise in overseeing a technologically advanced global security and aerospace company.

Consistent with the Governance Guidelines, the Board desires a diverse group of candidates who possess the background, skills, expertise, and time to make a significant contribution to the Board, the Corporation, and its stockholders. The Governance Committee makes recommendations to the Board concerning the composition of the Board and its committees, including size and qualifications for membership. The Governance Committee evaluates prospective nominees against the standards and qualifications set forth in the Corporation s Governance Guidelines, as well as other relevant factors it deems appropriate.

Listed below are the skills and experience that we have considered important for our directors to have in light of our current business and structure. The directors biographies that follow note each director s relevant experience, skills, and qualifications relative to this list.

**Financial Expertise.** Knowledge of financial markets, financing and funding operations, and accounting and financial reporting processes are important because it assists our directors in understanding, advising, and overseeing the Corporation s capital structure, financing and investment activities, financial reporting, and internal control of such activities.

**Public Company Board Experience.** Directors who have served on other public company boards can offer advice and insights with regard to the dynamics and operation of a board of directors, the relationship between a board and the CEO and other management personnel, the importance of particular agenda items, and oversight of a changing mix of strategic, operational, and compliance matters.

**Government and Military Expertise.** Directors who have served in government or in senior military positions provide experience and insight into working constructively with our core customers and governments around the world and addressing significant public policy issues, particularly in areas related to the Corporation s business and operations. Directors with military, homeland security, or intelligence experience and security clearance credentials have unique skills to serve on our CBS Committee.

**Global Expertise.** Because we are a global organization with increasing revenue coming from sales outside the United States, directors with global expertise can provide useful business and cultural perspectives regarding many significant aspects of our business.

**Senior Leadership Experience.** Directors who have served in senior leadership positions bring experience and perspective in analyzing, shaping, and overseeing the execution of important operational and policy issues at a senior level. These directors insights and guidance, and their ability to assess and respond to situations encountered in serving on our Board, may be enhanced if their leadership experience was developed at businesses or organizations that operated on a global scale or involved technology or other rapidly evolving business models.

**Proposal 1: Election of Directors**

**Interpersonal Skills and Diversity.** Directors with different backgrounds and skills help build diversity on the Board and maximize group dynamics in terms of function, thought, gender, race and age.

Under our Bylaws, unless exempted by the Board, an individual is not eligible to stand for election at an Annual Meeting following the individual s 75th birthday.

## The Board unanimously recommends a vote FOR each of the following director-nominees.

## Director-Nominees

### Daniel F. Akerson

**Age:** 66
**Director since:** 2014
**Independent**

**Committees:**
Audit
Management Development and Compensation

**Skills and Qualifications**

Core leadership skills and experience with the demands and challenges of the global marketplace.

Extensive operating, financial and senior management experience in a succession of major companies in challenging, highly competitive industries.

Financial, investment, and mergers and acquisitions expertise.

The Board has determined that Mr. Akerson meets the SEC s criteria of an audit committee financial expert.

Vice Chairman and Special Advisor to the Board of The Carlyle Group since March 2014. Previously, Mr. Akerson was Chairman of the Board of Directors and Chief Executive Officer of General Motors Company from January 2011 until his retirement in January 2014. Mr. Akerson was elected to the Board of Directors of General Motors Company in 2009 and was Chief Executive Officer from September 2010 to December 2010. Prior to joining General Motors Company, he was a Managing Director of The Carlyle Group, serving as the Head of Global Buyout from July 2009 to August 2010 and as Co-Head of U.S. Buyout from June 2003 to June 2009. Mr. Akerson formerly served as a director of American Express Company from April 1995 to April 2012 and currently serves as a director of the United States Naval Academy Foundation.

### Nolan D. Archibald

**Age:** 71
**Director since:** 2002
**Independent**

**Committees:**
Strategic Affairs
Executive
Nominating and Corporate Governance

**Skills and Qualifications**

Experience with the demands and challenges of the global marketplace with a focus on innovation from his prior positions as Executive Chairman of Stanley Black & Decker, Inc. and Chairman, President, Chief Executive Officer and Chief Operating Officer of The Black & Decker Corporation, companies that sold products in more than 100 countries.

Experience in talent management, business management, strategic planning, and international business operations.

Corporate governance expertise from service as director of large public companies.

Executive Chairman of the Board of Stanley Black & Decker, Inc. from March 2010 until his retirement in April 2013. Previously, Mr. Archibald was Chairman of the Board and Chief Executive Officer of The Black & Decker Corporation from 1986 to March 2010; President of The Black & Decker Corporation from 1985 to 2010; and Chief Operating Officer of The Black & Decker Corporation from 1985 to 1986. Mr. Archibald currently serves as a director of Brunswick Corporation and Huntsman Corporation.

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## Rosalind G. Brewer

**Age:** 52
**Director since:** 2011
**Independent**

**Committees:**

Ethics and Sustainability

Management Development and Compensation

**Skills and Qualifications**

Experience in large-scale operations based on her positions as President and Chief Executive Officer of Sam s Club, Executive Vice President for Walmart Stores, Inc., and more than two decades of experience as an executive with Kimberly-Clark Corporation.

Experience in product development, product management, manufacturing, large-scale operations, supply chain logistics, and leading change management initiatives.

Leadership and executive expertise in international consumer business operations.

President and Chief Executive Officer of Sam s Club, a division of Walmart Stores, Inc., since February 2012. Previously, Mrs. Brewer was Executive Vice President and President of Walmart Stores, Inc. s East Business Unit from February 2011 to January 2012; Executive Vice President and President of Walmart South from February 2010 to February 2011; Senior Vice President and Division President of Southeast Operating Division from March 2007 to January 2010; and Regional General Manager, Georgia Operations, from 2006 to February 2007. Previously, Mrs. Brewer was President of Global Nonwovens Division for Kimberly-Clark Corporation from 2004 to 2006 and held various management positions of increasing responsibility at Kimberly-Clark Corporation from 1984 to 2006. Mrs. Brewer formerly served as a director of Molson Coors Brewing Company from 2006 to 2011 and currently serves on the Board of Trustees of Spelman College.

## David B. Burritt

**Age:** 59
**Director since:** 2008
**Independent**

**Committees:**

Audit

Executive

Management Development and Compensation

Strategic Affairs

**Skills and Qualifications**

Expertise in public company accounting, risk management, disclosure, financial system management, and business transformation from roles as CFO at United States Steel Corporation and CFO and Controller at Caterpillar Inc.

Over 35 years experience with the demands and challenges of the global marketplace from his positions at United States Steel Corporation and Caterpillar Inc., a company that manufactures equipment in 20 countries and sells products in more than 180 countries.

The Board has determined that Mr. Burritt meets the SEC s criteria of an audit committee financial expert.

Executive Vice President and Chief Financial Officer of United States Steel Corporation since September 2013. Previously, Mr. Burritt was Vice President and Chief Financial Officer of Caterpillar Inc. from 2004 to June 2010; Corporate Controller and Chief Accounting Officer of Caterpillar Inc. from 2002 to 2004; held various positions of increasing responsibility at Caterpillar Inc. in finance, tax, accounting, and international operations from 1978 to 2002. Mr. Burritt formerly served as a director of Aperam from December 2010 to May 2013 and Global Brass & Copper Holdings, Inc. from 2011 until June 2014.

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**Proposal 1: Election of Directors**

## James O. Ellis, Jr.

**Age:** 67
**Director since:** 2004
**Independent**

**Committees:**

Classified Business and Security

Executive

Nominating and Corporate Governance

Strategic Affairs

**Skills and Qualifications**

Industry-specific expertise and knowledge of our core customers from his service in senior leadership positions with the military.

Expertise in aeronautical and aerospace engineering and emerging energy issues.

Over 40 years experience in managing and leading large and complex technology-focused organizations, in large part as a result of serving for 35 years as an active duty member of the United States Navy.

President and Chief Executive Officer of Institute of Nuclear Power Operations from May 2005 until his retirement in May 2012. Mr. Ellis retired from active duty in July 2004 after serving as Admiral and Commander, United States Strategic Command, Offutt Air Force Base, Nebraska from October 2002 to July 2004; Commander in Chief, United States Strategic Command from November 2001 to September 2002; Commander in Chief, United States Naval Forces, Europe and Commander in Chief, Allied Forces from October 1998 to September 2000; Deputy Chief of Naval Operations (Plans, Policy and Operations) from November 1996 to September 1998. He formerly served as a director of Inmarsat plc. from June 2005 to March 2014 and currently serves as a director of Level 3 Communications, Inc., Dominion Resources, Inc., and Draper Laboratory. In February 2013, Mr. Ellis was elected to the National Academy of Engineering. He currently serves as an Annenberg Distinguished Visiting Fellow of the Hoover Institution at Stanford University.

## Thomas J. Falk

**Age:** 56
**Director since:** 2010
**Independent**

**Committees:**

Audit

Nominating and Corporate Governance

**Skills and Qualifications**

Experience with the demands and challenges associated with managing global organizations from his experience as Chairman and Chief Executive Officer of Kimberly-Clark Corporation.

Knowledge of financial system management, public company accounting, disclosure requirements, and financial markets.

Marketing, talent management, compensation, governance, and public company board experience.

The Board has determined that Mr. Falk meets the SEC s criteria of an audit committee financial expert.

Chairman of the Board and Chief Executive Officer of Kimberly-Clark Corporation since 2003; Chief Executive Officer from 2002 and President and Chief Operating Officer from 1999 to 2002; held various senior management positions since joining Kimberly-Clark Corporation in 1983. Mr. Falk currently serves as a director of the nonprofit organizations, Catalyst, Inc., the University of Wisconsin Foundation, and The Consumer Goods Forum, and serves as a governor of the Boys & Girls Clubs of America.

## Marillyn A. Hewson

**Age:** 61
**Director since:** 2012
**Non-Independent**

**Committees:**
Executive

**Skills and Qualifications**

Broad insight and knowledge into the complexities of global business management, strategic planning, finance, supply chain, and leveraged services based on more than two decades of experience in executive and operational roles with the Corporation and in our industry.

Expertise in government relations, government contracting, manufacturing, marketing, and human resources.

Corporate governance and audit expertise derived from service on boards of other multinational corporations and nonprofit organizations.

Chairman, President and Chief Executive Officer of Lockheed Martin since January 2014. Having served 32 years at Lockheed Martin in roles of increasing responsibility, she held the positions of Chief Executive Officer and President from January 2013 to December 2013; President and Chief Operating Officer from November 2012 to December 2012; Executive Vice President Electronic Systems from January 2010 to November 2012; President, Systems Integration Owego from September 2008 to December 2009; and Executive Vice President Global Sustainment for Aeronautics from February 2007 to August 2008. She previously served as Chairman of the Board of Directors of Sandia Corporation from 2010 to July 2013. Ms. Hewson currently serves on the Board of Directors of E. I. du Pont de Nemours and Company (DuPont); the University of Alabama s Culverhouse College of Commerce and Business Administration Board of Visitors; the Board of Governors of the USO; the Board of Governors of the Aerospace Industries Association; the Board of Directors of the Congressional Medal of Honor Foundation; the Board of the National Geographic Education Foundation; the Board of Directors of Catalyst, Inc.; and the International Advisory Board of the Atlantic Council. In September 2013, Ms. Hewson was appointed by President Barack Obama to the President s Export Council, the principal national advisory committee on international trade.

## Gwendolyn S. King

**Age:** 74
**Director since:** 1995
**Independent**

**Committees:**
Ethics and Sustainability
Executive
Nominating and Corporate Governance

**Skills and Qualifications**

Experience and industry-specific knowledge of our civil customers and the demands and challenges associated with managing large organizations and regulated industries from experience as Senior Vice President at PECO Energy Company and Commissioner of the Social Security Administration.

Expert in external communications and extensive experience in matters relating to public policy, regulatory oversight, and government relations from her senior advisory roles in two previous White House administrations.

Corporate governance expertise and compliance experience from her service on the board of the National Association of Corporate Directors.

President of Podium Prose, a Washington, D.C. speaker s bureau and speechwriting service, since 2000. Founding Partner, The Directors Council, a corporate board search firm, from October 2003 to June 2005; Senior Vice President of Corporate and Public Affairs of PECO Energy Company (formerly Philadelphia Electric Company) from October 1992 until her retirement in February 1998; and Commissioner of the Social Security Administration from August 1989 to September 1992. Mrs. King formerly served as a director of Marsh & McLennan Companies, Inc. from 1998 to May 2011 and currently serves as a director of Monsanto Company.

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**Proposal 1: Election of Directors**

## James M. Loy

**Age:** 72
**Director since:** 2005
**Independent**

**Committees:**
Classified Business and Security
Ethics and Sustainability
Strategic Affairs

**Skills and Qualifications**

Experience with the demands and challenges associated with managing large organizations from his service as Commandant of the Coast Guard.

Industry-specific expertise and knowledge with our core customers including requirements for acquisition of products and services from prior senior management positions with the Department of Homeland Security, the Transportation Security Administration, and the Coast Guard.

Leadership skills in organization transformation and redesigning larger scale operations from his 45-year career in public service.

Senior Counselor of The Cohen Group since 2005. Deputy Secretary of Homeland Security from 2003 to 2005; Administrator, Transportation Security Administration from 2002 to 2003; Commandant, U.S. Coast Guard from 1998 to 2002; Coast Guard Chief of Staff from 1996 to 1998; Commander of the Coast Guard s Atlantic Area from 1994 to 1996. Mr. Loy formerly served as a director of L-1 Identity Solutions, Inc. from 2006 to 2011, Board of Trustees of RAND Corporation, a nonprofit organization, from 2012 until November 2014 and currently serves as a director of Rivada Networks, LLC.

## Joseph W. Ralston

**Age:** 71
**Director since:** 2003
**Independent**

**Committees:**
Classified Business and Security
Ethics and Sustainability
Strategic Affairs

**Skills and Qualifications**

Industry-specific expertise and insight into our core customers, including requirements for acquisition of products and services, from prior senior leadership positions with the military.

Experience with large organization management and assessing human resources, equipment, cyber, and financial requirements, as well as reputational risks during his service as a senior military officer, including Vice Chairman of the Joint Chiefs of Staff.

Skilled in executive management, logistics, and military procurement due to his distinguished career managing 65,000 troops from 23 countries as Supreme Allied Commander.

Vice Chairman of The Cohen Group since March 2003. Retired from active duty in March 2003. Commander, U.S. European Command and Supreme Allied Commander Europe, NATO, Mons, Belgium from May 2000 to January 2003; Vice Chairman, Joint Chiefs of Staff, Washington, D.C. from March 1996 to April 2000. Mr. Ralston formerly served as a director of URS Corporation from 2003 to October 2014 and currently serves as a director of The Timken Company.

## Anne Stevens

**Age:** 66
**Director since:** 2002
**Independent**

**Committees:**
Management Development and Compensation
Audit
Executive

**Skills and Qualifications**

Experience with the demands and challenges associated with managing global organizations from prior executive positions at Ford Motor Company.

Public company management, talent management, and governance experience from prior positions as Chairman, President, and CEO of Carpenter Technology Corporation and Executive Vice President, Ford Motor Company.

Engineering and manufacturing expertise derived from educational training and experience managing production lines at Ford Motor Company.

Chairman and Principal of SA IT Services from June 2011 until her retirement in December 2014. Previously, Ms. Stevens was Chairman, President and Chief Executive Officer of Carpenter Technology Corporation from November 2006 to October 2009; Executive Vice President, Ford Motor Company and Chief Operating Officer, The Americas, from November 2005 to October 2006; Group Vice President, Canada, Mexico and South America, Ford Motor Company from October 2003 to October 2005; Vice President, North America Vehicle Operations of Ford Motor Company from August 2001 to October 2003; and Vice President, North America Assembly Operations of Ford Motor Company from April 2001 to August 2001. Ms. Stevens is a member of the National Academy of Engineering and currently serves as a director of Anglo American plc and XL Group plc.

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## PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP ( Erns& Young ), an independent registered public accounting firm, as the independent auditors to perform an integrated audit of the Corporation s consolidated financial statements and internal control over financial reporting for the year ending December 31, 2015. Ernst & Young served as our independent auditors in 2014 and 2013. The services provided to the Corporation by Ernst & Young for the last two fiscal years are described under the caption Fees Paid to Independent Auditors below.

The Audit Committee is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation s independent auditor in accordance with the NYSE listing standards. The Audit Committee also is responsible for the audit fee negotiations associated with the retention of Ernst & Young. The Audit Committee has discussed the advantages and disadvantages of external audit firm rotation. Further, in conjunction with the periodic mandated rotation of the audit firm s lead engagement partner, the Audit Committee and its chairman are directly involved in the selection of Ernst & Young s new lead engagement partner. The members of the Audit Committee and the Board believe that the continued retention of Ernst & Young to serve as the Corporation s independent external auditor is in the best interest of our stockholders.

