LOCKHEED MARTIN CORP
Form DEF 14A
March 11, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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
[ ]	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
[X]	Definitive Proxy Statement
[ ]	Definitive Additional Materials
[ ]	Soliciting Material Pursuant to §240.14a-12

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.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1)	Amount Previously Paid:
2)	Form, Schedule or Registration Statement No.:
3)	Filing Party:
4)	Date Filed:

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March 11, 2016

Dear Fellow Stockholders:

On behalf of the Lockheed Martin Board of Directors, it is my pleasure to invite you to our 2016 Annual Meeting of Stockholders. The meeting comes at an exciting time for Lockheed Martin considering the latest events outlined below.

Portfolio Changes
In 2015, we made several strategic moves to reshape our portfolio and position the Corporation for the future. We closed on our acquisition of Sikorsky Aircraft Corporation, a world leader in the design, manufacture and support of military and commercial helicopters, and welcomed nearly 15,000 additional members to the Lockheed Martin team. We share a legacy of innovation and performance with Sikorsky that has shaped the history of aviation for more than a century. Together, we will provide the best value for our customers, employees and stockholders.

We completed a strategic review of our realigned government IT and technical services businesses at Information Systems & Global Solutions (IS&GS). This led to a definitive agreement to combine IS&GS with Leidos Holdings, Inc. as part of a Reverse Morris Trust transaction. The agreement will form a new separate company that aligns our exceptional IS&GS business with an industry leader, and positions the organization for growth and long-term success.

Strong Financial Performance
2015 was an exceptional year for Lockheed Martin. We delivered on our commitments to customers, and our performance and market position yielded strong returns for our stockholders. We increased net earnings per share and generated more than 16 percent total stockholder return, including $1.9 billion in dividends. This was our 13th consecutive year of double-digit dividend rate growth. And, as always, we achieved these results while remaining committed to the ethics, integrity and values that are the hallmark of Lockheed Martin.

Board Member to Retire
At this year s meeting, Gwendolyn S. King will retire in accordance with the mandatory retirement provision in our bylaws. We wish Mrs. King well in retirement and are extremely grateful for her steady guidance and many important contributions, including the instrumental role she played in drafting and adopting our corporate governance guidelines; establishing the Board s Ethics and Sustainability Committee; and ensuring that management is accountable for acting responsibly on matters related to environmental safety and health, diversity, human rights and charitable contributions.

Proxy Voting
Because your proxy vote matters, I urge you to cast it promptly even if you plan to participate in the Annual Meeting. To attend in person, you must register in advance by following the instructions in the accompanying Proxy Statement.

Thank you for your continued support of Lockheed Martin.

Sincerely,

Marillyn A. Hewson
Chairman, President and Chief Executive Officer

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Lockheed Martin Corporation
6801 Rockledge Drive Bethesda, MD 20817

Notice of 2016 Annual Meeting of Stockholders

DATE:	**Thursday, April 28, 2016**
TIME:	**8:00 a.m. Eastern Daylight Savings Time**
PLACE:	**Lockheed Martin Center for Leadership Excellence Auditorium** **6777 Rockledge Drive, Bethesda, Maryland 20817**

Agenda

1. Election of 11 director-nominees to serve on the Board for a one-year term ending at next year s Annual Meeting;

2. Ratification of the appointment of Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for 2016;

3. Advisory vote to approve the compensation of our named executive officers;

4. Management proposal to re-approve the performance goals for the 2011 Incentive Performance Award Plan;

5. Consideration of a stockholder proposal described in the accompanying Proxy Statement, if properly presented at the Annual Meeting; and

6. Consideration of any other matters that may properly come before the meeting.

We have enclosed our 2015 Annual Report to Stockholders. The report is not part of the proxy soliciting materials for the Annual Meeting.

You can vote if you were a stockholder of record on February 26, 2016. Please vote your shares at your earliest convenience. This will help us to ensure the presence of a quorum at the meeting. Promptly voting your shares via the Internet, by telephone, by scanning the QR code with a mobile device or by signing, dating and returning the enclosed proxy card will save the expense of additional solicitation. If you wish to vote by mail, we have enclosed a self-addressed, postage prepaid envelope. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your option.

If you wish to attend the meeting in person, please follow the advance registration instructions on page 89 of the Proxy Statement. For security reasons, all hand-carried items will be subject to inspection and all bags, briefcases and packages must be checked.

Sincerely,

Maryanne R. Lavan
Senior Vice President, General Counsel and Corporate Secretary

March 11, 2016

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on April 28, 2016:
The 2016 Proxy Statement and 2015 Annual Report are available at *www.lockheedmartin.com/investor*.

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PROXY STATEMENT

The Board of Directors (the Board) of Lockheed Martin Corporation (the Corporation) is providing the Notice of 2016 Annual Meeting of Stockholders, this Proxy Statement and the proxy card (Proxy Materials) in connection with the Corporation s solicitation of proxies to be voted at the Annual Meeting of Stockholders (the Annual Meeting) to be held on April 28, 2016, at 8:00 a.m. Eastern Daylight Savings Time, at the Lockheed Martin Center for Leadership Excellence Auditorium, 6777 Rockledge Drive, Bethesda, Maryland 20817, and at any adjournment or postponement thereof. Proxy Materials or a Notice of Internet Availability were first sent to stockholders on or about March 11, 2016.

PROXY SUMMARY

This proxy summary highlights information contained elsewhere in our Proxy Statement. The summary does not contain all of the information that you should consider and we encourage you to read the entire Proxy Statement carefully.

STOCKHOLDERS BENEFIT FROM LOCKHEED MARTIN S STRONG 2015 PERFORMANCE

2015 Financial Measures*	2015 Goals ($)	Reported Results ($)	2015 Annual Incentive Assessment
Orders	43,500 45,000M	50,229M	Significantly Exceeded
Sales	43,500 45,000M	46,132M	Significantly Exceeded
Segment Operating Profit*	5,100 5,250M	5,486M	Significantly Exceeded
Cash from Operations	≥ 5,000M	5,101M	Exceeded

* We use the following non-GAAP terms in this Proxy Statement Segment Operating Profit, Return on Invested Capital (ROIC), and Performance Cash which are defined in Appendix A. Please refer to Appendix A for an explanation of these terms as well as our disclosure regarding forward-looking statements concerning future performance or goals for future performance.

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Proxy Summary

2015 Board Composition, Qualifications and Diversity

Board Independence

Board Tenure

Gender

Age Mix

Senior Leadership Experience

7 directors are current or former Chief Executive Officers who add to the effectiveness of the Board through their leadership experience in large, complex organizations and their expertise in corporate governance, international business operations, strategic planning and risk management.

Financial Experts

3 directors meet the Securities and Exchange Commission s criteria as audit committee financial experts.

Global Experience

8 directors have broad leadership experience with multinational companies or in international markets.

Government/Military Experience

5 directors have served in senior government or senior military positions and provide experience and insight into our industry and working with our core customers and governments around the world.

Stockholder Rights

Right to Call Special Meeting	Annual Election of Directors	Mandatory Retirement Age for Directors	Majority Voting for Directors	No Poison Pill

Governance Best Practices

Clawback Policy on all Variable Pay	Stock Ownership Guidelines for Directors and Officers	Overboarding Policy	Independent Directors Meet Regularly Without Management	Annual Board Self-Assessment

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Proxy Summary

Long-Standing, Active Investor Engagement Program

We actively engage with our investors as part of our annual corporate governance cycle via email, telephone and in person meetings. Our engagement includes the direct involvement of senior management. Stockholders and others also may communicate with our Lead Director and other non-management directors. During 2015, we held 37 meetings with our largest institutional investors and other interested stockholders. These stockholders represented approximately 40 percent of the Corporation s outstanding shares. We discussed our governance and compensation practices overall and sought feedback on proposed changes to our annual incentive program. Management shared investor feedback directly with the Board of Directors.

In response to investor feedback received during 2015, we enhanced our corporate governance disclosure in this Proxy Statement by providing additional information regarding the:

- Board evaluation and refreshment process;
- Board s role in enterprise risk management;
- Board s oversight efforts in corporate responsibility and environmental stewardship; and
- Role and responsibilities of the Audit Committee.

2015 Say-on-Pay Vote Results

At our 2015 Annual Meeting, more than 94 percent of the votes cast by our stockholders approved our say-on-pay proposal. This vote represents our highest approval rate to date.

As part of our ongoing efforts to align our compensation programs with the interests of our stockholders, we consider the input of our stockholders and emerging best practices in adopting our executive pay programs. Most investor feedback related to our pay governance and executive compensation programs was positive. We will continue to engage with our stockholders in 2016.

2015 Compensation Highlights

A substantial portion of compensation paid to our named executive officers (NEOs) is performance-based. We use the 50th percentile of our comparator group to set target compensation but allow for payments to exceed or fall below the target level based upon actual performance. Due to our record levels of performance in 2015, our short- and long-term incentive plans paid out above the targets. This outcome is consistent with our pay for performance philosophy to set pay and targets at market levels, but pay incentive compensation to reflect actual performance.

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Proxy Summary

Board Recommendations on Voting Matters

Proposal	Description	Board Voting Recommendations	Page
1	Election of Directors	**FOR ALL DIRECTOR-NOMINEES**	22
2	Ratification of Appointment of Independent Auditors	**FOR**	29
3	Advisory Vote to Approve the Compensation of our Named Executive Officers (Say-on-Pay)	**FOR**	31
4	Management Proposal to Re-Approve the Performance Goals for the 2011 Incentive Performance Award Plan	**FOR**	71
5	Stockholder Proposal on Special Meeting Stock Ownership Threshold	**AGAINST**	81

You can vote in the following ways:

Via the Internet	By Telephone	By Mail	In Person
Visit *www.investorvote.com*	In the United States, Canada and Puerto Rico, call 1-800-652-8683; outside the United States call 1-781-575-2300.	Mark, date and sign your proxy card or voting instruction form and return it in the accompanying postage prepaid envelope.	Attend the meeting to vote in person.

Attendance at the Annual Meeting

If you plan to attend the Annual Meeting, you must be a stockholder as of the record date, February 26, 2016, and obtain an admission ticket in advance following the instructions set forth on page 89.

Requests for admission tickets will be processed in the order in which they are received and must be received no later than April 22, 2016. On the day of the Annual Meeting, each stockholder will be required to present valid, government-issued photographic identification (such as a driver s license or passport) with his or her admission ticket. The Annual Meeting will begin promptly at 8:00 a.m. Stockholders also will be required to enter through a security check point before being granted access into the Annual Meeting. Cameras, cell phones and other electronic devices will not be permitted in the Annual Meeting. All hand-carried items will be subject to inspection and all bags, briefcases and packages must be checked. The Corporation may implement additional security procedures to ensure the safety of the meeting attendees.

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CORPORATE GOVERNANCE

Lockheed Martin believes good governance is integral to achieving long-term stockholder value. We are committed to governance policies and practices that serve the interests of the Corporation and its stockholders. The Board monitors emerging issues in the governance community to ensure that it continues to meet its commitment to thoughtful and independent representation of stockholder interests.

The Board s primary role is to oversee management and represent the interests of stockholders. Directors are expected to attend Board meetings, the meetings of the committees on which they serve and the annual meeting of stockholders. The Board and the committees regularly schedule and hold executive sessions without any members of management present. Between meetings, directors interact with the Chairman, President and Chief Executive Officer (CEO), the Lead Director and other members of management and are available to provide advice and counsel to management.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines (Governance Guidelines) that describe the framework within which the Board and its committees oversee the governance of the Corporation. The current Governance Guidelines are available on the Corporation s website at *www.lockheedmartin.com/corporate-governance*, by clicking on Corporate Governance Guidelines. The Nominating and Corporate Governance Committee (Governance Committee) regularly assesses our governance practices in light of emerging trends and best practices and formally implements best governance practices that it believes enhance the operation and effectiveness of the Board.

Our Governance Guidelines cover a wide range of subjects, including:

- The role of the Board and director responsibilities;
- The role and responsibilities of the Lead Director;
- Application of our Code of Ethics and Business Conduct (the Code of Conduct) to the Board;
- Director nomination procedures and qualifications;
- Director independence standards;
- Policies for the review, approval and ratification of related person transactions;
- Director orientation and continuing education;
- Procedures for annual performance evaluations of the Board and its committees;
- Director stock ownership guidelines (currently, five times the cash portion of the annual retainer);
- A clawback policy for executive incentive compensation; and
- Anti-hedging and anti-pledging transactions involving our stock.

The Governance Guidelines also state that any incumbent director who receives more votes AGAINST his or her election than FOR his or her election is required to offer his or her resignation to the Board. The Governance Guidelines set forth the procedures to be followed by the Board in considering whether to accept or reject the resignation. See Majority Voting Policy for Director Elections on page 12.

Board Role in Strategic Planning

The Corporation s strategy is reviewed and implemented in a two-year cycle. The first year is devoted to a review and development of an overall strategy and the second year is devoted to refining and assessing the strategy. The cycle then begins again in the following year. The Board is involved in strategic planning for the Corporation throughout the year. In January, the Executive Vice President and Chief Financial Officer

(EVP & CFO) reviews the long-range plan with the Board. Annually, the Board convenes a strategic planning session during which management reviews the overall long-range strategy for the Corporation and near-term and long-term initiatives. The Strategic Affairs Committee of the Board meets throughout the year to review the progress of and challenges to the Corporation s strategy and to approve specific initiatives, including acquisitions and divestitures over a certain size threshold. At each regular Board meeting, the Chairman, President and CEO reviews developments within the context of the Corporation s strategic framework.

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Corporate Governance

Independent Lead Director

In accordance with our Bylaws and Governance Guidelines, the independent members of the Board annually elect one of the independent directors to serve as the Lead Director by the affirmative vote of a majority of the directors who have been determined to be independent for purposes of the New York Stock Exchange (NYSE) listing standards. The Board has structured the role of the Lead Director with sufficient authority to serve as a counter-balance to management. The responsibilities specified in our Bylaws for the Lead Director are to:

- Preside as Chair at Board meetings while in executive sessions of the non-management members of the Board or executive sessions of the independent directors or if the Chairman is ill, absent, incapacitated or otherwise unable to carry out the duties of Chairman;
- Determine the frequency and timing of executive sessions of non-management directors and report to the Chairman on all relevant matters arising from those sessions and invite the Chairman to join executive sessions for further discussion as appropriate;
- Consult with the Chairman and CEO and committee chairs regarding the topics for and schedules of the meetings of the Board and committees and approve the topics for and schedules of Board meetings;
- Review and approve all Board and committee agendas and provide input to management on the scope and quality of information sent to the Board;
- Assist with recruitment of director candidates and, along with the Chairman, may extend an invitation to a potential director to join the Board;
- Act as liaison between the Board and management and among the directors and the committees of the Board;
- Serve as a member of the Executive Committee of the Board;
- Serve as an ex-officio member of each committee if not otherwise a member of the committee;
- Serve as the point of contact for stockholders and others to communicate with the Board;
- Recommend to the Board and committees the retention of advisors and consultants who report directly to the Board;
- Call a special meeting of the Board or of the independent directors at any time, at any place and for any purpose; and
- Perform all other duties as may be assigned by the Board from time to time.

The committee Chairmen also review and discuss the agendas for the meetings in advance of distribution of the agendas and related Board or committee material.

Mr. Archibald was elected by the independent directors as Lead Director, effective at the conclusion of the 2015 Annual Meeting and has served in that capacity since that time. Stockholders and other interested parties may communicate with the Lead Director by email at *Lead.Director@lmco.com*.