Stockholder approval of the appointment is not required. However, the Board believes that obtaining stockholder ratification of the appointment is a sound corporate governance practice. If the stockholders do not vote on an advisory basis in favor of Ernst & Young, the Audit Committee will reconsider whether to hire the firm and may retain Ernst & Young or hire another firm without resubmitting the matter for stockholders approval. The Audit Committee retains the discretion at any time to appoint a different independent auditor.

Representatives of Ernst & Young are expected to be present at the Annual Meeting, will be available to respond to appropriate questions, and will have the opportunity to make a statement if they desire.

**The Board unanimously recommends a vote FOR the ratification of the appointment of Ernst & Young as independent auditors for 2015.**

### Pre-Approval of Independent Auditors Services

The Audit Committee pre-approves all audit, audit-related, tax, and other services performed by the independent auditors. The Audit Committee pre-approves specific categories of services up to pre-established fee thresholds. Unless the type of service had previously been pre-approved, the Audit Committee must approve that specific service before the independent auditors may perform such service. In addition, separate approval is required if the amount of fees for any pre-approved category of service exceeds the fee thresholds established by the Audit Committee. The Audit Committee also has delegated to the Committee Chairman pre-approval authority with respect to permitted services, provided that the member must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

### Fees Paid to Independent Auditors

The following table sets forth the fees billed by Ernst & Young, the Corporation s independent auditors, for audit, audit-related services, tax services, and all other services rendered for 2014 and 2013. All fees were pre-approved in accordance with the Audit Committee s pre-approval policy. The Audit Committee considered and concluded that the provision of these services by Ernst & Young was compatible with the maintenance of the auditor s independence.

| | 2014 ($) | 2013 ($) |
|---|---|---|
| Audit Fees (a) | 16,905,000 | 15,275,000 |
| Audit-Related Fees (b) | 1,810,000 | 1,220,000 |
| Tax Fees (c) | 2,545,000 | 2,030,000 |
| All Other Fees (d) | 60,000 | 25,000 |

(a) Audit fees for 2014 and 2013 are for services related to the annual audit of the Corporation s consolidated financial statements, including the audit of internal control over financial reporting, the interim reviews of the Corporation s quarterly financial statements, statutory audits of the Corporation s foreign subsidiaries, consultation on accounting matters, registration statements, and other documents filed by the Corporation with the SEC.

(b) Audit-related fees for 2014 and 2013 are related to audits of the Corporation s employee benefit plans, due diligence services in connection with acquisitions, reviews of information technology systems, reviews of financial models related to customer proposals, and a carve-out audit of a business unit s financial statements.

(c) Tax fees for 2014 and 2013 are for domestic and international tax compliance and advisory services.

(d) All other fees for 2014 are primarily for advisory work related to our 2014 Conflict Minerals Report. All other fees for 2013 are primarily for services related to government contracting matters.

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## PROPOSAL 3: ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS ( SAY-ON-PAY )

We ask our stockholders to vote annually to approve, on an advisory (non-binding) basis, the compensation of our named executive officers ( NEOs ) as described in detail in the Compensation Discussion and Analysis ( CD&A ) and the accompanying tables in the Executive Compensation section beginning on page 30. This vote is commonly known as Say-on-Pay.

Stockholders should review the entire Proxy Statement and, in particular, the CD&A for information on our executive compensation programs and other important items.

We believe that the information provided in this Proxy Statement demonstrates that our executive compensation programs are designed to link pay to performance. Accordingly, the Board recommends that stockholders approve the compensation of our NEOs by approving the following Say-on-Pay resolution:

RESOLVED, that the stockholders of Lockheed Martin Corporation approve, on an advisory basis, the compensation of the named executive officers identified in the Summary Compensation Table, as disclosed in the Lockheed Martin Corporation 2015 Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and the accompanying footnotes and narratives.

This vote is not intended to address any specific item of compensation, but rather our overall compensation policies and procedures related to the NEOs. Although the results of the Say-on-Pay vote do not bind the Corporation, the Board will, as it does each year, continue to review the results carefully and plans to continue to seek the views of our stockholders year-round.

We currently hold our Say-on-Pay vote annually. Stockholders will have an opportunity to cast an advisory vote on the frequency of Say-on-Pay votes at least every six years. The next advisory vote on the frequency of the Say-on-Pay vote will occur no later than 2017.

**The Board unanimously recommends that you vote FOR the advisory vote to approve the compensation of our named executive officers.**

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# EXECUTIVE COMPENSATION

## Compensation Committee Report

The Management Development and Compensation Committee ( Compensation Committee ) makes recommendations to the Board of Directors concerning the compensation of the Corporation s executives. We have reviewed and discussed with management the Compensation Discussion and Analysis below which will be included in the Corporation s Schedule 14A Proxy Statement, filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended. Based on that review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement and incorporated by reference in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2014. The Board approved our recommendation.

Submitted on February 26, 2015, by the Management Development and Compensation Committee:

| | |
|---|---|
| Anne Stevens, *Chairman* | David B. Burritt |
| Daniel F. Akerson | Douglas H. McCorkindale |
| Rosalind G. Brewer | |

*Dear Lockheed Martin Stockholders:*

*The executive compensation programs of our Corporation are designed to be competitive with market practices, to attract, motivate, and retain top-tier talent and to pay for performance. The Compensation Committee is composed solely of independent directors who are responsible for providing the appropriate level of oversight that ensures executive pay is aligned with your interests as a Lockheed Martin stockholder.*

*When making executive pay design decisions, we consider your feedback. We also take into account the result of the Say-on-Pay vote cast by you. In 2014, more than 93% of the votes cast by stockholders approved of the compensation of Lockheed Martin s named executive officers, compared to 85% in the prior year. Based on investor feedback, we view this strong increase in the level of support as affirmation of our compensation programs. We will continue to monitor your views through our stockholder engagement program.*

*Lockheed Martin is proud to be part of your portfolio and to share the results of a very successful year of financial, strategic, and operational performance.*

*Sincerely,*

| | |
|---|---|
| Anne Stevens, *Chairman* | David B. Burritt |
| Daniel F. Akerson | Douglas H. McCorkindale |
| Rosalind G. Brewer | |

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**Executive Compensation**

## Compensation Discussion and Analysis (CD&A)

This CD&A discusses the compensation decisions for the NEOs listed in the Summary Compensation Table on page 50. The NEOs are:

| NEO | Title in 2014 | Years in Position At End of 2014 (rounded) | Years of Service At End of 2014 (rounded) |
|---|---|---|---|
| **Marillyn A. Hewson** | Chairman of the Board, President and Chief Executive Officer* | 2 | 32 |
| **Bruce L. Tanner** | Executive Vice President and Chief Financial Officer | 7 | 33 |
| **Sondra L. Barbour** | Executive Vice President, Information Systems & Global Solutions | 2 | 28 |
| **Orlando P. Carvalho** | Executive Vice President, Aeronautics | 2 | 35 |
| **Maryanne R. Lavan** | Senior Vice President, General Counsel and Corporate Secretary | 5 | 25 |

* *Ms. Hewson was elected President and CEO effective January 1, 2013 and Chairman effective January 1, 2014.*

To assist stockholders in finding important information, this CD&A is organized as follows:

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**Executive Compensation**

# Executive Summary

## Our 2014 Performance

Lockheed Martin delivered another year of strong performance in 2014 despite a challenging environment with evolving customer requirements and a volatile security landscape.

Several of our key financial metrics were better than expected, including sales of $45.6 billion (above the top end of the range of our outlook at the beginning of 2014), segment operating profit of $5.6 billion, diluted earnings per share from continuing operations of $11.21; new orders of $43.3 billion; net earnings from continuing operations of $3.6 billion (up 23% from 2013); and cash from operations of $3.9 billion. In 2014, we returned $1.8 billion in dividends to our stockholders, our twelfth consecutive year of double-digit dividend growth. We also repurchased 11.5 million shares of stock for $1.9 billion.

Across the enterprise, we continued to strengthen our customer relationships and achieved 100% Mission Success® (on critical client events and deliverables) for the third consecutive year. The F-35 Lightning II program made strides in development testing, production deliveries, and international orders. Our Littoral Combat Ship program has advanced both in production and in deployment. Lockheed Martin s Joint Light Tactical Vehicle program surpassed 159,000 miles of Engineering & Manufacturing Development durability testing in 2014. We have continued to invest in our information technology business, expanding our capability in the growing fields of cyber security, commercial aerospace, and healthcare information technology. The successful first flight test of the Orion Multipurpose Crew Vehicle captured the imaginations of people around the world. Finally, we continued to grow our international business and expand our partnerships in various countries.

Through these accomplishments, Lockheed Martin delivered one-year and three-year total stockholder returns ( TSR ) that significantly exceeded the Dow Jones Industrial, S&P 500, S&P Industrials, NASDAQ, and S&P Aerospace & Defense ( S&P Aerospace ) indices for the one- and three-year periods ended December 31, 2014.

**1-Year TSR**

**3-Year TSR**

## Compensation Overview

Our executive compensation programs covering our NEOs are designed to attract and retain critical executive talent, to motivate behaviors that align with stockholders interests, and to pay for performance. The majority of our NEOs pay is variable and contingent on performance, and approximately 70%, on average, is in the form of long-term incentives ( LTI ).

To ensure pay is competitive with market practices, we conduct benchmarking analyses each year when establishing base salary, annual incentive target opportunities, and LTI target opportunities. Each element of compensation is benchmarked against the $50^{th}$ percentile, which we refer to as market rate, of a comparator group of companies, as shown on page 36. For executives new to their role, we target 85% of the market rate ($50^{th}$ percentile) and will consider increasing pay to 100% of the market rate over a three-year period based on a variety of factors including individual performance, experience, time in position, and critical skills. Although target incentive opportunities are set by reference to the market rate, incentive plan terms provide for actual payouts to be based upon performance results. In light of the Corporation s performance, above-target payouts were made under the 2014 annual incentive and 2012 2014 performance-based LTI components.

We also provide retirement programs and perquisites that are competitive in our industry and security that is appropriate for the business in which we operate.

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**Executive Compensation**

## 2014 Chairman, President & CEO Compensation

***Base Salary.*** Two years into her role as CEO, Ms. Hewson s 2014 base salary of $1,520,000 was set at 92.5% of the market rate (50th percentile of CEOs base salaries in our size-adjusted comparator group of companies). This amount was consistent with the Compensation Committee s philosophy for executives in the second year of their role.

***Annual Incentive.*** Ms. Hewson s target annual incentive amount for 2014 was $2,660,000 (175% of salary), representing 92.5% of the market rate. Although her annual incentive target percentage of 175% is at the market rate, Ms. Hewson s annual incentive target amount is below the market rate because her base salary was set at 92.5% of the market rate. Based on performance results relative to pre-established annual targets, Ms. Hewson was awarded 180% of her target or $4,788,000 under the annual incentive plan for 2014 performance.

***Long-Term Incentive Opportunity.*** Ms. Hewson s LTI award opportunity for 2014 of $11,120,120 was also set at 92.5% of the market rate consistent with our philosophy for executives in the second year of their role.

***2012 2014 Long-Term Incentive Performance ( LTIP ) Award.*** Under the 2012 2014 LTIP, Ms. Hewson s target award of $1,380,000 was established during her previous role as Executive Vice President, Electronic Systems. She received a payout of 164.7% of her target consistent with all plan participants or $2,272,860 in cash based on performance results relative to the three-year performance goals that were established in 2012.

***Pension.*** The increase in Ms. Hewson s salary and annual incentive target between 2012 to 2014, coupled with her 32 years of tenure with Lockheed Martin, led to a significant increase in the value of her pension through the application of the standard pension formula in the plan. The formula is based on years of service and pension eligible compensation and is the same formula applied to all employees receiving a pension benefit under our defined benefit plan. None of our executives received additional years of service credits or other forms of formula enhancements under our pension plan. Approximately $5 million of the $15.8 million change in pension value reported in the Summary Compensation Table for Ms. Hewson (on page 50) is the result of lower interest rates and new longevity assumptions that reflect longer life expectancies, which also apply to all employees eligible for the pension.

***Pay Mix.*** We believe that, to the maximum extent possible, the compensation opportunities of our CEO should be variable and the variable elements of the compensation package should tie to the Corporation s long-term success and the achievement of sustainable long-term total return to our stockholders. As shown in the chart below, a significant portion of our CEO s target compensation is variable and in the form of LTI and more than half of total target pay is in the form of equity.

**CEO TARGET OPPORTUNITY MIX***

**Fixed vs. variable and cash vs. equity components are designated in the Core Compensation Elements table on page 37. We consider base salary and annual incentives as short-term pay and performance stock units, LTIP, and restricted stock units as long-term pay. We do not consider retirement or other compensation components in the chart.*

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**Executive Compensation**

# Our Compensation Programs Incorporate Best Practices

## Best Practices in Our Program

- Pay for performance
- Active stockholder engagement program
- Market-based approach for determining NEO target pay
- LTI based on Relative TSR and value-driving financial metrics
- Caps on annual and long-term incentives
- Lower cap for performance stock units ( PSUs ) when TSR is negative
- Perquisites limited to those that are business-related
- Severance provisions at or below market
- Clawback policy on all variable pay
- Double-trigger provisions for change in control (for all grants after 2012)
- Consideration by Compensation Committee of stockholder dilution and burn rate in equity grant decisions
- Stock ownership requirements
- Annual comparator group review
- Policy prohibiting hedging or pledging of company stock by directors, officers, and employees
- Plan design and administration used to minimize incentives for imprudent risk taking
- Independent consultant reports directly to the Compensation Committee

## Practices We Do Not Engage In or Allow

- No employment agreements (other than exit transitions)
- No option backdating, cash out of underwater options or repricing
- No excise tax assistance upon a change in control
- No individual change in control agreements
- No automatic acceleration of unvested incentive awards in the event of termination
- No enhanced retirement formula or inclusion of LTI in pensions
- No enhanced death benefits for executives

## 2014 Say-on-Pay Vote Results & Stockholder Engagement

At our 2014 Annual Meeting, more than 93% of the votes cast by our stockholders approved our Say-on-Pay proposal, a considerable increase over the 85% approval at our 2013 Annual Meeting. As the result of the strong support conveyed by the vote, input received from stockholders, as well as other factors conveyed in this CD&A, the Compensation Committee made no significant changes to its compensation decisions and policies in 2014.

We proactively engage with our key investors throughout the year to understand the issues that matter most to them as it relates to our executive compensation programs and corporate governance practices. We considered the input of our stockholders and emerging best practices in adopting our executive pay programs.

During 2014, we engaged with representatives of stockholders owning more than 40% of our outstanding shares. Most investors with whom we met reacted positively to our pay governance and executive compensation programs.

Since the advent of Say-on-Pay, we have taken several positive steps to ensure that our pay governance and programs are aligned with investor expectations and emerging best practices.

We welcome feedback regarding our executive compensation programs and will continue to engage with our stockholders in 2015.

# Summary of Compensation Approach

## Our Decision-Making Process

The Compensation Committee seeks input from our CEO and other members of our management team as well as input and advice from the independent compensation consultant to ensure the Corporation s compensation philosophy and all information relevant to individual compensation decisions are taken into account.

## Independent Pay Governance

**Independent Board Members**

Reviews and approves the compensation of the CEO and the NEOs. Reviews with management, at least annually, the CEO and other senior positions succession plan and executive talent pool.

**Independent Compensation Committee**

Reviews and approves corporate objectives relevant to NEO compensation. Evaluates the performance of the CEO and each NEO against specified objectives. Recommends to the independent members of the Board the compensation of the CEO and each NEO.

**Independent Compensation Consultant**

Provides advice on executive pay programs and best practices. Provides design advice for annual and LTI vehicles and other compensation and benefit programs.

**Stockholders & Other Key Stakeholders**

Provide feedback on various executive pay practices and governance during periodic meetings with management that is also reviewed by and discussed with our independent Board members.