Positions of Chairman and Chief Executive Officer

The Board regularly reviews its leadership structure in light of the Corporation s then current needs, governance trends, internal assessments of Board effectiveness and other factors. The Board reviews and considers whether the positions of Chairman and CEO should be combined or separated as part of an ongoing review of the effectiveness of the Corporation s governance structure.

The Board believes that it must be independent and must provide strong and effective oversight, but also believes that the independent Board members should have the flexibility to respond to changing circumstances and choose the model that best fits the then-current situation.

As a result, the roles of Chairman and CEO have been split from time to time to facilitate leadership transitions, while at other times the roles have been combined.

The Board believes that, at the present time, the Corporation is best served by allocating governance responsibilities between a combined Chairman and CEO and an independent Lead Director with robust responsibilities. This structure allows the Corporation to present a single face to our customers through the combined Chairman and CEO position while at the same time providing an active role and voice for the independent directors through the Lead Director. In making this determination, the independent members of the Board considered:

Trends in governance and in stockholder proposals for separating the roles;

The limited support for stockholder proposals requiring the separation of the roles at the Corporation in prior years;

The role of the independent directors in the governance of the Corporation, including the scheduling of an executive session of the independent directors at every Board meeting, regular Board review and consideration of the CEO succession plan, the scope of the duties of the Lead Director and the oversight of the CEO s compensation by the Management Development and Compensation Committee (Compensation Committee), a committee composed entirely of independent directors that is advised by an outside independent compensation consultant;

Ms. Hewson s strong performance as a leader since her election as CEO;

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The fact that Ms. Hewson is the only representative of management on the Board; and

The desirability of having consolidated leadership engagement with government customers as well as the leadership of the U.S. Department of Defense and other agencies of the U.S. Government.

The independent directors plan to continue to review the leadership structure on an ongoing basis to ensure that it continues to meet the Corporation s needs.

Board Evaluation and Refreshment

To enhance Board functioning and the effectiveness of the Board relationship with management for the benefit of our stockholders, the Board regularly evaluates its performance through self-assessments, corporate governance reviews and periodic charter reviews. Those evaluations, changes in our business strategy or operating environment and the future needs of the Board in light of anticipated director retirements are used to identify desired backgrounds and skill sets for future Board members. The Board also maintains tenure policies (contained in our Governance Guidelines) as a means of ensuring that the Board regularly benefits from a balanced mix of perspectives and experiences.

Board Refreshment Elements

Annual Performance Assessment	The Board conducts a self-assessment of its performance and effectiveness as well as that of its committees on an annual basis. The self-assessments help track progress in certain areas targeted for improvement from year to year and to identify ways to enhance the Board s and committees effectiveness. For 2015, each director completed a written questionnaire. The questions were open-ended to solicit candid feedback. The collective ratings and comments are compiled, summarized and presented to the Governance Committee and the full Board.
Governance Committee Review	Each year the Governance Committee recommends to the Board the slate of directors to propose as nominees for election by the stockholders at the Annual Meeting. The process for identifying and evaluating candidates to be nominated to the Board starts with an evaluation of a candidate by the Chairman of the Governance Committee followed by the entire Governance Committee and the Chairman of the Board. The Governance Committee has retained a third party firm to assist in the identification and evaluation of potential director candidates. The Board seeks a diverse group of candidates who, at a minimum, possess the background, skills, expertise and time to make a significant contribution to the Board, the Corporation and its stockholders. The Governance Guidelines list criteria against which candidates may be judged. The Governance Committee considers, among other things: Input from the Board s self-assessment process to prioritize areas of expertise that were identified; Investor feedback and perceptions; The candidates skills and competencies to ensure they are aligned to the Corporation s future strategic challenges and opportunities; The future needs of the Board in light of anticipated director retirements; and A balance between public company and customer-related experience.
Board Committee Assignments	In February of each year, the Governance Committee reviews the membership, tenure and leadership of each of the committees and considers possible changes given the additional qualifications and skill sets of newer members on the Board or a desire for committee rotation or refreshment. The Governance Committee also takes into consideration the membership requirements and responsibilities set forth in each of the respective committee charters and Governance Guidelines as well as any upcoming vacancies on the Board due to our mandatory retirement age. The Governance

	Committee recommends to the Board any proposed changes to committee assignments and leadership to be made effective at the next annual meeting of stockholders.
Nominees by Stockholders	Director candidates also may be identified by stockholders and will be evaluated and considered by the Governance Committee. Stockholder proposals for nominations for the 2017 Annual Meeting should be submitted between the dates of October 12, 2016 and November 11, 2016, inclusive, to: Nominating and Corporate Governance Committee, c/o Senior Vice President, General Counsel and Corporate Secretary, Lockheed Martin Corporation, 6801 Rockledge Drive, Bethesda, MD 20817. Additional information can be found in Section 1.10 of our Bylaws on the Corporation s website at *www.lockheedmartin.com/corporate-governance.*
Onboarding and Continuing Education	Upon joining the Board, directors are provided with an orientation about the Corporation, including our business operations, strategy and governance. Directors may attend outside director continuing education programs sponsored by educational and other institutions to assist them in staying abreast of developments in corporate governance and critical issues relating to the operation of public company boards. Members of our senior management regularly review with the Board the operating plan of each of our Business Segments and the Corporation as a whole. The Board also conducts periodic visits to our facilities as part of its regularly scheduled Board meetings.

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Corporate Governance

Our Tenure Guidelines

Mandatory Retirement Age	Directors must retire at age 75.
Employment Change	Directors must offer to resign upon any substantial change in principal employment.
Failed Election	Directors must offer to resign as a result of a failed stockholder vote.

Overboarding Policy

The Board recognizes that its members benefit from service on the boards of other companies and it encourages such service. The Board also believes, however, that it is critical that directors dedicate sufficient time to their service on the Corporation s Board. Therefore, the Governance Guidelines provide that, without obtaining the approval of the Governance Committee:

A director may not serve on the boards of more than four other public companies;

If the director is an active chief executive officer or equivalent of another public company, the director may not serve on the boards of more than two other public companies;

No member of the Audit Committee may serve on more than two other public company audit committees; and

No member of the Compensation Committee may serve on more than three other public company compensation committees.

Directors must notify the CEO, Lead Director and Senior Vice President, General Counsel and Corporate Secretary before accepting an invitation to serve on the board of any other public company.

Majority Voting Policy for Director Elections

The Corporation s Charter and Bylaws provide for simple majority voting. Pursuant to the Governance Guidelines, in any uncontested election of directors, any incumbent director who receives more votes AGAINST than votes FOR is required to offer his or her resignation for Board consideration.

Upon receipt of a resignation of a director tendered as a result of a failed stockholder vote, the Governance Committee will make a recommendation to the Board as to whether to accept or reject the resignation, or whether other action is recommended. In considering the tendered resignation, the Board will consider the Governance Committee s recommendation as well as any other factors it deems relevant, which may include:

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.

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.

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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.

Board Role in Enterprise Risk Management

Our risk management philosophy is to balance risk and reward within management and the Board s risk tolerance. This is accomplished through risk management practices, core values and our code of conduct, each of which reinforces a risk transparent culture. The Board and its committees receive risk updates throughout the year. Executive management provides updates on risks managed at the enterprise level. Business area management provides updates on risks to individual business area objectives.

The Board considers the full spectrum of business risks including strategic, operational, financial, reputation and compliance risks. Oversight of risk is assigned to the full Board unless delegated to one of the standing committees. The Audit Committee reviews our policies and practices with respect to risk assessment and risk management, identification and oversight of 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.

The Board s committees review risks within their respective domains. Risk mitigation for the risks identified as most significant to our corporate objectives and strategy are reviewed by the Strategic Affairs Committee or the full Board.