The following summary sets forth the responsibilities of various parties in connection with the implementation of our compensation programs.

| Role | Responsibilities |
|---|---|
| Independent Compensation Committee:<br>Anne Stevens, Chairman<br>Daniel F. Akerson<br>Rosalind G. Brewer<br>David B. Burritt<br>Douglas H. McCorkindale | Reviews and approves corporate objectives relevant to NEO compensation.<br>Evaluates and approves the performance of the CEO and each NEO against specified individual objectives.<br>Recommends to the independent members of the Board the compensation of the CEO and each NEO.<br>Approves Enterprise and Business Segment performance measures, weightings, and goals for the annual and LTI compensation plans.<br>Reviews proposed candidates for senior executive positions and recommends their compensation to the Board.<br>Approves equity and other LTI grants. This authority resides solely in the Compensation Committee (subject to ratification by the independent members of the Board) and has not been delegated to any member of management. |
| Independent Members of Board of Directors | Reviews and approves the compensation of the CEO and the NEOs.<br>Reviews with management, at least annually, the CEO and other senior position succession plan and executive talent pool. |
| Independent Compensation Consultant: Meridian Compensation Partners, LLC ( Meridian ) | Provides input to the Compensation Committee s decision-making on executive compensation matters in light of the Corporation s business strategy, pay philosophy, prevailing market practices, stockholder interests, and relevant regulatory mandates.<br>Provides advice on executive pay philosophy and relevant peer groups.<br>Provides design advice for short-term and LTI vehicles and other compensation and benefit programs.<br>Provides input to and interprets the results of, or conducts, competitive market studies as background against which the Compensation Committee can consider CEO and senior |

management compensation.

Reviews and provides an independent assessment of the data and materials presented by management to the Compensation Committee, including data provided by the regular compensation consultant of the Corporation.

Participates in Compensation Committee meetings as requested and communicates with the Chairman of the Compensation Committee between meetings.

Advises the Compensation Committee about emerging best practices and changes in the regulatory and corporate governance environment.

Reviews the CD&A and provides input to the Compensation Committee.

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| Role | Responsibilities |
|---|---|
| Management | The CEO reviews and approves corporate goals and objectives and provides feedback to the Compensation Committee on compensation and performance of the other NEOs and other senior management.<br>The EVP and CFO develops internal financial goals for both our annual and LTI programs, which are reviewed by the CEO before presentation to the Compensation Committee for consideration and approval.<br>The Senior Vice President, Human Resources ( SVP HR ) presents a schedule with a market rate for each compensation element (base salary, annual incentive, and LTI) to the Compensation Committee and consults with the CEO on recommended compensation for senior executives. The SVP HR does not recommend a specific amount of compensation for the CEO. |
| Corporation s Compensation Consultants: Aon Hewitt & Towers Watson | Provide management with market data and compensation practices from our comparator group.<br>Perform market research and other analyses to assist management in making plan design recommendations to the Compensation Committee and the Board. |

## How We Determine Market Rate Compensation

As a starting point, for each of the principal elements of executive compensation we define the market rate as the size-adjusted 50th percentile of the comparator group of companies we have identified for compensation purposes. Size-adjusted market rates were calculated for us by Aon Hewitt using regression analysis. This statistical technique accounts for revenue size differences within the peer group and results in a market rate for all compensation elements consistent with our revenue relationship to our peers. We also may adjust the market rate to reflect differences in an executive s job scope relative to the industry or the comparator group of companies, as appropriate.

Actual annual and long-term incentive compensation earned by executives may be above or below the target level we set for each executive based on our performance results against pre-established metrics and goals. Our incentive plans are designed so that actual performance in excess of the performance targets results in payouts above target and actual performance below the performance targets results in payouts below target or no payout.

## How We Select the Comparator Group for Market Rate and Performance Purposes

### Companies for Market Rate Determination

We regularly review our comparator group to maintain relevancy and to ensure the availability of data, while seeking to avoid significant annual changes in the group to ensure a level of consistency.

To establish the market rate for each of the principal elements of compensation, we select a group of publicly-traded companies (our comparator group) to identify market rates for all pay elements. Because the number of comparable companies with our revenue level is not extensive, we include companies in our comparator group based on a number of factors, including:

Similarity in size (a high correlative factor in determining pay), generally between one-half and two times our annual revenue.

Participation in the Aon Hewitt executive compensation survey (our primary source for data in making market comparisons); this enables us to obtain reliable data for market comparisons that otherwise may not be publicly available.

Industrial companies and, to the extent possible, companies that compete in the aerospace and defense industry; this enables comparison with companies that face similar overall labor costs and market fluctuations.

Companies that are included in the executive talent pool we consider when recruiting outside talent. Competitive conditions and a limited number of comparably sized aerospace and defense companies require us to recruit outside the core aerospace and defense companies for a broad range of disciplines (e.g., finance, human resources, supply chain management) to obtain individuals with a broad range of skills that are transferable across industries.

Companies with comparable executive officer positions or management structures, which enables more appropriate compensation comparisons.

We do not consider market capitalization in selecting our comparator group because market capitalization can change quickly as industries and companies go in and out of favor as investments and as companies restructure. Market capitalization may be more reflective of future expectations about a particular company s growth potential rather than its actual financial performance or complexity.

The data presented to and considered by the Compensation Committee regarding the level of compensation at the Corporation s comparator group of peer companies was developed from the proprietary results of the Aon Hewitt executive compensation survey, subject to review by Meridian. All of the comparator group companies participate in the Aon Hewitt survey.

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**Executive Compensation**

At the beginning of 2014, based on the objectives and criteria summarized above, we selected the following companies as our comparator group for purposes of establishing market rate compensation for each of the principal elements of our compensation programs. Our 2014 revenue represented the 59th percentile of our comparator group.

| | Comparator Group Rationale | | | |
|---|---|---|---|---|
| **Company** | **A&D Industry** | **Similarity (size, revenue, geographic presence or business model)** | **Comparable Executive Officer Positions (scope, responsibilities)** | **Participation in Executive Compensation Survey** |
| 3M Company | | | | |
| The Boeing Company | | | | |
| Caterpillar Inc. | | | | |
| Cisco Systems, Inc. | | | | |
| Deere & Company | | | | |
| The Dow Chemical Company | | | | |
| E. I. du Pont de Nemours & Company | | | | |
| FedEx Corporation | | | | |
| General Dynamics Corporation | | | | |
| Honeywell International Inc. | | | | |
| Intel Corporation | | | | |
| International Paper Company | | | | |
| Johnson Controls, Inc. | | | | |
| Northrop Grumman Corporation | | | | |
| Raytheon Company | | | | |
| United Parcel Service, Inc. | | | | |
| United Technologies Corporation | | | | |

## Consideration of Internal Pay Equity

Consistent with past practice, the Compensation Committee reviewed the pay relationship of the CEO to the other NEOs as part of the January 2014 and January 2015 meetings. This material was presented to the Compensation Committee by Meridian in its capacity as the Committee s independent compensation consultant.

## Compensation and Risk

The Corporation s executive and broad-based compensation programs are intended to promote decision-making that supports a pay for performance philosophy while utilizing the following risk mitigating features:

- Mix of fixed and variable pay opportunities
- Multiple performance measures, multiple time periods and capped payouts under the incentive plans
- Stock ownership requirements
- Oversight by Board Committees
- Clawback policy
- Moderate severance program
- Moderate post-employment restrictive covenants
- Institutional focus on ethical behavior
- Annual risk review
- Compensation Committee oversight of equity run rate and overhang

At the Compensation Committee s request, Meridian reviews all executive and broad-based compensation programs annually and determined that risks arising from our incentive compensation programs are not reasonably likely to have a material adverse effect on the Corporation as a whole.

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# 2014 Named Executive Officers Compensation

## Guiding Pay Principles

Attract, motivate, and retain highly competent executives

Align target pay to the market 50th percentile for all compensation elements

Link pay to Enterprise, Business Segment, and Individual performance

Provide an appropriate mix of short-term vs. long-term pay and fixed vs. variable pay

Align to stockholder interests and long-term company value

## Core Compensation Elements

Our compensation programs are designed to provide a mix of short- and long-term compensation, fixed and variable pay, and cash and equity-based compensation, as well as to reflect our philosophy of providing pay for performance. Retirement or all other compensation programs are not included in our core compensation elements below (additional information about these programs can be found on page 45).

| **WHAT?** | **Cash** | **Cash** | **Equity** | **Cash** | **Equity** |
|---|---|---|---|---|---|
| **WHEN?** | Annual | Annual | 3-year Performance Cycle | 3-year Performance Cycle | 3-year Cliff Vesting |
| **HOW?** *Measures, Weightings & Payouts* | Individual performance, experience, time in position, and critical skills | **Enterprise Performance** (60% Financial, 20% Strategic, 20% Operational) **X** **Business Segment Performance** (60% Financial, 20% Strategic, 20% Operational) **X** **Individual Performance** Payout: 0-200% of target | **Relative TSR*** **ROIC**** **Performance Cash**** Award 0-200% of target # of shares 400% of Fair Market Value on date of grant X shares earned Relative TSR measure capped at 100% if TSR is negative | **(50%)** **(25%)** **(25%)** Payout: 0-200% of target | **Value delivered through Long-Term Stock Price Performance** |
| **WHY?** | Provides competitive levels of fixed pay to attract and retain executives | Attracts and motivates executives by linking annual company, Business Segment and individual performance to an annual cash incentive | Creates strong alignment with stockholder interests by linking long-term pay to key performance metrics and stock price | | Promotes retention of key talent and aligns executive and stockholder interests |

* *Relative TSR performance is measured against our industry peers in the S&P Aerospace Index.*
** *See Appendix A for explanation of non-GAAP terms.*

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**Executive Compensation**

## 2014 Target Compensation

Consistent with our pay philosophy to consider moving executives from 85% to 100% of the market rate (50th percentile) over a three-year period assuming they perform effectively in their new roles, Ms. Hewson s, Ms. Barbour s, and Mr. Carvalho s target pay levels were aligned to 92.5% of the market rate given it was the second year in their respective roles. Mr. Tanner and Ms. Lavan had been in their respective roles for multiple years and were aligned to the market rate.

| NEO | Base Salary ($) | Annual Incentive Target % | Annual Incentive Target Amount ($) | 2014 LTI Grant ($) | Total Target Direct Compensation ($) |
|---|---|---|---|---|---|
| **Ms. Hewson** | 1,520,000 | 175 | 2,660,000 | 11,120,120 | 15,300,120 |
| **Mr. Tanner** | 890,209 | 105 | 934,719 | 4,050,119 | 5,875,047 |
| **Ms. Barbour** | 654,050 | 90 | 588,645 | 2,613,118 | 3,855,813 |
| **Mr. Carvalho** | 726,156 | 95 | 689,848 | 3,006,326 | 4,422,330 |
| **Ms. Lavan** | 706,198 | 95 | 670,888 | 2,650,053 | 4,027,139 |

## Base Salary

Base salaries are reviewed annually and may be increased to reflect the executive s individual performance and/or adjusted to align more appropriately with the market rate (50th percentile). In establishing the base salary for each NEO, we determined the market rate using comparator group company data and evaluate whether the market rate should be adjusted up or down based on differences in the scope of the NEO s position as compared to the industry and the comparator group companies. For 2014, we did not apply adjustments to the market rate for any of the NEOs.

The Compensation Committee establishes an executive s base salary relative to the market rate with consideration for the executive s individual performance, experience, time in position, and critical skills.

## Annual Incentive

The annual incentive uses a multiplicative approach to determine bonuses based on Enterprise, Business Segment, and Individual performance as follows:

| Target Award | X | Enterprise Performance Factor | X | Business Segment Performance Factor | X | Individual Performance Factor | = | Payout |
|---|---|---|---|---|---|---|---|---|
| | | - Financial (60%)<br>- Strategic (20%)<br>- Operational (20%) | | - Financial (60%)<br>- Strategic (20%)<br>- Operational (20%) | | | | |

Because we multiply the Enterprise, Business Segment, and Individual performance factors together, a zero rating on any factor results in no payout. Under the terms of our 2014 annual incentive program, the CEO s bonus may not exceed 0.3% of Performance Cash (see Appendix A for non-GAAP definition) and the bonus for each of the other NEOs cannot exceed 0.2% of Performance Cash. Annual incentive payouts may not exceed 200% of the target award.

The Compensation Committee adopted these parameters to establish the structure around which annual incentive decisions would be made, to align participants to the performance of the overall Enterprise, and to use financial performance as a core element of the rating. Although the annual incentive plan uses a formulaic approach, the Compensation Committee retains discretion, which includes choosing and approving metrics, assessing strategic, operational, and individual performance of our NEOs and approving the final ratings for each factor based on performance results. The Business Segment factor applied to the corporate officers (Ms. Hewson, Mr. Tanner, and Ms. Lavan) is the average of all Business Segment performance factors, which can be adjusted up or down (maximum 0.05) based on the Compensation Committee s assessment. In accordance with the annual incentive plan, factors are determined in .05 increments (i.e., there are no factors between .05 increments).

**Establishment of 2014 Goals**

At its January 2014 meeting, the Compensation Committee approved corporate objectives for 2014 reflecting financial, strategic, and operational goals. These objectives serve as the corporate organizational goals for all participants as well as the individual goals of the CEO. The Compensation Committee used the guidance we disclosed publicly at the beginning of the year for our financial metrics as disclosed in the 2014 proxy statement. We believe this approach to setting the financial metrics for annual bonus purposes appropriately links compensation to our effectiveness in meeting our public commitments to our stockholders.

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**Financial Commitments:** Our financial commitments are established at the completion of our annual long-range planning process and are consistent with our long-range plan commitments. The long-range planning process includes reviews of the assumptions used by the Business Segments in generating their financial projections, such as industry trends and competitive assessments, current and future projected program performance levels, and the risks and opportunities surrounding these baseline assumptions. Business Segment financial projections are also compared against historical patterns of performance. The long-range plan on which our financial goals are based is tied to the business environment in which we operate, which can vary year over year. In recent years, the U.S. Government, representing 79% of our net revenues for 2014, has faced significant deficit reduction pressures that are likely to continue. These constraints have affected members throughout the aerospace and defense industry, including expectations of financial performance that correspond to our incentive goals.

Our long-range plan values for Orders, Sales, Segment Operating Profit (see Appendix A for definition of non-GAAP terms), and cash from operations become the target level (1.0 rating) for each of these metrics. We established maximum (1.30 rating for Enterprise, 1.25 rating for Business Segments) and threshold payout levels (0.50 rating) around these targets based on a review of historical performance against long-range plan commitments for each of the four annual incentive goal metrics. We used straight-line interpolation between target and both maximum and minimum historical performance levels. In all cases, payouts deteriorate more rapidly as we move from target level to the minimum payout level compared to the level of increase as we move from target level to maximum payout level. This asymmetry reflects the importance we place on meeting our financial goals.

**Strategic and Operational Commitments:** Our strategic and operational performance assessments are inherently different than financial performance assessments. For the 2014 performance year, objective metrics were set for each of our strategic and operational commitments at the beginning of the year. The Compensation Committee used these as a reference point for its assessment along with past levels of performance to identify the top and bottom of the performance rating range and the expected target level. The Compensation Committee also took into account qualitative considerations that could not be forecasted reliably and used discretion where appropriate to evaluate the level of performance. For example, because some strategic goals, such as having no Red Programs are aspirational in nature, achieving the goal represents the maximum rating rather than the target rating (we designate a program as a Red Program when it has a value over $100 million and exhibits significant cost, schedule, technical, or quality challenges).

**Performance Ratings**

Performance results for 2014 were assessed using the rating scales below. The higher maximum rating for the Enterprise performance factor reflects the importance we place on company-wide results.

Enterprise performance (0.00 or 0.50 1.30 rating)

Business Segment performance (0.00 or 0.50 1.25 rating)

Individual performance (0.00 or 0.50 1.25 rating)

**Enterprise Performance Component**

***Enterprise Financial Assessment (60% of Enterprise Performance Component)***

We exceeded the target ranges established at the beginning of the year for all of the financial measures. In assessing performance against our cash from operations goal, we add back unplanned pension contributions so that the impact on incentive compensation is not a factor in the decision to make the additional pension contribution. Therefore, cash from operations was assessed after adding back $1 billion in unplanned contributions made to the pension fund in the 4th quarter 2014. Based on an adjusted result of $4,866M, the Compensation Committee determined that the target was Exceeded.

| 2014 Financial Measures | Weighting % | 2014 Goals ($) | Reported / Assessed Results ($) | 2014 Assessment |
|---|---|---|---|---|
| Orders | 20 | 41,500 43,000M | 43,283M | Exceeded |
| Sales | 20 | 44,000 45,500M | 45,600M | Exceeded |
| Segment Operating Profit* | 30 | 5,175 5,325M | 5,588M | Exceeded |

| | | | | |
|---|---|---|---|---|
| Cash from Operations | 30 | ≥ 4,600M | 3,866M / 4,866M | Exceeded |

* *See Appendix A for definition of non-GAAP terms.*

| | |
|---|---|
| **Performance Rating (Financial)** | **1.16** |

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**Executive Compensation**

***Enterprise Strategic Assessment (20% of Enterprise Performance Component)***

The Enterprise strategic performance goals were set to further develop focus around growth of the core businesses, sustaining return in new businesses, maximizing international and adjacent business opportunities, and talent management. We exceeded the target for each goal in this category.

| 2014 Strategic Measures | Weighting % | Assessment Summary | 2014 Assessment |
|---|---|---|---|
| Meet all Corporate focus program objectives for 2014 and drive new business capture through winning new business, maintaining all follow-on program value and adjacent market opportunities. | 60 | Business capture and retention of existing business exceeded target level. | Exceeded |
| Identify international growth opportunities and successfully meet long-range plan. | 20 | Continued expansion, increased orders and exceeded sales goals in international markets. | Exceeded |
| Embed our workforce planning strategies to define the capabilities needed for today and tomorrow delivering an integrated talent management strategy that reinforces our culture of leadership, performance, and inclusion. | 20 | Exceeded workforce goals through retention, merit increase differentiation, and placement of high performers in critical positions. | Exceeded |
| **Performance Rating (Strategic)** | | | **1.15** |

***Enterprise Operational Assessment (20% of Enterprise Performance Component)***

The operational performance targets were set with a focus on achieving Mission Success and no Red Programs. We exceeded the target for Mission Success (based on a list of identified critical client events or deliverables), successfully completing 100% of scheduled events for only the third time in the Corporation s history. Additionally, given the difficulty of achieving an aspirational goal of no Red Programs (considering there are over 200 programs that are valued over $100 million), the maximum assessment applies only if the goal was accomplished.

| 2014 Operational Measures | Weighting % | Assessment Summary | 2014 Assessment |
|---|---|---|---|
| Perform successfully (achieve Mission Success) on identified critical events. | 50 | 100% Mission Success in targeted events. | Maximum |
| Have no Red Programs (Note: Having no Red Programs would result in a maximum rating). | 50 | Continued reduction in Red Programs compared to prior years. | Exceeded |
| **Performance Rating (Operational)** | | | **1.26** |

***Overall Enterprise Performance Factor***

As described, the Enterprise Performance Factor was based on a formulaic approach with 60% weighted on financial performance, 20% weighted on strategic performance, and 20% weighted on operational performance. Based on the results discussed above, the 2014 Enterprise Performance Factor for the NEOs was 1.20.

| Goal | Performance Rating | Weighting | Result |
|---|---|---|---|
| Financial | 1.16 | X .60 | .70 |
| Strategic | 1.15 | X .20 | .23 |
| Operational | 1.26 | X .20 | .25 |
| **NEO Enterprise Factor (Rounded to nearest .05)** | | | **1.20** |

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**Business Segment Performance Component**

At the January 2014 meeting, the Compensation Committee approved key financial, strategic, and operational performance commitments that would be used to evaluate each Business Segment s performance. As a result, the Compensation Committee assessed financial, strategic, and operational goals specific to each Business Segment to determine the performance factors. The following chart describes indicative accomplishments of each Business Segment among a wide range of measures and performance results that were reviewed.

| Business Segment | Measure | Weighting % | Indicative Financial, Strategic, and Operational Accomplishments | Performance Factor |
|---|---|---|---|---|
| Aeronautics | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Exceeded Sales, Segment Operating Profit, and Cash from Operations targets.<br>Increased stability, customer satisfaction and met deliveries of core programs.<br>100% Mission Success. | 1.15 |
| Information Systems & Global Solutions | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Exceeded all financial targets.<br>Successful expansion in international markets through key wins and acquisitions.<br>100% Mission Success. | 1.20 |
| Missiles and Fire Control | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Exceeded Sales, Segment Operating Profit, and Cash from Operations targets.<br>Significant expansion into adjacent markets and secured key international contracts.<br>100% Mission Success. | 1.20 |
| Mission Systems and Training | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Exceeded Orders, Segment Operating Profit, and Cash from Operations targets.<br>Secured key contracts both domestically and internationally.<br>100% Mission Success. | 1.20 |
| Space Systems | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Significantly exceeded all financial targets.<br>Successful acquisitions and restructuring of operations.<br>100% Mission Success, including launch of Orion. | 1.25 |
| LM International* | Financial<br>Strategic<br>Operational | 60<br>20<br>20 | Exceeded Sales, Segment Operating Profit, and Cash from Operations targets.<br>Improved customer relationships and strategies in various countries.<br>Effective transition of new leadership. | 1.15 |
| **EO Business Segment Factor (Rounded Average)** | | | | **1.20** |

* *LM International supports each of the other Business Segments named above in our strategy to grow our international sales. Our international operating results are included within each of the other Business Segments operating results as presented in our 2014 Annual Report on Form 10-K.*

**Individual Performance Component**

For 2014, the Compensation Committee used the following individual performance definitions which align with the Corporation s individual performance management system:

| Factor | Performance Definitions |
|---|---|
| 1.15 1.25 | Significantly exceeded all or majority of commitments and met or exceeded all behavioral expectations. |
| 1.00 1.15 | Exceeded all or majority of commitments and met or exceeded behavioral expectations. |
| 0.75 1.00 | Achieved all or majority of commitments and met all or majority of behavioral expectations. |
| 0.00 or 0.50 0.75 | Did not achieve majority of commitments and/or did not meet majority of behavioral expectations. |

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**Executive Compensation**

In January 2015, the Compensation Committee assigned a factor for each NEO based on individual performance goals established at the beginning of 2014. The individual goals and assessments take into account both the Enterprise and/or Business Segment results, as well as the individual s impact on the overall organization, the difficulty of their roles and leadership contributions. The Compensation Committee evaluated the performance of each of our NEOs against his or her pre-established goals and assigned an individual performance factor for their 2014 awards. The Compensation Committee concluded that the performance of each of the NEOs exceeded his or her commitments for the year and warranted an individual performance factor above the 1.0 target level. In making that determination, the Compensation Committee took a wide range of accomplishments into account including, but not limited to, the following:

| NEO | Performance Considerations | Performance Factor |
|---|---|---|
| **Ms. Hewson** | Exceeded all Enterprise financial, strategic, and operational goals. | **1.25** |
| | Drove international business growth through key wins, resource allocation, and strategic initiatives. | |
| | Positioned company for continued value creation through strong backlog and cash flow, pipeline of innovation, and strong operational performance. | |
| **Mr. Tanner** | Exceeded all Enterprise financial goals; maintained backlog over $80B. | **1.25** |
| | Successfully engaged with key investors. | |
| | Provided financial leadership for pension redesign implementation. | |
| **Ms. Barbour** | Exceeded all IS&GS financial goals. | **1.15** |
| | Expanded international business; significantly exceeding orders plan with key wins. | |
| | Completed three key acquisitions in core growth markets. | |
| **Mr. Carvalho** | Exceeded Sales, Segment Operating Profit, and Cash from Operations goals. | **1.20** |
| | Led substantive progress in development and maturation of the F-35 aircraft. | |
| | Ensured key deliveries were achieved and made significant progress in securing new orders. | |
| **Ms. Lavan** | Successful litigation management. | **1.20** |
| | Broadened investor engagement. | |
| | Leadership in cross-functional initiatives. | |

## Summary of Annual Incentive Payout Calculations

| NEO | Base Salary ($) | Target % of Salary (%) | Target Award ($) | X | Enterprise Factor | X | Business Segment Factor | X | Individual Factor | = | Payout* ($) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Ms. Hewson** | 1,520,000 | 175 | 2,660,000 | | 1.20 | | 1.20 | | 1.25 | | 4,788,000 |
| **Mr. Tanner** | 890,209 | 105 | 934,719 | | 1.20 | | 1.20 | | 1.25 | | 1,682,500 |
| **Ms. Barbour** | 654,050 | 90 | 588,645 | | 1.20 | | 1.20 | | 1.15 | | 974,800 |
| **Mr. Carvalho** | 726,156 | 95 | 689,848 | | 1.20 | | 1.15 | | 1.20 | | 1,142,400 |
| **Ms. Lavan** | 706,198 | 95 | 670,888 | | 1.20 | | 1.20 | | 1.20 | | 1,159,300 |

* *Final payouts are rounded to the nearest hundred.*

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**Executive Compensation**

## 2014 Long-Term Incentive Compensation

The following summary shows the 2014 LTI compensation mix for the CEO, EVPs, and Senior Vice Presidents (SVPs) and other principal terms of the awards.

| | % of Target LTI | Form | Principal Terms of Awards |
|---|---|---|---|
| PSUs | 50 | Equity | Minimum, target and maximum award levels based on three-year:<br>Relative TSR (50%)<br>ROIC* (25%)<br>Performance Cash* (25%)<br>The PSUs are subject to the following caps:<br>200% of target shares<br>400% of Fair Market Value on date of grant times shares earned<br>Relative TSR measure capped at 100% if TSR is negative |
| LTIP | 20 | Cash | Minimum, target and maximum award levels based on three-year:<br>Relative TSR (50%)<br>ROIC* (25%)<br>Performance Cash* (25%)<br>Payout is capped at 200% of target |
| RSUs | 30 | Equity | RSUs vest 100% after three years from the grant date<br>Grant Date Value cannot exceed:<br>CEO 0.2% of actual 2014 Performance Cash<br>Other Elected Officers 0.1% of actual 2014 Performance Cash |

* *ROIC and Performance Cash targets for PSUs and LTIP represent the amounts reflected in the long-range plan for the applicable performance period.*

In making its determinations about the appropriate level of equity grants for 2014, the Compensation Committee took into consideration a variety of factors, including the number of awards outstanding and shares remaining available for issuance under the Corporation s equity incentive plans, the number of shares that would be issued under contemplated awards over the range of potential performance achievement, the total number of the Corporation s outstanding shares, the resulting implications for stockholder dilution, and the number of shares granted to our executives per year. The Compensation Committee believes that the Corporation s equity compensation program appropriately balances its objectives with those considerations.

### PSU Awards (50% of the LTI award)

PSU awards are calculated by multiplying the overall target LTI award value by the weighting assigned to the PSU element. The total PSU value is then multiplied by the weighting assigned to each PSU component (50% to Relative TSR, 25% to ROIC, 25% to Performance Cash). The number of PSUs granted is determined by the fair value of each PSU element on the date of grant.

Each NEO s PSU target number of shares is determined at the beginning of the three-year performance period and the actual number of shares earned at the end of the period is calculated based on our performance measured against the three financial metrics: Relative TSR, ROIC, and Performance Cash.

The number of shares granted at the end of the cycle can range from 0% to 200% of the applicable target number of shares. If TSR is negative at the end of the performance cycle, the rating for the Relative TSR measure is capped at 100%. In addition, the maximum value that can be earned under a PSU grant is 400% of the Fair Market Value on the date of grant times the shares earned. The award calculation is formulaic and no adjustment can be made to the final number of shares granted.

### LTIP Awards (20% of the LTI award)

LTIP awards are calculated by multiplying the overall target LTI award value by the weighting assigned to the LTIP element.

Each NEO s LTIP target is determined at the beginning of the three-year performance period and the actual award earned at the end of the period is calculated based on the same performance measures as the PSUs: Relative TSR, ROIC, and Performance Cash. Payouts can range from 0% to 200% of the applicable target. The award calculation is formulaic and no adjustment can be made to the final payout factor.

For the 2014 2016 LTIP grants, any amount payable to a single participant in excess of $10 million will be forfeited.

## RSU Awards (30% of LTI award)

RSU awards are calculated by multiplying the overall target LTI award value by the weighting assigned to the RSU element. The number of RSUs granted is determined by the fair value on the date of grant.

All RSUs awarded to NEOs in 2014 were subject to forfeiture to the extent the grant date value of the RSUs exceeded 0.2% of 2014 Performance Cash in the case of the CEO and 0.1% in the case of each of the other NEOs. These performance requirements were satisfied and no forfeitures occurred.

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**Executive Compensation**

## Selection of Performance Measures

The LTI performance metrics approved by the Compensation Committee are measures that we believe most effectively support our long-term business and strategic goals and directly tie the long-term goals of our executive leadership team to the interests of our stockholders. The measurements used for the financial component of our annual incentive plan (Orders, Sales, Segment Operating Profit, and cash from operations) also serve as the foundation for achieving our long-term goals such that we must consistently achieve or exceed the Corporation s annual goals in order to achieve our LTI goals.

The selected LTI performance metrics consist of Relative TSR (50% weight), ROIC (25% weight) and Performance Cash (25% weight). We chose these three metrics as we believe that they represent the best measures of value creation for the company over a long-term period. And, we applied equal weighting to the market-based measure of value creation, TSR, to what we believe are the best internal measures of value creation, Performance Cash and ROIC.

We selected Relative TSR to measure our performance against our industry peers in the S&P Aerospace Index. Because every industry faces different challenges and opportunities, we believe that comparing our TSR against peers facing a similar business environment is preferred to those outside our industry. While the S&P Aerospace Index is, in our judgment, the best index against which to compare our Relative TSR, we recognize that it does not perfectly correlate to the environment in which Lockheed Martin operates given some firms in the index are almost entirely in the commercial aerospace business, some are entirely government contractors, and some have a mixture of the two businesses.

Because the Relative TSR index is not perfectly aligned with the businesses in which Lockheed Martin operates and because any number of macro-economic factors that could affect market performance are beyond the control of the Corporation, we use ROIC and Performance Cash as internal measures that can be directly affected by management s decisions. ROIC measures how effectively we employ our capital over time, while our Performance Cash over time provides the means for value creation through capital deployment. By including a cash measure in both our annual and long-term incentive plans, the plans also mitigate the risk of short-term cash strategies that do not provide long-term value.

In tandem, we believe that these metrics drive the behaviors of our management team in ways that will create the most value for our stockholders.

## Setting Goals for LTI (PSUs and LTIP)

Our long-range planning process is used to establish the target (100% level of payment) for the Performance Cash and ROIC metrics in the PSU and LTIP grants. In setting minimum and maximum levels of payment, we reviewed historical levels of performance against long-range plan commitments, and conducted sensitivity analyses on alternative outcomes focused on identifying likely minimum and maximum boundary performance levels. Levels between 100% and the minimum and maximum levels were derived using linear interpolation between the performance hurdles. As with our annual incentive performance goals, PSU and LTIP payouts deteriorate more rapidly as we move from target level to the minimum payout level than they increase as we move from target level to maximum payout level. This asymmetry reflects the importance we place on meeting our financial commitments.

The specific Performance Cash and ROIC target values for the 2014 2016 PSU and LTIP plans are not publicly disclosed at the time of grant due to the proprietary nature and competitive sensitivity of the information. However, the method used to calculate the awards will be based on the actual performance compared to the Corporation s 2014 2016 targets as shown below, which use straight-line interpolation between points. The Compensation Committee does not have discretion to adjust the results of the PSU and LTIP awards.

### 2014-2016 Performance Goals

**Relative TSR (50%)***

| Relative TSR Percentile | Payout Factor |
|---|---|
| 75th 100th | 200% |
| 60th | 150% |
| 50th | 100% (Target) |

**Performance Cash (25%)**

| Cash Performance Metric | Payout Factor |
|---|---|
| Target + ≥ $2.0B | 200% |
| Target + $1.5B | 175% |
| Target + $1.0B | 150% |

**ROIC (25%)**

| ROIC Performance Metric | Payout Factor |
|---|---|
| Target + ≥ 160 bps | 200% |
| Target + 120 bps | 175% |
| Target + 80 bps | 150% |

| | |
|---|---|
| 40th | 50% |
| 35th | 25% |
| < 35th | 0% |

** Relative TSR performance is measured against our industry peers in the S&P Aerospace Index.*

| | |
|---|---|
| Target + $0.5B | 125% |
| Target | 100% |
| Target - $0.2B | 75% |
| Target - $0.5B | 50% |
| Target - $0.7B | 25% |
| Target - ≥ $1.0B | 0% |

| | |
|---|---|
| Target + 40 bps | 125% |
| Target | 100% |
| Target - 10 bps | 75% |
| Target - 20 bps | 50% |
| Target - 30 bps | 25% |
| Target - ≥ 40 bps | 0% |

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**Executive Compensation**

## 2012 2014 LTIP Award

The cash-based LTIP payout factor for the performance period ended December 31, 2014, was calculated by comparing actual corporate performance for the period January 1, 2012 through December 31, 2014, against a table for each metric of payment levels from 0% to 200% (with the 100% payout level being considered target) established at the beginning of the performance period in January 2012. The award calculation is formulaic and no adjustment can be made to the final payout factor. The final weighted payout factor for this performance period is shown below. The S&P Industrial Index was used for the 2012 2014 Relative TSR goal since that Index was specified at the time the awards were made.

| Measure | Performance Target | Performance Result | Payout Factor | Weighting | Weighted Payout Factor |
|---|---|---|---|---|---|
| TSR | 50th Percentile | 80th Percentile | 200% | 50% | 100.0% |
| Performance Cash | $10.3B | $11.8B | 117.1% | 25% | 29.3% |
| ROIC | 15.80% | 16.60% | 141.7% | 25% | 35.4% |
| **Total Payout Factor as a % of Target** | | | | | **164.7%** |

Based on a payout factor of 164.7%, the following table shows the payouts under the 2012 2014 LTIP.

| NEO | 2012 Target ($) | 2014 LTIP Payout ($) |
|---|---|---|
| **Ms. Hewson** [1] | 1,380,000 | 2,272,860 |
| **Mr. Tanner** | 1,620,000 | 2,668,140 |
| **Ms. Barbour** [1] | 440,000 | 724,680 |
| **Mr. Carvalho** [1] | 490,000 | 807,030 |
| **Ms. Lavan** | 950,000 | 1,564,650 |

*(1) Payouts are based on targets established while in 2012 roles.*

## Benefit, Retirement and Perquisite Programs

In addition to base salary and annual and long-term incentive compensation, we offer a number of other compensatory arrangements to our executive officers. These indirect elements of executive compensation are not performance-based. The purpose for offering these benefits is to provide an overall total rewards package that ensures security of executives, are for business-related purposes, and are competitive with the other companies with which we compete for talent.