Risk Governance

Board Committee	Risk Purview
Audit	Financial and compliance risk and risk process
Classified Business and Security	Classified programs and security of personnel, facilities and data related risks including cyber
Ethics and Sustainability	Employee safety and health and ethical conduct risk
Compensation	Talent, workforce and incentive performance compensation risks
Strategic Affairs	Risks related to business strategy and identified enterprise risks
Governance	Board composition and corporate governance function and process risks

Management employs three levels of controls in providing risk assurance for the Board. Line management provides day-to-day procedures and controls. Functional and corporate management conduct reviews and oversight and Internal Audit, including external auditors, offers an additional level of risk-based assurance.

In 2015, the Board and its Committees received reports on the enterprise risk mitigation plans for risks identified as most significant by management, including reports on cyber security.

Stockholder Right to Call Special Meeting

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 a matter voted on at a special meeting within the preceding 12 months unless requested by a majority of all stockholders. The Board believes that our current governance practice strikes an appropriate balance between the right of stockholders to call a special meeting and the interests of the Corporation and its stockholders in promoting the appropriate use of company resources. The 25 percent threshold is the most prevalent standard among the companies in our comparator group. The Board added the 10 percent threshold in light of our institutional ownership profile which has included large holdings by a single investor.

The Board recommends that you vote AGAINST Stockholder Proposal 5 on page 81 requesting that the Board change the stock ownership threshold to call a special meeting. We believe that the proposal is unnecessary because our stockholders already have a meaningful right to call special meetings.

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 *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, which 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, Bruce A. Carlson, James O. Ellis, Jr., Thomas J. Falk, Gwendolyn S. King, James M. Loy, 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 (LDiscovery, LLC, The Carlyle Group and Northrop Grumman Corporation (family member employer)); Mrs. Brewer (Wal-Mart Stores, Inc. which includes Sam s Club); Mr. Ellis (Level 3 Communications, Inc., Draper Laboratory and Stanford University Hoover Institution); Mr. Falk (Catalyst, Inc.); Mrs. King (ESPN (family member employer)), Mr. Loy (The Cohen Group) and Mr. Ralston (The Cohen Group, The Timken Company and Lynden Air Cargo). 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 entities. 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 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 *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 or director-nominee, any executive officer of the Corporation, any person who is known to be the beneficial owner of more than five percent of any class of the Corporation s voting securities, or an immediate family member of any person described above.

Our 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 2015, we paid The Cohen Group $522,500 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.

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Corporate Governance

We currently employ approximately 126,000 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 2015 base salary was $174,253, and he received an employee incentive plan award of $16,900. His base salary was increased to $179,655 for 2016 and he received an employee incentive plan award of $13,900. 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 2015.

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 our common stock. In 2015, the Corporation paid $11,691,143 to State Street Corporation and its affiliates (including State Street Bank and Trust Company) for investment management, custodial, benefit plan administration fees and credit facility fees; $903,442 to BlackRock, Inc. and its affiliates for investment management of fixed-income assets held in the Corporation s master savings trust; $5,402,796 to Capital Guardian, an affiliate of Capital World Investors, for investment management fees and $307,665 to The Vanguard Group, Inc. and its affiliates for investment management services.

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ETHICS AND SUSTAINABILITY

Governance Structure

The Ethics and Sustainability Committee of the Board of Directors oversees efforts in corporate responsibility, human rights, environmental stewardship, political contributions, employee safety and health, 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

5 Independent Directors comprise this Board committee, which provides oversight for the Ethics and Sustainability programs, approves the Code of Conduct and reviews Sustainability Management Plan performance, stakeholder engagement and environmental and social risks and 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 chairs a steering committee that regularly reviews the ethics program within that Business Segment.

Ethics

We strive to enhance our high standards and controls for ethical business conduct, compliance and transparency. Our values Do What s Right, Respect Others and Perform with Excellence underpin our comprehensive Code of Conduct and Supplier Code of Conduct. The Code of Conduct, which has been in place since the Corporation was formed in 1995 (available on the Corporation s website at *www.lockheedmartin.com/us/who-we-are/ethics/code.html*), applies to all Board members as well as officers and employees. It provides our policies and expectations for 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 against reporting parties 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 2015.

In 2015, Lockheed Martin:

- Introduced more interactive testing techniques in an updated anti-corruption virtual training platform. The Ethics staff also led engagement activities at 100 company locations to educate employees regarding potential risk factors, enhance ethics office accessibility and strengthen guidance for small and physically or organizationally remote sites.

- Streamlined our Gifts and Business Courtesies and Compliance with Anti-Corruption Laws policies and launched an online tool for employees to verify adherence to these policies on a case-by-case basis.

Notable ethics achievements in 2015 include:

- Distinguished as one of only four aerospace and defense companies worldwide to earn an A rating from Transparency International-UK for anti-corruption controls and practices.

- Won the 2015 Corporate Governance Award for Best Ethics and Compliance Program among large-cap companies from Corporate Secretary magazine.

Earned a total of four communications awards for our Ethics Awareness and Training materials.

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Ethics and Sustainability

Sustainability

Our sustainability mission is to foster innovation, integrity and security to protect the environment, strengthen communities and foster responsible growth. First and foremost, our sustainability strategy guides a systematic approach to understand and manage environmental, social and governance risks that represent stakeholder priorities and drivers of long-term business success.

In 2015, Lockheed Martin:

- Published its fourth annual sustainability report, which discloses performance indicators on our environmental, social and governance commitments and responsibilities and adheres to the Global Reporting Initiative (GRI) G4 Core Guidelines. Our sustainability reports are available at *www.lockheedmartin.com/sustainability.*
- Reviewed mid- and full-year performance of our Sustainability Management Plan commitments with our executive leadership team. This process helps to identify better business opportunities, strengthen enterprise risk management mechanisms, enhance our reputation and stakeholder confidence, drive energy and natural resource efficiency, and maximize our investments of financial, human and natural capital.
- In our biennial practice, we re-examined our prioritization of sustainability issues based on their importance to stakeholders and relevant potential impact to the Corporation. We convened six summits in North America and Europe involving 80 internal and external stakeholders as part of an analysis of global mega-trends and critical issues.

Notable sustainability achievements in 2015 include:

- Selected as only U.S. aerospace and defense prime contractor to the Dow Jones Sustainability World Index, which included Lockheed Martin for the second consecutive year. Selected as only U.S. aerospace and defense company to receive Silver Class distinction from RobecoSAM for excellence in sustainability performance.
- Earned an A rating from MSCI for environmental, social and governance management and performance.
- Named by CDP (formerly Carbon Disclosure Project) as one of the top companies worldwide for climate disclosure.
- Included in the top ten among 100 Best Corporate Citizens by Corporate Responsibility (CR) Magazine.
- Recognized by the Sustainable Purchasing Leadership Council with five Outstanding Case Study Awards for supplier spend analysis, ethics supplier mentoring, e-waste and manufacturing waste stewardship and our sustainable supply chain management program.

Supplier and Community Engagement

In 2015, Lockheed Martin partnered with suppliers, the community and non-governmental organizations to strengthen our communities and foster responsible growth, including:

- Achieved approximately $4.7 billion in total spending with more than 9,700 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 64 percent of our entire active supplier base.
- Became one of the first companies to take the pledge to participate in the U.S. Small Business Administration (SBA) SupplierPay Initiative, introduced in 2014. As part of the pledge, Lockheed Martin began an accelerated payment schedule that provides prompt payment to over 7,000 small business suppliers.
- Provided training to approximately 80 current, past or potential protégé small businesses under various federal government agency Mentor-Protégé programs.
- Hired approximately 3,300 military veterans, representing approximately 36 percent of all external hires.
- Introduced a Fast Track Supplier Mentoring program, which was developed as an option to accommodate suppliers interested in enhancing or implementing the elements of an effective ethics program. The program is designed to facilitate broader discussion of industry best practices through an accelerated, virtual, consolidated, group-based approach.