Set forth below is a summary of the benefit, retirement, and perquisite programs earned by our NEOs.

| Element | Description |
|---|---|
| Health, Welfare and Retirement Benefits | Our NEOs are eligible for savings, pension, medical, and life insurance benefits under the plans available to salaried, non-union employees. We also make available supplemental pension and savings plans to employees (including the NEOs) to make up for benefits that otherwise would be unavailable due to Internal Revenue Service ( IRS ) limits on qualified plans. These plans are restorative and do not provide an enhanced benefit. We also offer a plan for the deferral of short-term and certain long-term incentive compensation, which allows our executives to defer all or a portion of their incentive compensation as part of their overall financial planning. All NEOs are eligible for four weeks of vacation.<br><br>In 2014, we announced that accruals for all employees (including the NEOs) under our defined benefit plan will be frozen in two steps, with compensation accruals frozen on January 1, 2016, and service accruals frozen on January 1, 2020. Thereafter, retirement benefits will be earned through defined contribution plans. |

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| Element | Description |
|---|---|
| Perquisites and Security | We provide limited perquisites as a retention and recruiting tool to provide for the health, safety, and business needs of our key executives. The perquisites provided to NEOs for 2014 are described in footnotes to the Summary Compensation Table on page 53. For security reasons, our Board has directed our CEO to use the corporate aircraft for personal travel. As an additional element of our security program, we provide home security to certain executives. We believe this approach is consistent with security generally provided to corporate executives in public companies in our industry.<br><br>We also have a corporate policy to provide any employee who is the subject of a credible and specific threat on account of his or her employment at the Corporation with security that is appropriate to the nature and extent of the threat. The Board believes it is important to provide this protection due to the nature of our defense business and because it believes that an employee should not be placed at personal risk due to his or her association with the Corporation s business. In the event of a threat to an executive officer, the CBS Committee reviews and approves the security recommended by our Chief Security Officer. We believe that providing personal security in response to threats arising out of employment by the Corporation is business-related. |
| Tax Assistance | We do not have agreements or severance arrangements that provide tax gross-ups ( tax assistance ) for excise taxes imposed as a result of a change in control. In 2014, we provided tax assistance for taxable business association expenses, security expenses, and travel expenses for a family member accompanying a NEO for a business reason. These items are reported in the All Other Compensation column of our Summary Compensation Table on page 50 and are further identified in the chart included in the footnote to that table on page 53. The IRS requires that the executive pay income tax for these items even though the executive receives no cash in connection with the item. Tax assistance for these perquisites took the form of additional payments and was made for the purposes of ensuring that these perquisites and the associated tax assistance was economically neutral to the NEOs. We believe the items for which we provide tax assistance are business-related and the associated tax liability imposed on the executive would not have been incurred unless business reasons required the items be provided. |

## 2015 Compensation Decisions

At its January 2015 meeting, the Compensation Committee took the following actions with respect to 2015 compensation matters.

### 2015 Base Salary

The Compensation Committee approved the following 2015 salary increases based on the market rate and each executive s performance and time in position. For the CEO, the base salary market rate used for 2015 decreased relative to 2014 as a result of new CEO incumbents in our comparator peer group with lower base salaries. Consistent with our pay philosophy to consider moving executives from 85% to 100% of the market rate (50th percentile) over a three-year period assuming they perform effectively in their new roles, Ms. Hewson s, Ms. Barbour s, and Mr. Carvalho s base salaries were increased to align with the market rate given it was the third year in their respective roles. Mr. Tanner and Ms. Lavan received an increase in accordance with the market rate and individual performance.

| NEO | 2014 Base Salary ($) | 2015 Base Salary ($) | % Increase |
|---|---|---|---|
| **Ms. Hewson** | 1,520,000 | 1,565,000 | 2.96 |
| **Mr. Tanner** | 890,209 | 925,000 | 3.91 |
| **Ms. Barbour** | 654,050 | 705,000 | 7.79 |
| **Mr. Carvalho** | 726,156 | 790,000 | 8.79 |
| **Ms. Lavan** | 706,198 | 735,000 | 4.08 |

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**Executive Compensation**

## Annual Incentive Program

No changes were made to annual incentive target percentages for any of the NEOs for 2015. The multiplicative factors, weightings and performance rating scales did not change from the 2014 design. The Compensation Committee approved the key corporate commitments set forth below for purposes of assessing performance in 2015.

### 2015 Enterprise Financial Goals (Weighted 60%)

The financial commitments for the Enterprise Performance Factor are consistent with our long-range plan commitments, and are the same ranges we provided as public guidance in January 2015 in our year-end earnings release. These commitments for 2015 are set forth below.

| 2015 Commitments | 2015 Goal ($) |
|---|---|
| Orders | 43,500M - 45,000M |
| Sales | 43,500M - 45,000M |
| Segment Operating Profit | 5,100M - 5,250M |
| Cash from Operations | ≥ 5,000M |

For the purposes of assessing performance under our annual incentive program, results may be adjusted from reported amounts for the incremental benefits or impacts associated with acquisitions or divestitures. Cash from operation results also may be adjusted for unplanned pension contributions so that the impact on incentive compensation is not a factor in the decision to make the additional pension contribution.

### 2015 Enterprise Strategic Goals (Weighted 20%)

Meet all Enterprise Focus Program objectives for 2015 and drive new enterprise performance through winning new business, maintaining all critical programs core to our business and adjacent market opportunities.

Identify growth areas internationally and position the Corporation for successful entry and sustainable returns in these areas.

Embed our workforce planning strategies to define the capabilities needed for today and tomorrow, delivering an integrated talent management strategy that reinforces our culture of leadership and performance.

### 2015 Enterprise Operational Goals (Weighted 20%)

Achieve Mission Success on identified critical program events.

No Red Programs.

Similar financial, strategic, and operational goals were established by each Business Segment based on the programs in their respective portfolios.

Subject to the Compensation Committee s consideration of any other relevant factors, the Enterprise goals highlighted above will serve as the basis for the individual performance assessment of the CEO for 2015; likewise, the Business Segment goals will serve as the basis for the individual performance assessment of the EVPs for 2015.

### 2015 Long-Term Incentive Award Opportunities

The Compensation Committee approved 2015 LTI award opportunities for all executive officers commensurate with their respective 2015 LTI market rate, the executive s performance and time in position.

For 2015, the LTI award opportunity for EVPs and SVPs is allocated 50% toward PSUs, 20% toward LTIP, and 30% toward RSUs.

The same measures and approach used for the 2014 2016 PSU and LTIP awards (see page 44) will be used to determine the 2015 2017 PSU and LTIP awards, other than the following:

The threshold payout for Performance Cash and ROIC will be 25% (eliminated payouts below 25%).

Similar to PSUs, the LTIP payout factor for the Relative TSR measure will be capped at 100% if our TSR is negative over the performance period.

For the 2015 2017 LTIP grants, any amount payable to a single participant in excess of $10 million will be forfeited.

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**Executive Compensation**

## Other Corporate Governance Considerations in Compensation

### Our Use of Independent Compensation Consultants

The Compensation Committee believes that an independent compensation consultant can provide important information about market practices, the types and amounts of compensation offered to executives generally, and the role of corporate governance considerations in making compensation decisions. The Compensation Committee s charter authorizes it to retain outside advisors that it believes are appropriate to assist in evaluating executive compensation.

For 2014, the Compensation Committee continued to retain Meridian as an independent compensation consultant. In connection with its retention of Meridian, the Compensation Committee considered the following factors in assessing Meridian s independence:

Meridian does not perform other services for the Corporation.

The compensation paid to Meridian is less than 1% of Meridian s revenues.

Meridian has business ethics and insider trading and stock ownership policies, which are designed to avoid conflicts of interest.

Meridian employees supporting the engagement do not own Lockheed Martin stock or securities.

Meridian employees supporting the engagement have no business or personal relationships with members of the Compensation Committee or with any Lockheed Martin executive officer.

At its February 2015 meeting, the Compensation Committee renewed the engagement of Meridian. At that time, Meridian confirmed the continuing validity of each of the factors described above.

The nature and scope of Meridian s engagement was determined by the Compensation Committee and not limited in any way by management. A description of the services provided by Meridian can be found on page 34.

### Policy Regarding Timing of Equity Grants

We have a corporate policy statement concerning the grant of equity awards. Under that policy:

The Compensation Committee is responsible for determining the grant date of all equity awards.

No equity award may be backdated. The grant date will not be earlier than the date the Compensation Committee approves the equity award. A future date may be used if, among other reasons, the Compensation Committee s action occurs in proximity to the release of earnings or during a trading blackout period.

Proposed equity awards are presented to the Compensation Committee in January of each year. Off-cycle awards may be considered in the Compensation Committee s discretion in special circumstances, which may include hiring, retention, or acquisition transactions.

In addition, our existing incentive performance award plan prohibits repricing of stock options or paying cash for underwater stock options.

### Clawback and Other Protective Provisions

In January 2008, the Board amended its Governance Guidelines to include what is commonly referred to as a clawback policy. Under the policy (as incorporated in our award agreements), if the Board determines that an officer s intentional misconduct, gross negligence, or failure to report such acts by another person:

was a contributing factor in requiring us to restate any of our financial statements; or

constituted fraud, bribery or other illegal act, or contributed to another person s fraud, bribery or other illegal act, which adversely impacted our financial position or reputation;

the Board shall take such action as it deems in the best interests of the Corporation and necessary to remedy the misconduct and prevent its recurrence. Among other actions, the Board may seek to recover or require reimbursement of any amount awarded to the officer after January 1, 2008, in the form of an annual incentive bonus or LTI award.

To implement the policy on clawbacks, to ensure that proprietary information is protected, and to facilitate retention of key employees, the Compensation Committee amended our annual incentive plan and included provisions in the award agreements for the RSUs, stock options, PSUs and LTIP beginning with the January 2008 grants setting forth the Corporation s right to recapture amounts covered by the policy.

In the event the Board recoups incentive compensation under our policy, management intends to disclose the aggregate amount of incentive compensation recovered, so long as the underlying event has already been publicly disclosed in our filings with the SEC. This disclosure would appear in the proxy statement following any such Board action and would provide the aggregate amount of recovery for each event if there is more than one applicable event.

The award agreements for the NEOs also contain post-employment restrictive covenants. The post-employment restrictions were incorporated into all executive level award agreements beginning in 2011.

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**Executive Compensation**

## Anti-Hedging and Pledging Policy

Our policies prohibit hedging and pledging of Lockheed Martin stock by all directors, officers, and employees.

## Stock Ownership Requirements for Key Employees

To better align their interests with the long-term interests of our stockholders, we expect our officers (including the NEOs) and other members of management to maintain an ownership interest in the Corporation. Our stock ownership requirements were increased in 2012.

| Title | Annual Base Salary Multiple |
|---|---|
| Chairman, President and Chief Executive Officer | 6 times |
| Chief Financial Officer | 4 times |
| Executive Vice Presidents | 3 times |
| Senior Vice Presidents | 2 times |

NEOs are required to achieve ownership levels within five years of assuming their role and must hold net shares from vested RSUs and PSUs and net shares from options exercised until the value of the shares equals the specified multiple of base salary. The securities counted toward their respective target threshold include common stock, unvested RSUs, unvested PSUs at target (which will no longer be counted towards ownership levels beginning with 2015 awards), and stock units under our 401(k) plans and other deferral plans. As of February 2, 2015, our NEOs exceeded their respective ownership requirements.

## Post-Employment, Change in Control, and Severance Benefits

Our NEOs do not have employment agreements. In January 2008, the Board approved the Lockheed Martin Corporation Severance Benefit Plan For Certain Management Employees (renamed the Lockheed Martin Corporation Executive Severance Plan). Benefits are payable under this plan in the event of a company-initiated termination of employment other than for cause. All of the NEOs are covered under the plan.

The benefit payable in a lump sum under the plan is two weeks basic severance plus a supplemental payment of one times the NEO s base salary and the equivalent of one year s target annual incentive bonus. For the CEO, the multiplier is 2.99 instead of 1.

NEOs participating in the plan will also receive a lump sum payment to cover the cost of medical benefits for one year in addition to outplacement and relocation services. To receive the supplemental severance benefit, the NEO must execute a release of claims and an agreement containing post-employment, non-compete, and non-solicitation covenants comparable to those included in our NEOs LTI award agreements.

With respect to LTI, upon certain terminations of employment, including death, disability, retirement, layoff, divestiture, or a change in control, the NEOs may be eligible for continued vesting on the normal schedule, immediate payment of benefits previously earned, or accelerated vesting of LTI in full or on a pro rata basis. The type of event and the nature of the benefit determine which of these approaches will apply. The purpose of these provisions is to protect previously earned or granted benefits by making them available following the specified event. We view the vesting (or continued vesting) to be an important retention feature for senior-level employees. Because benefits paid at termination consist of previously granted or earned benefits, we do not consider termination benefits as a separate item in compensation decisions. Our LTI plans do not provide for tax assistance.

In the event of a change in control, our plans provide for the acceleration of the payment of the nonqualified portion of earned pension benefits and nonqualified deferred compensation. In the case of stock options and LTIP, for awards made prior to January 1, 2013, vesting following a change in control is a single trigger (occurs upon the change in control). In the case of RSUs granted prior to January 1, 2013, the award agreements impose a double trigger (both a change in control and termination of employment must occur).

Beginning in 2013, unless the successor does not assume the award agreements, all LTI awards require a double trigger for vesting to accelerate (both a change in control and a qualifying termination of employment).

## Tax Deductibility of Executive Compensation

The Corporation s tax deduction for compensation paid to each of the NEOs who are subject to the compensation deduction limits of Section 162(m) of the Internal Revenue Code is capped at $1 million. Section 162(m) provides an exemption from the $1 million cap for compensation qualifying as performance-based. We intend for our annual incentive and LTI programs for NEOs to qualify as performance-based compensation exempt from the $1 million cap on deductibility. The Corporation and Compensation Committee reserve the right to provide compensation that does not qualify under Section 162(m).

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**Executive Compensation**

# Summary Compensation Table

The following table shows annual and long-term compensation awarded, earned, or paid for services in all capacities to the NEOs for the fiscal year ended December 31, 2014 and, where applicable, the prior fiscal years. Numbers have been rounded to the nearest dollar.

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| **Marillyn A. Hewson** | 2014 | 1,497,692 | 0 | 8,896,120 | 0 | 7,060,860 | 15,817,715 | 415,055 | 33,687,442 |
| Chairman, President and Chief Executive Officer | 2013 | 1,368,654 | 0 | 8,160,021 | 0 | 5,979,710 | 9,409,264 | 238,150 | 25,155,799 |
| | 2012 | 738,462 | 1,880,100 | 876,569 | 876,623 | 1,281,800 | 5,406,361 | 330,407 | 11,390,322 |
| **Bruce L. Tanner** | 2014 | 884,311 | 0 | 3,240,119 | 0 | 4,350,640 | 3,864,483 | 55,018 | 12,394,571 |
| Executive Vice President and Chief Financial Officer | 2013 | 838,586 | 0 | 2,950,538 | 0 | 3,384,234 | 865,902 | 74,779 | 8,114,039 |
| | 2012 | 762,346 | 1,205,700 | 1,027,402 | 1,027,541 | 1,553,240 | 2,249,096 | 54,060 | 7,879,385 |
| **Sondra L. Barbour** | 2014 | 651,119 | 0 | 2,090,518 | 0 | 1,699,480 | 2,704,031 | 32,740 | 7,177,888 |
| Executive Vice President | 2013 | 593,752 | 0 | 1,928,340 | 0 | 1,450,165 | 918,254 | 28,377 | 4,918,888 |
| Information Systems and Global Solutions | - | - | - | - | - | - | - | - | - |
| **Orlando P. Carvalho** | 2014 | 720,836 | 0 | 2,405,027 | 0 | 1,949,430 | 3,694,876 | 72,074 | 8,842,243 |
| Executive Vice President Aeronautics | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - |
| **Maryanne R. Lavan** | 2014 | 702,287 | 0 | 2,120,053 | 0 | 2,723,950 | 2,745,209 | 48,970 | 8,340,469 |
| Senior Vice President, | 2013 | 668,348 | 0 | 1,446,833 | 0 | 2,114,090 | 1,193,094 | 46,158 | 5,468,523 |
| General Counsel and Corporate Secretary | - | - | - | - | - | - | - | - | - |

* *See explanation of Total Without Change In Pension Value on page 53.*

## Name and Principal Position (Column (a))

Ms. Hewson was appointed Chairman of the Board effective January 2014 and President and CEO effective January 2013. She served as Executive Vice President Electronic Systems from January 2010 to November 2012, and as President and Chief Operating Officer from November 2012 to December 2012.

Information is provided for 2014 and 2013 only for Ms. Barbour and Ms. Lavan as they were not NEOs in 2012.

Information is provided for 2014 only for Mr. Carvalho as he was not a NEO in 2013 or 2012.

## Salary (Column (c))

Salary is paid in arrears. The amount of salary reported may vary from the approved annual rate of pay because the salary reported in the table is based on the actual number of weekly pay periods in a year.

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# Bonus (Column (d))

Annual incentive bonuses are reported in the year the bonus is earned. In years prior to 2013, the annual incentive bonuses were listed in this column (d). Beginning with 2013, column (g) includes the amount paid for annual incentive bonuses. We are reporting the annual incentive in column (g) because the annual incentive bonus is based on an assessment of performance against pre-established goals.

# Stock Awards (Column (e))

Represents the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 718 ( ASC 718 ) for RSUs granted in 2014, 2013 and 2012, and PSUs granted in 2014 and 2013 disregarding potential forfeitures based on service requirements.

| | 2014 Grant Date Fair Value RSUs ($) | 2014 Grant Date Fair Value PSUs ($) |
|---|---|---|
| **Ms. Hewson** | 3,335,991 | 5,560,129 |
| **Mr. Tanner** | 1,214,890 | 2,025,229 |
| **Ms. Barbour** | 783,885 | 1,306,633 |
| **Mr. Carvalho** | 901,806 | 1,503,221 |
| **Ms. Lavan** | 794,899 | 1,325,154 |

The grant date fair value of one 2014 RSU of $146.85, one 2013 RSU of $89.24, and one 2012 RSU of $81.93 is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferral of dividends until vesting.

Values for the PSUs, which are subject to performance conditions, are based on the probable outcome on the grant date of three separate performance conditions (approximately 50% of the target shares are earned based upon Relative TSR, approximately 25% of the target shares are earned based upon Performance Cash, and approximately 25% of the target shares are earned based upon ROIC).

The grant date fair value of $134.15 for 2014 and $61.13 for 2013 for the TSR portion of the award was determined using a Monte Carlo simulation model. The value was determined using the historical stock price volatilities of the companies in our comparator group over the most recent 2.93-year period for 2014 and 2.92-year period for 2013, assuming dividends for each company are reinvested on a continuous basis and a risk-free rate of interest of 0.73% for 2014 and 0.44% for 2013. The grant date fair value of $146.85 for 2014 and $89.24 for 2013 for the Performance Cash and ROIC portions of the awards is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferral of dividends until vesting.

The maximum grant date values of the 2014 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson - $11,120,259; Mr. Tanner - $4,050,458; Ms. Barbour - $2,613,267; Mr. Carvalho - $3,006,442; and Ms. Lavan - $2,650,308.

The maximum grant date values of the 2013 PSU awards, assuming a 200% maximum payout on all three metrics as follows: Ms. Hewson - $10,200,142; Mr. Tanner - $3,688,103; Ms. Barbour - $2,410,637; and Ms. Lavan - $482,045.

# Option Awards (Column (f))

We did not grant options in 2014 and 2013. For 2012, the amounts represent the aggregate grant date fair value of options granted computed in accordance with ASC 718 using the closing price of our stock on the date of grant and the Black-Scholes methodology using the following assumptions:

| | 2012 |
|---|---|
| Closing price | $ 82.01 |
| Grant date fair value | $ 10.57 |
| Risk-free interest rate | 0.78 |
| Dividend yield | 5.40 |
| Volatility factor | 0.283 |
| Expected option life | 5 years |

**Executive Compensation**

# Non-Equity Incentive Plan Compensation (Column (g))

Beginning with 2013, column (g) includes the amount paid for annual incentive bonuses. We report the annual incentive bonus in column (g) because the annual incentive bonus is based on an assessment of performance against pre-established goals. The Compensation Committee will continue to use discretion to assess performance against objectives established at the beginning of the year. We also report amounts earned under our LTIP awards in the three-year period ending on December 31 of the year reported in column (g) of the table. For the three-year period ending December 31, 2012, 50 percent of the amount shown is deferred as stock units by the Corporation for two years and treated during that period as if it were invested in our common stock. Deferred amounts (whether mandatory deferrals by the Corporation or voluntary deferrals by the executive) are reported for the year earned and not when paid to the executive. See the 2014 Nonqualified Deferred Compensation table on page 60.

The table below shows the respective annual incentive bonus and amount earned under LTIP and reported for 2014 for each NEO:

| | Annual Incentive Bonus ($) | LTIP ($) |
|---|---|---|
| **Ms. Hewson** | 4,788,000 | 2,272,860 |
| **Mr. Tanner** | 1,682,500 | 2,668,140 |
| **Ms. Barbour** | 974,800 | 724,680 |
| **Mr. Carvalho** | 1,142,400 | 807,030 |
| **Ms. Lavan** | 1,159,300 | 1,564,650 |

# Change in Pension Value and Nonqualified Deferred Compensation Earnings (Column (h))

Reports the present value of the change in pension benefit for the NEO for the year reported (for example, from December 31, 2013 to December 31, 2014) and is not the amount that will be paid to the NEO.

The disclosure is based on the Corporation s final average compensation formula in its defined benefit plan which multiplies a percentage (1.25% of compensation below the social security wage base and 1.5% above that level) times years of service times the average of the employee s highest three years of compensation in the last ten years. This is the same formula used for all participants accruing a pension benefit in 2014; none of the NEOs (including Ms. Hewson) has been credited with any extra years of service or provided a benefit from a special or enhanced formula. Under a three-year final average compensation formula, increasing service, age and compensation will result in an increase in the earned benefit. When an employee receives a compensation increase, the three-year average compensation that goes into the formula likewise increases. The impact of that increase in the average is greater with a long service employee because the pension formula multiplies the now-higher average compensation by years of service. The year-over-year value is also affected by the changes in interest rate and increased life expectancy assumptions.

The amounts reported for 2012, 2013, and 2014 used a discount rate of 4.00%, 4.75%, and 4.00%, respectively, as the interest rate which is the same rate we used to report pension liabilities in our financial statements for each of those years. Using a lower interest rate assumption results in a larger present value of accumulated pension benefits and, therefore, results in a larger change in the accumulated pension benefit than otherwise would be the case. The interest rate is determined at December 31 of each year and the 75 basis point lower rate for 2014 is reflective of the downward trend in interest rates during the last year.

Longevity assumptions are used to estimate the life expectancy of plan participants during which they are expected to receive benefit payments. Recent actuarial studies indicate life expectancies are longer and have the resultant effect of increasing the total expected benefit payments to plan participants. The amounts reported for 2014 reflect the use of new longevity assumptions, which results in a larger change in the accumulated pension benefit than otherwise would be the case. We used the same new longevity and interest rate assumptions to report pension liabilities for all pension plan participants in our financial statements for 2014. Approximately $5 million of the amount reported for Ms. Hewson for 2014 is attributable to interest rate and longevity assumption changes. In the years reported, there were no nonqualified deferred compensation earnings in the numbers shown.

# All Other Compensation (Column (i))

Perquisites and other personal benefits provided to the NEOs in 2014 included: security; annual executive physicals; business association expenses; use of corporate aircraft for personal travel; and travel for a family member accompanying the NEO while on business travel. Not all of the listed perquisites or personal benefits were provided to each NEO. In addition, the Corporation made available event tickets and a company-provided car and driver for personal commuting, and access to club memberships to some of the NEOs, but required the NEOs to reimburse the Corporation for the incremental cost to the Corporation in 2014 of such items. The cost of any category of the listed perquisites and personal benefits did not exceed the greater of $25,000 or 10% of total perquisites and personal benefits for any NEO, except for (i) security for Ms. Hewson ($73,362) and (ii) use of the corporate aircraft for Ms. Hewson ($218,568). The incremental cost for use of corporate aircraft for personal travel was calculated based on the total personal travel flight hours multiplied by the estimated hourly aircraft operating costs for 2014 (including fuel, maintenance, staff travel expenses, and other variable costs, but excluding fixed capital costs for the aircraft, hangar facilities, and staff salaries).

The amounts reported for security include providing home security to some of our executives consistent with what is provided to corporate executives in other public companies in our industry. Security is also provided in accordance with our corporate policy to provide any employee who is the subject of a credible and specific threat on account of his or her employment at Lockheed Martin with security that is appropriate to the nature and extent of the threat. We believe that providing personal security in response to threats arising out of employment by the Corporation is business-related.

In addition to perquisites, column (i) also contains items of compensation listed in the following table. All items are paid under broad-based programs for U.S. salaried employees except for the tax assistance and the Lockheed Martin Corporation Supplemental Savings Plan ( NQSSP ) match. Items include matching contributions made to eligible universities, colleges, and other non-profit organizations under the Corporation s matching gift programs. Listed amounts may include contributions made in 2015 to match 2014 executive contributions or actions as applicable.

## Other Items of Compensation Included in All Other Compensation Column (i)

| Name | Tax Assistance for Business-Related Items ($) | Corporation Matching Contribution to 401(k) Plan ($) | Corporation Matching Contribution to NQSSP (Nonqualified 401(k) Plan) ($) | Group Life Insurance ($) | Matching Gift Programs ($) |
|---|---|---|---|---|---|
| **Ms. Hewson** | 24,584 | 4,375 | 55,421 | 15,444 | 6,600 |
| **Mr. Tanner** | 3,141 | 4,375 | 30,968 | 8,535 | 0 |
| **Ms. Barbour** | 0 | 4,375 | 21,655 | 3,367 | 0 |
| **Mr. Carvalho** | 17,785 | 10,340 | 0 | 6,883 | 0 |
| **Ms. Lavan** | 1,592 | 4,375 | 23,697 | 6,770 | 11,000 |

In 2014, the Corporation provided tax assistance on business-related items associated with taxable business association expenses, security expenses, and travel expenses for a family member accompanying the NEO while on business travel.

# *Total Without Change In Pension Value

The separate column labelled Total Without Change in Pension Value shows total compensation as required to be disclosed by the SEC in column (j) less the amount shown in Change in Pension Value and Nonqualified Deferred Compensation Earnings in column (h). The amounts shown in this column are not a substitute for the amounts reported in the Total column, and differ substantially from the amounts reported in the Total column for several reasons. The amount reported in column (h) for Change in Pension Value is not current compensation and represents the present value of an estimated stream of payments to be made following retirement. The methodology used to report the Change in Pension Value under applicable accounting rules is sensitive to assumptions about life expectancy and changes in the discount rate determined at each year end, which are functions of economic factors and actuarial calculations that are outside of the control of the Compensation Committee. In

2014, the reduction in the discount rate used for pension plan purposes and the increased life expectancy reflected in updated actuarial tables released by the Society of Actuaries in 2014 was responsible for approximately $5 million of the increase in the Change in Pension Value for the CEO.

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# 2014 Grants of Plan-Based Awards

| | | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | Grant Date Fair Value of Stock Awards |
|---|---|---|---|---|---|---|---|---|---|---|
| **Name (a)** | **Grant Date (b)** | **Approval Date** | **Award Type** | **Threshold ($) (c)** | **Target ($) (d)** | **Maximum ($) (e)** | **Threshold (#) (f)** | **Target (#) (g)** | **Maximum (#) (h)** | **Awards ($) (l)** |
| **Marillyn A. Hewson** | - | - | MICP | 332,500 | 2,660,000 | 5,320,000 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | RSU | - | - | - | 0 | 22,717 | 22,717 | 3,335,991 |
| | - | - | LTIP | 4,633 | 2,224,000 | 4,448,000 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | PSU | - | - | - | 83 | 39,655 | 79,310 | 5,560,129 |
| **Bruce L. Tanner** | - | - | MICP | 116,840 | 934,719 | 1,869,438 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | RSU | - | - | - | 0 | 8,273 | 8,273 | 1,214,890 |
| | - | - | LTIP | 1,687 | 810,000 | 1,620,000 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | PSU | - | - | - | 30 | 14,444 | 28,888 | 2,025,229 |
| **Sondra L. Barbour** | - | - | MICP | 73,581 | 588,645 | 1,177,290 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | RSU | - | - | - | 0 | 5,338 | 5,338 | 783,885 |
| | - | - | LTIP | 1,089 | 522,600 | 1,045,200 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | PSU | - | - | - | 19 | 9,319 | 18,638 | 1,306,633 |
| **Orlando P. Carvalho** | - | - | MICP | 86,231 | 689,848 | 1,379,696 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | RSU | - | - | - | 0 | 6,141 | 6,141 | 901,806 |
| | - | - | LTIP | 1,253 | 601,300 | 1,202,600 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | PSU | - | - | - | 22 | 10,721 | 21,442 | 1,503,221 |
| **Maryanne R. Lavan** | - | - | MICP | 83,861 | 670,888 | 1,341,776 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | RSU | - | - | - | 0 | 5,413 | 5,413 | 794,899 |
| | - | - | LTIP | 1,104 | 530,000 | 1,060,000 | - | - | - | 0 |
| | 1/27/2014 | 1/23/2014 | PSU | - | - | - | 20 | 9,451 | 18,902 | 1,325,154 |

## Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Columns (c), (d) and (e))

Includes annual incentive grants (MICP) for 2014 and LTIP grants for the 2014 2016 period ending December 31, 2016.

The MICP plan measures performance over a one-year period and is described under Annual Incentive beginning on page 38 under the CD&A. The threshold, or minimum amount payable, is 12.5% of target while the maximum is 200% of target.

The LTIP plan measures performance against three separate metrics described under 2014 Long-Term Incentive Compensation in the CD&A on page 43. The threshold is the minimum amount payable for a specified level of performance stated in the LTIP award agreement. For the 2014 2016 plan, the threshold amount payable is 0.2083% of the target award. The maximum award payable under the LTIP plan is 200% of target. Awards are subject to forfeiture upon termination of employment prior to the end of the performance, except in the event of retirement, death, disability, divestiture, or layoff. If the event occurs prior to the end of the performance period, LTIP awards are prorated. Following a change in control, the 2014 2016 LTIP awards immediately vest at the target amount upon involuntary termination without cause or voluntary termination with good reason or if the successor does not assume the LTIP awards.

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**Executive Compensation**

## Estimated Future Payouts Under Equity Incentive Plan Awards (Columns (f), (g) and (h))

Shows the number of RSUs granted by the Compensation Committee on January 27, 2014. The RSU grants made to the NEOs were subject to forfeiture to the extent the value of the RSUs granted for a recipient on the award date was greater than 0.20% for the CEO and 0.10% for each of the other NEOs of 2014 Performance Cash. Based on 2014 Performance Cash, none of the RSUs were forfeited. The RSUs vest on the third anniversary of the date of grant or upon death, disability, divestiture, or involuntary termination without cause or voluntary termination for good reason following a change in control or if the RSUs are not assumed, upon the change in control. If the employee retires or is laid off after July 27, 2014, but prior to the third anniversary of the date of grant, the RSUs become nonforfeitable. During the vesting period, dividend equivalents are accrued and subject to the same vesting schedule as the underlying RSUs. If any tax withholding is required on the 2014 RSUs or dividend equivalents during the vesting period (for example, on account of retirement-eligibility), the RSUs provide for accelerated vesting of the number of shares or dividend equivalents required to satisfy the tax withholding. The award is then reduced either by the number of shares or by the amount of accrued dividend equivalents that were accelerated for the tax withholding.