Contributed nearly $27 million to 975 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 $19.1 million and reported volunteering more than one million hours to worthy causes. Over the last decade, employees have generously volunteered nearly 12 million hours of their own time in service to their communities.

Supported voluntarily the Conflict-Free Sourcing Initiative (CFSI) audit fund and selected two tin smelters that were identified as potential sources of supply in our supply chain, but had not yet been validated as conflict-free by the CFSI. This is a non-required element of our Conflict Minerals Program.

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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 on them following the 2015 annual meeting and the number of committee meetings held in 2015. Charters for each committee are available on the Corporation s website at *www.lockheedmartin.com/corporate-governance*.

2015 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	67	2014	Yes	X	X		X	Chair		
Nolan D. Archibald[1]	72	2002	Yes				X	X	Chair	X
Rosalind G. Brewer	53	2011	Yes			X		X	X	
David B. Burritt	60	2008	Yes	X				X		X
Bruce A. Carlson	66	2015	Yes		X				X	
James O. Ellis, Jr.	68	2004	Yes	X	X		X			Chair
Thomas J. Falk	57	2010	Yes	Chair			X	X	X	
Marillyn A. Hewson	62	2012	No				Chair			
Gwendolyn S. King	75	1995	Yes			X			X	
James M. Loy	73	2005	Yes		X	Chair	X			X
Joseph W. Ralston	72	2003	Yes		Chair	X	X			X
Anne Stevens	67	2002	Yes			X			X	X
Meetings held in 2015				7	3	3	0	5	4	3

(1) Mr. Archibald succeeded Douglas McCorkindale as Lead Director effective following the 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 appointment, compensation, retention, oversight and termination 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 Audit Committee meets privately with the Vice President, Internal Audit, and the Corporation s independent auditors, Ernst & Young LLP. The functions of the Audit Committee are further described under the heading Audit Committee Report on page 21.

All the members of the Audit Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations and our Governance Guidelines. 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. Falk, Chairman of the Audit Committee, Mr. Akerson and Mr. Burritt 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.

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Committees of the Board of Directors

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 of the CBS Committee hold high-level security clearances.

Ethics and Sustainability Committee

The purpose of the Ethics and Sustainability Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Corporation s ethical conduct, sustainability, environmental stewardship and employee safety and health. The Ethics and Sustainability 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 safety and health, 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. The Ethics and Sustainability Committee meets privately with the Vice President, Ethics and Sustainability, and the Senior Vice President, Corporate Secretary and General Counsel.

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 32, Compensation Discussion and Analysis (CD&A) beginning on page 32 and Other Corporate Governance Considerations in Compensation on page 51.

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

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 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.

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

Strategic Affairs Committee

The Strategic Affairs 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 Strategic Affairs Committee reviews and recommends to the Board certain significant strategic decisions regarding exit from and entry into lines of business, acquisitions, joint ventures, investments or dispositions of businesses and assets and the financing of related transactions.

Audit Committee Report

The Audit Committee of the Board of Directors is responsible for overseeing the Corporation s accounting, auditing and financial reporting process, financial risk assessment and management process and for monitoring compliance with certain regulatory and compliance matters, on behalf of the Board of Directors.

The Corporation s management is responsible for preparing the quarterly and annual consolidated financial statements, the financial reporting process, and maintaining and evaluating disclosure controls and procedures and a system of internal control over financial reporting.

In addition to its oversight of the Corporation s internal audit organization, the Audit Committee is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation s independent auditors, Ernst & Young LLP (Ernst & Young), an independent registered public accounting firm. The independent auditors are responsible for performing an independent audit of the Corporation s annual consolidated financial statements and internal controls over financial reporting and expressing an opinion on the conformity of those consolidated financial statements with U.S. generally accepted accounting principles and on the effectiveness of the Corporation s internal control over financial reporting.

In connection with the preparation of the Corporation s financial statements as of and for the year ended December 31, 2015, the Audit Committee reviewed and discussed with management and Ernst & Young the Corporation s audited consolidated financial statements, 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. The Audit Committee also discussed with Ernst & Young, with and without management, the quality of the financial statements, clarity of the related disclosures, effectiveness of internal control over financial reporting and other items required under Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16, *Communications with Audit Committees*. Additionally, the Audit Committee received and reviewed the written disclosures and letter from Ernst & Young regarding its independence from the Corporation required by PCAOB Ethics and Independence Rule 3526, *Communications with Audit Committees Concerning Independence*. The Audit Committee has also discussed with Ernst & Young any matters affecting its independence from the Corporation.

Based on the Audit Committee s reviews and discussions described in this report, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements as of and for the year ended December 31, 2015 be included in Lockheed Martin Corporation s Annual Report on Form 10-K for 2015 for filing with the SEC. The Audit Committee also reappointed Ernst & Young to serve as the Corporation s independent auditors for 2016, and requested that this appointment be submitted to the Corporation s stockholders for ratification at the Annual Meeting. The Board of Directors approved the Audit Committee s recommendations.

Submitted on February 26, 2016 by the Audit Committee:

Thomas J. Falk, *Chairman*
Daniel F. Akerson
David B. Burritt
James O. Ellis, Jr.

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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 and 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 from time to time. Any candidates identified after the 2016 Annual Meeting will be considered by the Board as candidates to serve until the 2017 Annual Meeting.

The director-nominees are expected to attend the 2016 Annual Meeting. All director-nominees who are elected will serve a one-year term that will end at the 2017 Annual Meeting. If any of the director-nominees are unable or unwilling to stand for election at the 2016 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 date of 2016 Annual Meeting.

Board Meeting Attendance

In 2015, the Board met a total of 10 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 2015 Annual Meeting, except for Mr. Carlson who joined the Board in July 2015.

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 is 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.

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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.

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

The Board unanimously recommends that you vote FOR each of the following Director-Nominees (Proposal 1).

Director-Nominees

Daniel F. Akerson

Age: 67
Director since: 2014
Independent

Committees:

Audit

Classified Business and Security

Executive

Management Development and Compensation

Other Public Boards:

None

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 of The Carlyle Group from March 2014 to December 2015. 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. He 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 Chairman of the United States Naval Academy Foundation and Chairman of LDiscovery, LLC, an information services company.

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Nolan D. Archibald

Age: 72
Director since: 2002
Independent Lead Director

Committees:
- Executive
- Management Development and Compensation
- Nominating and Corporate Governance
- Strategic Affairs

Other Public Boards:
- Brunswick Corporation
- Huntsman Corporation

Skills and Qualifications
- Experience with the demands and challenges of the global marketplace with a focus on innovation from his prior executive positions with Stanley Black & Decker, Inc., a company 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.

Rosalind G. Brewer

Age: 53
Director since: 2011
Independent

Committees:
- Ethics and Sustainability
- Management Development and Compensation
- Nominating and Corporate Governance

Other Public Boards:
- None

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 Wal-Mart Stores, Inc. (Walmart), 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, since February 2012. Previously, Mrs. Brewer was Executive Vice President and President of Walmart 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.

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David B. Burritt

Age: 60
Director since: 2008
Independent

Committees:

Audit

Management Development and Compensation

Strategic Affairs

Other Public Boards:

None

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.

Bruce A. Carlson

Age: 66
Director since: 2015
Independent

Committees:

Classified Business and Security

Nominating and Corporate Governance

Other Public Boards:

None

Skills and Qualifications

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

Experience with the demands and challenges associated with managing large organizations from his service as a Commander and Joint Staff Director of the Joint Chiefs.

Skilled in executive management, logistics and military procurement.

Retired U.S. Air Force General, Mr. Carlson has been Chairman of the Board of Advisors of Utah State s Space Dynamics Laboratory since June 2013. Previously, Mr. Carlson served as the 17th Director of the National Reconnaissance Office from July 2009 until July 2012. He retired from the U.S. Air Force in January 2009 after over 37 years of service. During his Air Force career, Carlson served as Commander, Air Force Materiel Command at Wright-Patterson AFB, Ohio from August 2005 to November 2008; Commander, Eighth Air Force at Barksdale AFB, Louisiana from May 2003 to August 2005; Director for Force Structure, Resources and Assessment (J-8) for the Joint Staff from January 2000 to May 2003; Director of Operational Requirements at U.S. Air Force Headquarters from August 1996 to January 2000; and Commander, 49th Fighter Wing (the Air Force s first stealth fighter wing) at Holloman AFB, New Mexico from February 1995 to August 1996.

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James O. Ellis, Jr.

Age: 68
Director since: 2004
Independent

Committees:
- Audit
- Classified Business and Security
- Executive
- Strategic Affairs

Other Public Boards:
- Dominion Resources, Inc.
- Level 3 Communications, Inc.

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 Fellow of the Hoover Institution at Stanford University.

Thomas J. Falk

Age: 57
Director since: 2010
Independent

Committees:
- Audit
- Executive
- Management Development and Compensation
- Nominating and Corporate Governance

Other Public Boards:
- Kimberly-Clark Corporation

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.

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Marillyn A. Hewson

Age: 62
Director since: 2012
Non-Independent

Committees:

Executive

Other Public Boards:

E. I. du Pont de Nemours and Company (DuPont)

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 33 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; Chairman of 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.; the International Advisory Board of the Atlantic Council and as a Vice Chair of the Business Roundtable. 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.

James M. Loy

Age: 73
Director since: 2005
Independent

Committees:

Classified Business and Security

Ethics and Sustainability

Executive

Strategic Affairs

Other Public Boards:

None

Skills and Qualifications

Experience with the demands and challenges associated with managing large organizations from his service as Commandant, U.S. 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.

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Proposal 1: Election of Directors

Joseph W. Ralston

Age: 72
Director since: 2003
Independent

Committees:
- Classified Business and Security
- Ethics and Sustainability
- Executive
- Strategic Affairs

Other Public Boards:
- The Timken Company

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: 67
Director since: 2002
Independent

Committees:
- Ethics and Sustainability
- Nominating and Corporate Governance
- Strategic Affairs

Other Public Boards:
- Anglo American plc
- XL Group

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.

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PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & 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, 2016. Ernst & Young served as our independent auditors in 2015 and 2014. 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 auditors 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 auditors is in the best interest of our stockholders.

The Audit Committee reviews the engagement of Ernst & Young annually following completion of Ernst & Young s audit of the prior year s financial statements. The Audit Committee also conducts a mid-year assessment of the quality of Ernst & Young s work. As part of its annual and mid-year assessment of Ernst & Young, the Audit Committee considers the materials on independence provided by Ernst & Young, work quality, management s level of satisfaction with their services, the adequacy of Ernst & Young s staffing, the breadth of knowledge, support and expertise of its national office, familiarity with the Corporation s account, level of expertise in accounting issues relating to government contracts and Ernst & Young s role in providing independent analysis of management positions. The Audit Committee also meets with Ernst & Young without management present at every meeting of the Audit Committee in which financial statements are reviewed.

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 that you vote FOR the ratification of the appointment of Ernst & Young as independent auditors for 2016 (Proposal 2).

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 or any member pre-approval authority with respect to permitted services, provided that the Committee Chairman or any 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 2015 and 2014. 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.

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Proposal 2: Ratification of Appointment of Independent Auditors

The increase in fees from prior years is the result of support provided in connection with the acquisition of Sikorsky Aircraft Corporation and the strategic review of our government information technology and technical services businesses that we announced in July 2015.

	2015 ($)	2014 ($)
Audit Fees (a)	19,900,000	16,905,000
Audit-Related Fees (b)	2,180,000	1,810,000
Tax Fees (c)	2,860,000	2,545,000
All Other Fees (d)	105,000	60,000

(a) Audit fees for 2015 and 2014 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, consultations on accounting matters, and registration statements and other documents filed by the Corporation with the SEC.

(b) Audit-related fees for 2015 and 2014 are related to carve-out audits of a business unit s financial statements, due diligence services in connection with acquisitions and audits of the Corporation s employee benefit plans. Additionally, audit-related fees for 2014 include amounts for reviews of information technology systems and financial models related to customer proposals.

(c) Tax fees for 2015 and 2014 are for domestic and international tax compliance and advisory services. Additionally, tax fees for 2015 include amounts for due diligence services in connection with an acquisition.

(d) All other fees for 2015 and 2014 are primarily for advisory work related to our Conflict Minerals Report.

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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 32. 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 2016 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.

The Board unanimously recommends that you vote FOR the advisory vote to approve the compensation of our named executive officers (Proposal 3).

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EXECUTIVE COMPENSATION

Compensation Committee Report

The Management Development and 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 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 for the year ended December 31, 2015. The Board approved our recommendation.

Submitted on February 26, 2016, by the Management Development and Compensation Committee:

Daniel F. Akerson, *Chairman*
Nolan D. Archibald
Rosalind G. Brewer
David B. Burritt
Thomas J. Falk

Compensation Discussion and Analysis (CD&A)

This CD&A discusses the compensation decisions for the NEOs listed in the Summary Compensation Table on page 54. The NEOs are:

NEO	Title in 2015	Years in Position At End of 2015 (rounded)	Years of Service At End of 2015 (rounded)
Marillyn A. Hewson	Chairman of the Board, President and Chief Executive Officer	3	33
Bruce L. Tanner	Executive Vice President and Chief Financial Officer	8	34
Dale P. Bennett	Executive Vice President, Mission Systems and Training	3	34
Orlando P. Carvalho	Executive Vice President, Aeronautics	3	36
Maryanne R. Lavan	Senior Vice President, General Counsel and Corporate Secretary	6	26

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

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Executive Summary

Our 2015 Performance

In 2015, Lockheed Martin achieved record levels of financial performance, and successfully performed on our contracts while undertaking two portfolio-shaping initiatives the Sikorsky Aircraft Corporation (Sikorsky) acquisition and strategic review of our government information technology (IT) and technical services work in Information Systems & Global Solutions (IS&GS) businesses - that will influence the Corporation s business for years to come.

Net sales for the year were $46.1 billion, compared to $45.6 billion in 2014. Net earnings in 2015 were $3.6 billion, or $11.46 per share, compared to $3.6 billion, or $11.21 per share, in 2014. Cash from Operations in 2015 was $5.1 billion, compared to Cash from Operations in 2014 of $3.9 billion after pension contributions of $2.0 billion.

During 2015, we accomplished numerous strategic and operational milestones. The Marine Corps declared Initial Operational Capability (IOC) for the F-35B, a historic event for the program, and we met our 2015 production commitment for the F-35 program by delivering 45 aircraft to the Department of Defense. We were awarded a $5.3 billion multi-year contract to deliver 78 C-130J Super Hercules to the U.S. Air Force, Marine Corps and Coast Guard through 2020. We launched the ninth Littoral Combat Ship (LCS) the future USS Little Rock and delivered LCS Five the USS Milwaukee. We were awarded a contract to produce and deliver PAC-3 missiles and PAC-3 Missile Segment Enhancements to the U.S. and allied military forces. We also had great success expanding our international business during 2015, which represented 21% of our sales.

On November 6, 2015, we completed our purchase of Sikorsky. Sikorsky is a world leader in the design, manufacture and support of military and commercial helicopters. On July 20, 2015, we announced a strategic review of our government IT services work in IS&GS and our technical services business in Missiles and Fire Control. In January 2016, Lockheed Martin entered into a definitive agreement to combine our IT and technical services business at the realigned IS&GS with Leidos Holdings, Inc., in a tax-efficient Reverse Morris Trust transaction. The transaction is expected to close in the third or fourth quarter of 2016.