Includes PSU grants for the 2014 2016 period ending December 31, 2016. At the end of the three-year performance period, the amount earned is payable in shares of stock and cash representing dividend equivalents accrued during the three-year performance period. Awards are subject to forfeiture upon termination of employment prior to the end of the performance period, except in the event of termination following retirement, death, disability, divestiture, or layoff. If the event occurs after July 27, 2014, but prior to the end of the performance period, PSU awards are paid out at the end of the performance period on a prorated basis. Following a change in control, the PSUs immediately vest at the target amount upon involuntary termination without cause or voluntary termination with good reason or if the successor does not assume the PSUs.

Shares are earned under the PSU awards based upon performance against three separate metrics described under PSU Awards beginning on page 43. If performance falls below the threshold level of performance for a metric, no shares would be earned with respect to that metric. Assuming any payment is earned, the minimum amount payable under the PSU is 0.2083% of the target, the lowest level payable under one metric. The maximum number of shares payable under the PSU is 200% of the target.

## Grant Date Fair Value of Stock Awards (Column (l))

Represents the aggregate grant date fair value computed in accordance with FASB ASC 718 for RSUs and PSUs granted in 2014 disregarding potential forfeitures based on service requirements.

The grant date fair value of the 2014 RSU grant is $146.85 per RSU, which is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferral of dividends until vesting.

The grant date fair value for the PSUs, which are subject to performance conditions, is based on the probable outcome of each of the three performance conditions. The grant date fair value of $134.15 for the TSR portion of the award is determined using a Monte Carlo simulation model. The grant date fair value of $146.85 for the Performance Cash and ROIC portions of the awards is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferral of dividends until vesting.

Columns (i), (j), and (k) have been omitted because no stock options were granted by the Compensation Committee in 2014.

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# Outstanding Equity Awards at 2014 Fiscal Year-End

| | Option Awards | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options [1] (#) Unexercisable | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested [2,3] ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested [4] (#) | Equ P Mark Value Sha Other Have |
| (a) | (b) | (c) | (e) | (f) | (g) | (h) | (i) | |
| **Marillyn A. Hewson** | 55,290 | 27,645 [6] | 82.01 | 1/28/2022 | 22,717 [7] | 4,374,613 | 48,550 [8] | |
| | 59,434 | 0 | 79.60 | 1/29/2021 | 34,289 [9] | 6,603,033 | 133,437 [10] | |
| | 45,700 | 0 | 74.89 | 1/31/2020 | 10,699 [11] | 2,060,306 | - | |
| **Bruce L. Tanner** | 64,808 | 32,405 [6] | 82.01 | 1/28/2022 | 8,273 [7] | 1,593,132 | 17,684 [8] | |
| | 64,531 | 0 | 79.60 | 1/29/2021 | 12,399 [9] | 2,387,675 | 48,248 [10] | |
| | 55,000 | 0 | 74.89 | 1/31/2020 | 12,540 [11] | 2,414,828 | - | |
| | 81,700 | 0 | 82.52 | 1/25/2019 | - | - | - | |
| **Sondra L. Barbour** | 9,857 | 8,803 [6] | 82.01 | 1/28/2022 | 5,338 [7] | 1,027,939 | 11,410 [8] | |
| | 0 | 0 | 79.60 | 1/29/2021 | 8,102 [9] | 1,560,202 | 31,536 [10] | |
| | 0 | 0 | 74.89 | 1/31/2020 | 3,406 [11] | 655,893 | - | |
| | 31,200 | 0 | 82.52 | 1/25/2019 | - | - | - | |
| | 16,600 | 0 | 106.87 | 1/26/2018 | - | - | - | |
| | 9,400 | 0 | 96.06 | 1/29/2017 | - | - | - | |
| **Orlando P. Carvalho** | 19,802 | 9,903 [6] | 82.01 | 1/28/2022 | 6,141 [7] | 1,182,572 | 13,126 [8] | |
| | 20,466 | 0 | 79.60 | 1/29/2021 | 6,712 [9] | 1,292,530 | 3,144 [10] | |
| | 15,300 | 0 | 74.89 | 1/31/2020 | 3,832 [11] | 737,928 | - | |
| | 12,700 | 0 | 82.52 | 1/25/2019 | - | - | - | |
| **Maryanne R. Lavan** | 0 | 19,202 [6] | 82.01 | 1/28/2022 | 5,413 [7] | 1,042,381 | 11,570 [8] | |
| | 14,518 | 0 | 79.60 | 1/29/2021 | 13,512 [9] | 2,602,006 | 6,308 [10] | |
| | - | - | - | - | 7,431 [11] | 1,430,988 | - | |

*(1) Column (d) omitted because none of the NEOs held options that qualified as equity incentive plan awards at 2014 year-end.*

*(2) We reported RSUs granted in January 2014 as equity incentive awards in columns (f) through (h) of the 2014 Grants of Plan-Based Awards table because there was the potential for forfeiture based on failure to achieve the performance metrics specified in the award agreements. For this table, we reported the RSUs in columns (g) and (h) because the performance feature of the RSU grants was satisfied at the end of 2014.*

*(3) The market value shown in column (h) is calculated by multiplying the number of RSUs by the December 31, 2014 per share closing price of our stock ($192.57).*

*(4) Represents PSUs granted on January 27, 2014 for the 2014 2016 performance period and on January 28, 2013 for the 2013 2015 performance period; the PSUs are earned and paid out in shares of our stock at the end of the three-year performance period based upon performance on three separate metrics (Relative TSR, Performance Cash, and ROIC). The number of shares of stock shown in column (i) is based upon the threshold level of performance for each of the three metrics or, if performance to date on the metric, has exceeded the threshold level (as is the case for 2014 and 2013), the estimated level of performance as of December 31, 2014. Performance under each metric is determined separately, with the three results added together to obtain the number of shares shown in column (i).*

*(5) The market value shown in column (j) is calculated by multiplying the number of PSUs reported in column (i) by the December 31, 2014 per share closing price of our stock ($192.57).*

*(6) Represents stock options granted on January 30, 2012, which vested in three equal annual installments on January 30, 2013, January 30, 2014, and January 30, 2015.*

*(7) Represents RSUs granted on January 27, 2014, which vest January 27, 2017, except that vesting may occur earlier as described in connection with the 2014 Grants of Plan-Based Awards table.*

*(8) Represents PSUs granted on January 27, 2014 and which are earned over a three-year period but provide for pro rata payments for certain terminations as described in connection with the 2014 Grants of Plan-Based Awards table.*

*(9) Represents RSUs granted on January 28, 2013, which vest on January 28, 2016, except that vesting may occur earlier as described in connection with the 2014 Grants of Plan-Based Awards table.*

*(10)*

*Represents PSUs granted on January 28, 2013 and which are earned over a three-year period but provide for pro rata payments for certain terminations as described in connection with the 2014 Grants of Plan-Based Awards table.*

*(11) Represents RSUs granted on January 30, 2012, which vested on January 30, 2015.*

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# Option Exercises and Stock Vested During 2014

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise[1] ($) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($) |
| (a) | (b) | (c) | (d) | (e) |
| **Marillyn A. Hewson** | 70,167 | 5,118,636 | 9,771[2] | 1,474,542[3] |
| **Bruce L. Tanner** | 0 | 0 | 10,609[2] | 1,601,004[3] |
| **Sondra L. Barbour** | 50,000 | 4,843,813 | 3,362[2] | 507,359[3] |
| **Orlando P. Carvalho** | 13,100 | 868,355 | 3,363[2] | 507,510[3] |
| **Maryanne R. Lavan** | 44,200 | 3,944,794 | 6,497[2] | 980,462[3] |

*(1) Value realized was calculated based on the difference between the aggregate exercise price of the options and the weighted average sale price per share on the date of exercise and sale.*
*(2) Vesting on January 31, 2014 of RSUs granted on January 31, 2011. Number of shares shown as vesting is prior to reduction in shares to satisfy tax withholding requirements.*
*(3) Value realized was calculated based on the number of shares multiplied by the per share closing market price of our common stock on the date of vesting ($150.91).*

# Retirement Plans

During 2014, the NEOs participated in the Lockheed Martin Corporation Salaried Employee Retirement Program ( LMRP ), which is a combination of several prior plans (collectively, the Prior Plan ) for salaried employees with some protected benefits.

The calculation of retirement benefits under the LMRP is determined by a formula that takes into account the participant s years of credited service and average compensation for the highest three years of the last ten years of employment. Average compensation includes the NEO s base salary, annual incentive bonuses, and lump sum payments in lieu of a salary increase. NEOs must have either five years of service or be actively employed by the Corporation at age 65 to vest in the LMRP. Normal retirement age is 65; however, benefits are payable as early as age 55 (with five years of service) at a reduced amount or without reduction at age 60. Benefits are payable as a monthly annuity for the lifetime of the employee, as a joint and survivor annuity, as a life annuity with a five or ten year guarantee, or as a level income annuity.

The calculation of retirement benefits under the Prior Plan is based on a number of formulas, some of which take into account the participant s years of credited service and pay over the career of the NEO. Certain other formulas in the Prior Plan are based upon the final average compensation and credited service of the employee. Pay under certain formulas in the Prior Plan currently includes salary, commissions, overtime, shift differential, lump sum pay in lieu of a salary increase, annual incentive bonuses awarded that year, and 401(k) and pre-tax contributions. A portion of the pension benefits for Mr. Tanner was earned under the Prior Plan.

Ms. Hewson, Mr. Tanner, Mr. Carvalho, and Ms. Lavan were eligible for early retirement as of December 31, 2014. As of December 31, 2014, all of the NEOs were vested in the LMRP.

During 2014, the NEOs also participated in the Lockheed Martin Corporation Supplemental Retirement Plan ( Supplemental Pension ), which is a restorative plan and provides benefits in excess of the benefit payable under IRS rules through the LMRP, our tax-qualified plan. See the footnote to column (b) to the 2014 Pension Benefits table on page 58.

In July 2014, the Corporation announced that the LMRP will be frozen, in two steps, with increases in compensation no longer taken into account effective January 1, 2016 and increases in service no longer taken into account effective January 1, 2020. This change in plan structure also will carry over to the Supplemental Pension benefit accruals available to the NEOs. Thereafter, retirement benefits will be earned through defined contribution plans.

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**Executive Compensation**

# 2014 Pension Benefits

| Name (a) | Plan Name (b) | Number of Years Credited Service (#) (c) | Present Value of Accumulated Benefit ($) (d) | Pa Duri Fisc |
|---|---|---|---|---|
| **Marillyn A. Hewson** | Lockheed Martin Corporation Salaried Employee Retirement Program | 32.1 | 1,900,921 | |
| | Lockheed Martin Corporation Supplemental Retirement Plan | | 36,669,580 | |
| **Bruce L. Tanner** | Lockheed Martin Corporation Salaried Employee Retirement Program | 32.1 | 1,486,354 | |
| | Lockheed Martin Corporation Supplemental Retirement Plan | | 12,233,968 | |
| **Sondra L. Barbour** | Lockheed Martin Corporation Salaried Employee Retirement Program | 28.8 | 1,230,206 | |
| | Lockheed Martin Corporation Supplemental Retirement Plan | | 5,941,041 | |
| **Orlando P. Carvalho** | Lockheed Martin Corporation Salaried Employee Retirement Program | 34.5 | 1,637,951 | |
| | Lockheed Martin Corporation Supplemental Retirement Plan | | 8,899,526 | |
| **Maryanne R. Lavan** | Lockheed Martin Corporation Salaried Employee Retirement Program | 24.8 | 1,241,725 | |
| | Lockheed Martin Corporation Supplemental Retirement Plan | | 7,199,702 | |

## Plan Name (Column (b))

The Supplemental Pension uses the same formula for benefits as the tax-qualified plan uses for calculating the NEO s benefit. Although all service recognized under the tax-qualified plan is recognized under the Supplemental Pension, a benefit would be earned under the Supplemental Pension only in years when the employee s total accrued benefit would exceed the benefit accrued under the tax-qualified plan. The Supplemental Pension benefits are payable in the same form as benefits are paid under the LMRP, except lump sum payments are available under the Supplemental Pension.

## Present Value of Accumulated Benefit (Column (d))

The amounts in column (d) were computed using the same assumptions we used to account for pension liabilities in our financial statements and as described in Note 9 to our financial statements contained in our 2014 Annual Report, except that the amounts were calculated based on benefits commencing at age 60 (or current age if greater). We used these ages rather than the plan s normal retirement age of 65 because an employee may commence receiving pension benefits at age 60 without any reduction for early commencement. A portion of Mr. Tanner s benefit was earned under grandfathered plans that apply a reduction for early commencement at age 60. The amounts shown for Mr. Tanner reflect the reduction for early commencement of the benefit. Amounts paid under our plans use assumptions contained in the plans and may be different than those used for financial statement reporting purposes.

Only the benefit payable under the Supplemental Pension is payable in the form of a lump sum. If an executive elected a lump sum payment, the amount of the lump sum would be based on plan assumptions and not the assumptions used for financial statement reporting purposes. As a result, the actual lump sum payment would be an amount different than what is reported in this table. The age of the executive at retirement would also impact the size of the lump sum payment. The amount using plan assumptions is shown on the Potential Payments Upon Termination or Change in Control table.

# Nonqualified Deferred Compensation

Participants in our tax-qualified 401(k) plan may defer up to 25% of base salary. In addition, we make a matching contribution equal to 50% of up to the first 8% of compensation contributed by the participant. Employee and Corporation matching contributions in excess of the Internal Revenue Code limitations are contributed to the NQSSP. Employee and Corporation matching contributions are nonforfeitable at all times. NQSSP contributions are credited with earnings or losses, as appropriate, based on the investment option or options in which the account has been invested, as elected by the participant. Each of the NQSSP investment options is available under our tax-qualified 401(k) plan for salaried employees. The NQSSP provides for payment following termination of employment in a lump sum or up to 25 annual installments at the participant s election. All amounts accumulated and unpaid under the NQSSP must be paid in a lump sum within 15 calendar days following a change in control.

The DMICP provides the opportunity to defer, until termination of employment or beyond, the receipt of all or a portion of annual incentive bonuses, LTIP awards, and amounts paid in respect of the termination of the Lockheed Martin Post-Retirement Death Benefit Plan. Employees may elect any of the investment funds available in the NQSSP (with the exception of the Company Stock Fund) or two investment alternatives available only under the DMICP for crediting earnings (losses). Under the DMICP Stock Investment Option, earnings (losses) on deferred amounts will accrue at a rate that tracks the performance of our common stock, including reinvestment of dividends. Under the DMICP Interest Investment Option, earnings accrue at a rate equivalent to the then published rate for computing the present value of future benefits under Cost Accounting Standards 415, Deferred Compensation ( CAS 415 rate ). The Interest Investment Option was closed to new deferrals and transfers from other investment options effective July 1, 2009. Amounts credited to the Stock Investment Option may not be reallocated to other options. In addition, Stock Investment Option voluntary deferrals will be paid in shares of our common stock upon distribution. Prior to the 2011 2013 LTIP grant, 50% of any LTIP award was mandatorily deferred for two years to the Stock Investment Option and subject to the continued employment requirements of the award. Mandatory LTIP deferrals are paid in cash at the end of two years or further deferred at the election of the executive. The two-year mandatory deferral was eliminated for the current NEOs beginning with the 2011 2013 LTIP grant. For the 2013 2015 LTIP grant, any award is subject to a one-year mandatory deferral to the extent the award value would exceed $10 million. For the 2014 2016 LTIP grant, the amount in excess of $10 million is forfeited. The DMICP provides for payment in January or July following termination of employment in a lump sum or up to 25 annual installments at the NEO s election. All amounts accumulated under the DMICP must be paid in a lump sum within 15 days following a change in control.