Through these accomplishments, Lockheed Martin delivered exceptional 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, 2015.

3-Year TSR

1-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 interest, 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 50th percentile, which we refer to as market rate, of a comparator group of companies, as shown on page 38. For executives new to their role, we may consider targeting pay below the market rate (50th percentile) and then increase pay closer to 100% of the market rate over a time period based on a variety of factors,

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Executive Compensation

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 actual results. In light of the Corporation s performance, payouts under the 2015 annual incentive and 2013-2015 performance-based LTI programs were well above target levels.

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.

2015 Say-on-Pay Vote

At our 2015 Annual Meeting, more than 94% of the votes cast by our stockholders approved our Say-on-Pay proposal. We meet with our key investors throughout the year to understand the issues that matter most to them as it relates to executive compensation. We considered the input of our stockholders and emerging best practices in adopting our executive pay programs. During 2015, we engaged with representatives of stockholders owning approximately 40% of our outstanding shares. Most investors with whom we met reacted positively to our pay governance and executive compensation programs. We welcome feedback regarding our executive compensation programs and will continue to engage with our stockholders in 2016.

2015 Chairman, President & CEO Compensation

Base Salary. Three years into her role as CEO, Ms. Hewson s 2015 base salary of $1,565,000 was set at 100% of the market rate (50th percentile of CEOs base salaries in our size-adjusted comparator group of companies).

2015 Annual Incentive. Ms. Hewson s target annual incentive amount for 2015 was $2,738,750 (175% of salary). Based on our results, Ms. Hewson was awarded 200% of her target or $5,477,500 under the annual incentive plan for 2015 performance.

2013-2015 Long-Term Incentives. In 2013, Ms. Hewson was granted an LTI award of $10.2 million, which was 85% of the market rate at that time given that she was new to her role. The LTI award was allocated 50% in Performance Share Units (PSUs), 30% in Restricted Stock Units (RSUs) and 20% in the cash-based Long-Term Incentive Award Plan (LTIP).

Ms. Hewson s 2013-2015 PSU target award of $5,106,745 was multiplied by the weighting assigned to each PSU component (50% to Relative TSR, 25% to ROIC and, 25% to Performance Cash). She received 200% of her target Relative TSR PSUs, 197.3% of her target Performance Cash PSUs and 112.5% of her target ROIC PSUs, or a total of 127,693 shares based on actual results relative to the three-year performance goals that were established in the beginning of 2013.

Ms. Hewson was granted 34,289 RSUs based on the grant date fair value of $3,059,950 in January 2013. These RSUs vested in company shares in January 2016.

Ms. Hewson s 2013-2015 LTIP target award was set at $2,040,000. She received a payout of 177.4% of target, or $3,618,960 in cash, based on our results relative to the three-year performance goals that were established in the beginning of 2013.

The PSU and LTIP performance payout factors for Ms. Hewson are the same for all participants in these plans.

Benefit and Retirement Plans. Ms. Hewson is eligible for benefit and retirement programs similar to other employees. None of our executives received additional years of service credits or other forms of formula enhancements under our benefit or retirement plans. Like the retirement benefits offered by other companies with defined benefit plans, our pension formula is based on years of service and pension eligible compensation. In light of Ms. Hewson s 33 years of service, her salary and incentive compensation since becoming CEO in 2013 and the effect of changes in standard mortality tables and interest rates in recent years, the value of Ms. Hewson s pension benefits increased significantly in recent years.

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2015 Target 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 incentives.

CEO TARGET OPPORTUNITY MIX*

*Fixed vs. variable and cash vs. equity components are designated in the Core Compensation Elements table on page 39. 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 include retirement or other compensation components in the chart.

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
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

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Executive Compensation

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
Review and approve the compensation of the CEO and the NEOs. Reviews with management, at least annually, the succession plan for the CEO and other senior positions as well as the executive talent pool.

Independent Compensation Committee
Reviews and approves corporate objectives relevant to NEO compensation. Evaluates the performance of the CEO and each NEO. 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 which then is 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: Daniel F. Akerson, Chairman Nolan D. Archibald Rosalind G. Brewer David B. Burritt Thomas J. Falk	Reviews and approves corporate objectives relevant to NEO compensation. Evaluates and approves the performance of the CEO and each NEO. Recommends to the independent members of the Board the compensation of the CEO and each NEO. Approves Enterprise and Business Segment performance measures, weightings and goals for the annual and LTI compensation plans. Reviews proposed candidates for senior executive positions and recommends their compensation to the Board. 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. Reviews with management, at least annually, the succession plan for the CEO and other senior positions as well as the 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. Provides advice on executive pay philosophy and relevant peer groups. Provides design advice for short-term and LTI vehicles and other compensation and benefit programs.

	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. 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. 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 & Willis Towers Watson	Provides management with market data and compensation practices from our comparator group. Performs 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 are 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 against pre-established metrics and goals. Our incentive plans are designed so that actual performance in excess of established performance targets results in payouts above target and actual performance below established performance targets results in payouts below target or no payout.

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

Companies Selected 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 expectations about a particular company s growth potential rather than its actual financial performance or the complexity of its operations.

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 2015, 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 2015 revenue represented the 53rd 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 2015 and January 2016 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 mitigating risk by utilizing the following design features:

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

At the Compensation Committee s request, Meridian reviewed all executive and broad-based incentive compensation programs in 2015 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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2015 Named Executive Officers Compensation

Guiding Pay Principles

- Attract, motivate and retain executive talent
- Use the market 50th percentile to target all compensation elements
- Link pay to 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

2015 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 48).

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 Relative TSR measure capped at 100% if TSR is negative Up to 400% of stock price on date of grant X shares earned	**(50%)** **(25%)** **(25%)** Payout: 0-200% of target Relative TSR measure capped at 100% if TSR is negative	**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. Provides a balance of internal and market based measures to assess long-term performance		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

2015 Target Compensation

Consistent with our pay philosophy to consider moving executives to the market rate (50th percentile) over time if and when they perform effectively in their new roles, all NEOs were closely aligned to the market rate given that they have performed effectively in their respective roles for multiple years.

NEO	Base Salary ($)	Annual Incentive Target %	Annual Incentive Target Amount ($)	2015 LTI Grant ($)	Total Target Direct Compensation ($)
Ms. Hewson	1,565,000	175	2,738,750	11,202,915	15,506,665
Mr. Tanner	925,000	105	971,250	4,016,033	5,912,283
Mr. Bennett*	790,000	95/90	717,715	2,500,641	4,008,356
Mr. Carvalho	790,000	95	750,500	3,000,882	4,541,382
Ms. Lavan	735,000	95	698,250	2,600,765	4,034,015

* Mr. Bennett s Target % was increased to reflect the change in the scope of his role after the acquisition of Sikorsky.

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 evaluated 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.

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 for 2015 uses a multiplicative approach to determine bonuses based on Enterprise, Business Segment and Individual performance factors as follows:

Target Award	X	Enterprise Performance Factor	X	Business Segment Performance Factor	X	Individual Performance Factor	=	Payout
		- Financial (60%)		- Financial (60%)				
		- Strategic (20%)		- Strategic (20%)				
		- Operational (20%)		- 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 2015 annual incentive plan, 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.

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2015 Goals for Enterprise Performance Factor

At its January 2015 meeting, the Compensation Committee approved enterprise-wide objectives for 2015 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 2015 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.

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 also are 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 78% of our net revenues for 2015, has faced significant deficit reduction pressures that are likely to continue.

Our long-range plan values for Orders, Sales, Segment Operating Profit (see Appendix A for definition of non-GAAP terms) and Cash from Operations represent 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 2015 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 metrics 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 ratings for 2015 were determined using the scales below. The higher maximum rating for the Enterprise performance factor reflects the importance we place on company-wide results.