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**Executive Compensation**

# 2014 Nonqualified Deferred Compensation

| Name (a) | | Executive Contributions in Last FY ($) (b) | Registrant Contributions in Last FY ($) (c) | Aggregate Earnings in Last FY ($) (d) | Aggregate Withdrawals/ Distributions ($) (e) | Aggregate Balance at Last FYE ($) (f) |
|---|---|---|---|---|---|---|
| **Marillyn A. Hewson** | NQSSP | 346,382 | 55,421 | 80,521 | 0 | 2,730,412 |
| | DMICP (Bonus) | 3,100,064 | 0 | 691,184 | 0 | 12,809,333 |
| | DMICP (LTIP1 Mandatory) | 0 | 0 | 353,236 | 276,373 | 1,402,870 |
| | DMICP (LTIP2 Voluntary) | 276,373 | 0 | 390,131 | 0 | 5,170,469 |
| | **TOTAL** | **3,722,819** | **55,421** | **1,515,072** | **276,373** | **22,113,084** |
| **Bruce L. Tanner** | NQSSP | 193,550 | 30,968 | 453,989 | 0 | 3,204,844 |
| | DMICP (Bonus) | 0 | 0 | 280,862 | 0 | 1,392,177 |
| | DMICP (LTIP1 Mandatory) | 0 | 0 | 438,340 | 811,271 | 1,740,858 |
| | DMICP (LTIP2 Voluntary) | 0 | 0 | 0 | 0 | 0 |
| | **TOTAL** | **193,550** | **30,968** | **1,173,191** | **811,271** | **6,337,879** |
| **Sondra L. Barbour** | NQSSP | 135,344 | 21,655 | 69,703 | 0 | 811,207 |
| | DMICP (Bonus) | 0 | 0 | 40,244 | 0 | 159,864 |
| | DMICP (LTIP1 Mandatory) | 0 | 0 | 178,741 | 300,471 | 709,864 |
| | DMICP (LTIP2 Voluntary) | 0 | 0 | 79,084 | 0 | 314,079 |
| | **TOTAL** | **135,344** | **21,655** | **367,772** | **300,471** | **1,995,014** |
| **Orlando P. Carvalho** | NQSSP | 0 | 0 | 0 | 0 | 0 |
| | DMICP (Bonus) | 0 | 0 | 44,300 | 0 | 182,261 |
| | DMICP (LTIP1 Mandatory) | 0 | 0 | 123,416 | 125,196 | 490,144 |
| | DMICP (LTIP2 Voluntary) | 0 | 0 | 0 | 0 | 0 |
| | **TOTAL** | **0** | **0** | **167,716** | **125,196** | **672,405** |
| **Maryanne R. Lavan** | NQSSP | 100,712 | 23,697 | 151,249 | 0 | 1,647,752 |
| | DMICP (Bonus) | 19,043 | 0 | 228,969 | 0 | 918,609 |
| | DMICP (LTIP1 Mandatory) | 0 | 0 | 89,370 | 150,235 | 354,932 |
| | DMICP (LTIP2 Voluntary) | 24,521 | 0 | 150,187 | 0 | 661,625 |
| | **TOTAL** | **144,276** | **23,697** | **619,775** | **150,235** | **3,582,918** |

This table reports compensation earned by the NEOs and deferred under our NQSSP and DMICP. The NQSSP is a nonqualified 401(k) plan with an employer match on a portion of the salary deferral. Three types of compensation may be deferred into the DMICP:

Annual incentive bonus ( DMICP (Bonus) ).

Amounts earned under our LTIP program but mandatorily deferred into company stock for two years (and subject to forfeiture) ( DMICP (LTIP1 Mandatory) ).

Amounts payable under our LTIP program and voluntarily deferred ( DMICP (LTIP2 Voluntary) ).

## Executive Contributions in Last Fiscal Year (Column (b))

Includes 2014 salary deferrals to NQSSP, annual incentive bonus paid in 2014 for 2013 performance deferred to DMICP, and voluntary deferrals of LTIP for the 2011 2013 period to the DMICP. The table reflects the year in which the deferral is credited to the NEO s account (2014) and not the year in which it was earned (2013).

## Registrant Contributions in Last Fiscal Year (Column (c))

Includes 2014 Corporation matching contributions to NQSSP. The NQSSP match is also included in column (i) of the Summary Compensation Table. The table reflects the year in which the deferral is credited to the NEO s account (2014) and not the year in which it was earned (2013).

## Aggregate Withdrawals/Distributions (Column (e))

Includes distributions of mandatory LTIP deferral from the 2009-2011 period in January 2014 following the end of the two-year deferral period.

## Aggregate Balance at Last Fiscal Year End (Column (f))

The following table lists the amounts reported as executive or registrant contributions in columns (b) and (c) of the 2014 Nonqualified Deferred Compensation table that are also reported as compensation in the Summary Compensation Table for 2014. These contributions consist of NEO and Corporation contributions made to the NQSSP for service in 2014. Contributions with respect to 2014 performance deferred in 2015 (annual incentive bonus and LTIP) are not included as these amounts are not credited until 2015, and are not included in column (f). The following table also lists the amounts reported in column (f) as part of the Aggregate Balance at Last FYE (2014) that is reported as compensation for prior years in the Summary Compensation Table for years beginning with 2006. For 2014, there were no earnings in excess of 120% of the applicable federal rate.

| | | Of Amount Reported in Column (f) | |
|---|---|---|---|
| **Name** | **Aggregate Balance at December 31, 2014 in Column (f) ($)** | **NEO and Corporation Contributions to NQSSP Reported in Summary Compensation Table for 2014 ($)** | **Amount Reported in Summary Compensation Table for Prior Years (Beginning with 2006) ($)** |
| **Ms. Hewson** | 22,113,084 | 401,803 | 7,839,595 |
| **Mr. Tanner** | 6,337,879 | 224,518 | 2,842,073 |
| **Ms. Barbour** | 1,995,014 | 156,999 | 144,129 |
| **Mr. Carvalho** | 672,405 | 0 | 0 |
| **Ms. Lavan** | 3,582,918 | 124,409 | 146,973 |

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**Executive Compensation**

# Potential Payments Upon Termination or Change in Control

The table below summarizes the benefits that become payable to a NEO at, following, or in connection with any termination, including resignation, severance, retirement, or a constructive termination of a NEO, or a change in control under the terms of our benefit plans.

**SUMMARY OF PAYMENT TRIGGERS**

**PENSION-QUALIFIED**[1]

**Retirement** - Annuity payable on a reduced basis at age 55; annuity payable on a non-reduced basis at age 60; steeper reduction for early commencement at age 55 for terminations prior to age 55 than for terminations after age 55.

**Change in Control** - No acceleration.

**Death/Disability/Layoff** - Spousal annuity benefit as required by law in event of death unless waived by participant. For either (i) disability between age 53 and 55 with eight years of service or (ii) layoff between age 53 and 55 with eight years of service or before age 55 with 25 years of service, participant is eligible for the more favorable actuarial reductions for participants terminating after age 55.

**Divestiture**[2] - No provisions; absent a negotiated transfer of liability to buyer, treated as retirement or termination.

**Termination/Resignation** - Annuity payable on a reduced basis at age 55; annuity payable on a non-reduced basis at age 60; steeper reduction for early commencement at age 55 for terminations prior to age 55 than for terminations after age 55.

**SUPPLEMENTAL PENSION**[1]

**Retirement** - Annuity or lump sum at later of age 55 or termination.

**Change in Control** - Lump sum.

**Death/Disability/Layoff** - Annuity or lump sum at later of age 55 or termination.

**Divestiture**[2] - No provisions; absent a negotiated transfer of liability to buyer, treated as retirement or termination.

**Termination/Resignation** - Annuity or lump sum.

**LTIP**

**Retirement/Death/Disability/Layoff** - Prorated payment at the end of the three-year performance period for retirement, death, disability, or layoff during that period. Immediate payment for retirement, death, disability, or layoff during the mandatory deferral period (if applicable) based on closing price of our stock on date of triggering event.

**Change in Control** - Immediate payment at target for change in control event occurring during performance cycle if award is not assumed by buyer; immediate payment at target following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control during performance cycle if award is assumed by buyer.

**Divestiture**[2] - Prorated payment at the end of the three-year performance period for divestiture during that period.

**Termination/Resignation** - Forfeited if termination occurs prior to becoming retirement-eligible; termination on or after (i) age 55 and ten years of service or (ii) age 65 treated as retirement-eligible.

**OPTIONS**

**Retirement** - Forfeit unvested options if retirement occurs prior to one-year anniversary of date of grant. If retirement occurs after one-year anniversary of date of grant, forfeit unvested options and vested options expire at ten-year term.

**Change in Control** - Immediate vesting.

**Death/Disability/Layoff** - Immediate vesting in event of death/disability. In the event of layoff, forfeit unvested options if layoff occurs prior to one-year anniversary of date of grant.

If layoff occurs after one-year anniversary of date of grant, forfeit unvested options and vested options expire at the end of ten-year term.

**Divestiture**[2] - Term of options limited to five years; options become exercisable on date the options would have otherwise vested.

**Termination/Resignation** - Vested options expire 30 days after termination or resignation. Forfeit unvested options if termination occurs prior to age 55; resignation on or after age 55 treated as retirement.

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**Executive Compensation**

### RSUs

**Retirement** - For 2012 awards, vest in one-third increments for each full year of service following date of grant. Beginning with 2013 award, continued vesting subject to six-month minimum service from date of grant.

**Change in Control** - For 2012 awards, immediate vesting of RSUs and dividend equivalents on effective date of termination of employment following change in control. Beginning with 2013 awards, immediate vesting if not assumed by buyer. If assumed by buyer, immediate vesting following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control.

**Death/Disability/Layoff** - For 2012 awards, vest in one-third increments for each full year of service following date of grant. Beginning with 2013 award, continued vesting after layoff, subject to six-month minimum service from date of grant. For all awards, immediate vesting following death or disability.

**Divestiture**[2] - Immediate vesting.

**Termination/Resignation** - Forfeit unvested RSUs and dividend equivalents if termination occurs prior to becoming retirement-eligible; for 2012 awards, termination on or after (i) age 55 and five years of service or (ii) age 65 treated as retirement-eligible. Beginning with 2013 awards, termination on or after (i) age 55 and ten years of service or (ii) age 65 with at least six months of service during the performance cycle is treated as retirement-eligible.

### PSUs

**Retirement** - Prorated payment of PSUs and dividend equivalents at the end of the three-year performance period for retirement during that period subject to six-month minimum service from date of grant.

**Change in Control** - Immediate payment of PSUs and dividend equivalents at target if award is not assumed by buyer. If award is assumed by buyer, immediate payment at target following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control.

**Death/Disability/Layoff** - Prorated payment of PSUs and dividend equivalents at the end of the three-year performance period for death, disability, or layoff during that period subject to six-month minimum service from date of grant in the case of layoff.

**Divestiture**[2] - Prorated payment of PSUs and dividend equivalents at the end of the three-year performance period for divestiture during that period.

**Termination/Resignation** - Forfeit PSUs and dividend equivalents if termination occurs prior to becoming retirement-eligible; termination on or after (i) age 55 and ten years of service or (ii) age 65 treated as retirement-eligible.

### EXECUTIVE SEVERANCE PLAN

**Retirement** - No payment.

**Change in Control** - No payment unless terminated.

**Death/Disability** - No payment for death or disability.

**Layoff** - Payment of a lump sum amount equal to a multiple of salary, MICP, and health care continuation coverage cost and outplacement and relocation assistance. The multiple of salary and MICP for the CEO is 2.99; for all other NEOs it is 1.0.

**Divestiture**[2] - No payment.

**Termination/Resignation** - No payment.

### ANNUAL INCENTIVE BONUS[3]

**Retirement** - Payment may be prorated for retirement during the year with six months of participation in the year.

**Change in Control** - No provision.

**Death/Disability/Layoff** - Payment may be prorated for death, disability, or layoff during the year with six months of participation in the year.

**Divestiture**[2] - No provision.

**Termination/Resignation** - Eligible for prorated award if termination/ resignation occurs after December 1 with six months of participation in the year.

**DMICP**[4]

**Retirement** - Lump sum or installment payment in accordance with NEO elections.

**Change in Control** - Immediate lump sum payment.

**Death/Disability/Layoff** - Lump sum or installment payment in accordance with NEO elections, except lump sum only for layoff prior to age 55.

**Divestiture**[2] - Follows termination provisions.

**Termination/Resignation** - Lump sum if termination is prior to age 55; after age 55, lump sum or installment payment in accordance with NEO elections.

**NQSSP**[4]

**Retirement** - Lump sum or installment payment in accordance with NEO elections.

**Change in Control** - Immediate lump sum payment

**Death/Disability/Layoff** - Lump sum for death; for disability or layoff, lump sum or installment payment in accordance with NEO elections.

**Divestiture**[2] - Lump sum or installment payment in accordance with NEO elections.

**Termination/Resignation** - Lump sum or installment payment in accordance with NEO elections.

*(1) See 2014 Pension Benefits table on page 58 for present value of accumulated benefit.*

*(2) Divestiture is defined as a transaction which results in the transfer of control of a business operation to any person, corporation, association, partnership, joint venture, or other business entity of which less than 50% of the voting stock or other equity interests (in the case of entities other than corporations) is owned or controlled directly or indirectly by us, one or more of our subsidiaries, or by a combination thereof following the transaction.*

*(3) See Compensation Discussion and Analysis commencing on page 30 for discussion of annual incentive bonus payment calculation.*

*(4) See Aggregate Balance at Last FYE column in 2014 Nonqualified Deferred Compensation table on page 60 for amount payable.*

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**Executive Compensation**

The following table quantifies the payments under our executive compensation programs as a result of a change in vesting provisions in stock options, RSUs, and LTIP awards and the lump sum payable under the Supplemental Pension that would be made assuming a termination event had occurred on December 31, 2014. Payments under other plans do not change as a result of the termination event and quantification of those payments are found elsewhere in this Proxy Statement or are paid under plans available generally to salaried employees. Numbers have been rounded to the nearest dollar.

# Potential Payments Upon Termination or Change in Control

| Name | | Retirement ($) | Change In Control ($) | Death/ Disability ($) | Layoff ($) | Divestiture ($) | Termination/ Resignation ($) |
|---|---|---|---|---|---|---|---|
| **Marillyn A. Hewson** | Supplemental Pension | 35,596,156 | 35,596,156 | 35,596,156 | 35,596,156 | 35,596,156 | 35,596,156 |
| | LTIP | 0 | 4,264,000 | 0 | 0 | 0 | 0 |
| | Options | 0 | 3,056,431 | 3,056,431 | 0 | 3,056,431 | 0 |
| | RSUs | 1,476,391 | 13,669,096 | 13,669,096 | 1,476,391 | 13,669,096 | 1,476,391 |
| | PSUs | 0 | 22,111,693 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 12,523,190 | 0 | 0 |
| | **TOTAL** | **37,072,547** | **78,697,376** | **52,321,683** | **49,595,736** | **52,321,683** | **37,072,547** |
| **Bruce L. Tanner** | Supplemental Pension | 11,849,720 | 11,849,720 | 11,849,720 | 11,849,720 | 11,849,720 | 11,849,720 |
| | LTIP | 0 | 1,548,000 | 0 | 0 | 0 | 0 |
| | Options | 0 | 3,582,697 | 3,582,697 | 0 | 3,582,697 | 0 |
| | RSUs | 1,730,436 | 6,749,218 | 6,749,218 | 1,730,436 | 6,749,218 | 1,730,436 |
| | PSUs | 0 | 8,015,958 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,843,474 | 0 | 0 |
| | **TOTAL** | **13,580,156** | **31,745,593** | **22,181,635** | **15,423,630** | **22,181,635** | **13,580,156** |
| **Sondra L. Barbour** | Supplemental Pension | 0 | 5,630,266 | 0 | 0 | 0 | 0 |
| | LTIP | 0 | 1,004,600 | 0 | 0 | 0 | 0 |
| | Options | 0 | 973,260 | 973,260 | 0 | 973,260 | 0 |
| | RSUs | 0 | 3,405,662 | 3,405,662 | 470,005 | 3,405,662 | 0 |
| | PSUs | 0 | 5,215,299 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,268,239 | 0 | 0 |
| | **TOTAL** | **0** | **16,229,087** | **4,378,922** | **1,738,244** | **4,378,922** | **0** |
| **Orlando P. Carvalho** | Supplemental Pension | 8,452,745 | 8,452,745 | 8,452,745 | 8,452,745 | 8,452,745 | 8,452,745 |
| | LTIP | 0 | 1,080,300 | 0 | 0 | 0 | 0 |
| | Options | 0 | 1,094,876 | 1,094,876 | 0 | 1,094,876 | 0 |
| | RSUs | 528,790 | 3,370,934 | 3,370,934 | 528,790 | 3,370,934 | 528,790 |
| | PSUs | 0 | 2,459,304 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,444,968 | 0 | 0 |
| | **TOTAL** | **8,981,535** | **16,458,159** | **12,918,555** | **10,426,503** | **12,918,555** | **8,981,535** |
| **Maryanne R. Lavan** | Supplemental Pension | 7,237,874 | 7,237,874 | 7,237,874 | 7,237,874 | 7,237,874 | |