Enterprise performance (0.00 rating or 0.50 1.30 rating)

Business Segment performance (0.00 rating or 0.50 1.25 rating)

Individual performance (0.00 rating or 0.50 1.25 rating)

Enterprise Performance

Enterprise Financial Assessment (60% of Enterprise Performance)

We exceeded the target ranges established at the beginning of the year for all of the financial measures and set records for Orders and Cash from Operations.

2015 Financial Measures	Weighting %	2015 Goals ($)	Reported Results ($)	2015 Assessment

Orders	20	43,500M	45,000M	50,229M	Significantly Exceeded
Sales	20	43,500M	45,000M	46,132M	Significantly Exceeded
Segment Operating Profit*	30	5,100M	5,250M	5,486M	Significantly Exceeded
Cash from Operations	30		≥ 5,000M	5,101M	Exceeded

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

Performance Rating (Financial)	**1.20**

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Executive Compensation

Enterprise Strategic Assessment (20% of Enterprise Performance)

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.

2015 Strategic Measures	Weighting %	Assessment Summary	2015 Assessment
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.	60	Business capture and retention of existing business significantly exceeded target level.	Significantly Exceeded
Identify growth areas internationally and position the Corporation for successful entry and sustainable returns in these areas.	20	Continued expansion, increased orders and exceeded sales goals in international markets.	Significantly 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 and performance.	20	Exceeded workforce goals through retention, merit increase differentiation and placement of high performers in critical positions.	Exceeded
Performance Rating (Strategic)			**1.20**

Enterprise Operational Assessment (20% of Enterprise Performance)

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). 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.

2015 Operational Measures	Weighting %	Assessment Summary	2015 Assessment
Achieve Mission Success® on identified critical events.	50	Continued operational excellence with 98% Mission Success® in targeted events.	Significantly Exceeded
No Red Programs.	50	Continued low rate of Red Programs.	Exceeded
Performance Rating (Operational)			**1.25**

Overall Enterprise Performance Factor

Based on the results discussed above, the calculated 2015 Enterprise Performance Factor was 1.20. In assessing this rating, the Compensation Committee considered a variety of factors in addition to the calculated score to determine the final Enterprise Performance Factor. The Compensation Committee reviewed the outstanding financial, strategic and operational results while also considering the efforts taken in reshaping the Corporation s portfolio for future growth, which included the acquisition of Sikorsky and the realignment of the IS&GS businesses. The Compensation Committee recognized that these initiatives have far-reaching consequences, but are difficult to forecast, do not readily lend themselves to an advance goal setting structure and fall outside the normal formulaic assessment of achievements. The Compensation Committee also considered other achievements in 2015 that were not part of the forecasted metrics, including our record backlog in 2015, management s execution of strategic priorities without disruption to existing businesses, international growth and affordability improvements. The Compensation Committee increased the Enterprise Factor because they viewed the Corporation s 2015 successes as the result of a coordinated Corporate-wide effort.

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In light of these accomplishments in tandem with our exceptional performance in 2015 against its pre-set goals, the Compensation Committee approved a discretionary increase of 0.10. The Enterprise Factor that is used to calculate annual incentive payouts is applied to all Executives of the Corporation (not just the NEOs).

Goal	Performance Rating	Weighting	Result
Financial	1.20	X .60	.72
Strategic	1.20	X .20	.24
Operational	1.25	X .20	.25
Calculated Enterprise Factor (Rounded to nearest .05)			**1.20**
Discretionary Factor			**0.10**
Final Enterprise Factor			**1.30**

Business Segment Performance

At the January 2015 meeting, the Compensation Committee approved key financial, strategic and operational performance commitments that would be used to evaluate each Business Segment s performance. At its January 2016 meeting, 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	Weight %	Indicative Financial, Strategic, and Operational Accomplishments	Performance Factor
Aeronautics	Financial	60	Exceeded Orders, Sales and Segment Operating Profit goals.	**1.25**
	Strategic	20	Stabilized F-35 production profitability and received C-130J multi-year contract.	
	Operational	20	Outgoing product quality improved by 52%.	
Information Systems & Global Solutions	Financial	60	Exceeded all financial goals with strong Cash from Operations.	**1.20**
	Strategic	20	Strong performance without major business disruption due to strategic review businesses.	
	Operational	20	100% Mission Success®	
Missiles & Fire Control (MFC)	Financial	60	Exceeded financial goals with record Orders and Cash from Operations.	**1.25**
			Secured key franchise programs and expanded internationally.	
	Strategic	20	100% Mission Success® No Red Programs.	
	Operational	20		
Mission Systems & Training (MST)	Financial	60	Exceeded all financial goals with record Orders and Backlog.	**1.25**
			Successfully executed acquisition and integration of Sikorsky.	
	Strategic	20	100% Mission Success® No Red Programs.	
	Operational	20		
Space Systems	Financial	60	Exceeded all financial goals with strong Sales, Segment Operating Profit and Cash from Operations.	**1.25**
	Strategic	20		
	Operational	20	Exceptional program performance and successful growth in protected markets.	

			100% Mission Success® No Red Programs.	
LM International*	Financial	60	Exceeded all financial goals, setting a record high in international Sales and having the highest Orders in 15 years.	**1.25**
	Strategic	20	Improved customer relationships and strategies in key markets.	
	Operational	20	Facilitated enterprise-wide collaboration with international customers.	
EO Business Segment Factor (Rounded Average)				**1.25**

* 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 2015 Annual Report on Form 10-K.

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Executive Compensation

Individual Performance

For 2015, the following individual performance definitions were used, 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.

In January 2016, the Compensation Committee approved a factor for each NEO based on achievement of individual performance goals established at the beginning of 2015. 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 their leadership contributions. The Compensation Committee evaluated the performance of each of our NEOs and assigned an individual performance factor for their 2015 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	Significantly exceeded Enterprise financial, strategic and operational goals and achieved record Backlog.	**1.25**
	Led the reshaping of the Corporation s portfolio for future growth through the acquisition of Sikorsky and realignment of the IS&GS business.	
	Drove international business growth through the implementation of strategic initiatives, key wins and strong operational performance.	
Mr. Tanner	Significantly exceeded Enterprise financial goals.	**1.25**
	Successfully closed Sikorsky acquisition, including obtaining temporary and long-term financing at favorable rates.	
	Provided financial leadership to align corporate costs to the new organization after completion of strategic actions.	
Mr. Bennett	Significantly exceeded MST s financial goals.	**1.25**
	Successfully executed portfolio shaping initiatives with the Sikorsky acquisition.	
	Successfully executed MST s growth strategy, resulting in record Orders and Backlog.	
Mr. Carvalho	Exceeded Aeronautics Orders, Sales, and Segment Operating Profit goals.	**1.25**
	Achieved F-35 operational goals, including F-35 United States Marine Corps Initial Operating Capability.	
	Ensured key aircraft deliveries were achieved across the portfolio while continuing to make significant progress in outgoing product quality and production cost performance.	
Ms. Lavan	Successful litigation management reducing corporate risk profile.	**1.20**
	Executed cost-management initiatives.	
	Cross functional leadership and collaboration in portfolio shaping activities.	

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	1,565,000	175	2,738,750		1.30		1.25		1.25		5,477,500
Mr. Tanner	925,000	105	971,250		1.30		1.25		1.25		1,942,500

Mr. Bennett*	790,000	95/90	717,715	1.30	1.25	1.25	1,435,430
Mr. Carvalho	790,000	95	750,500	1.30	1.25	1.25	1,501,000
Ms. Lavan	735,000	95	698,250	1.30	1.25	1.20	1,361,600

* Mr. Bennett s Target % was increased during the performance year to reflect the change in the scope of his role after the acquisition of Sikorsky.

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2015 Long-Term Incentive Compensation

The following summary shows the 2015 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:
			Relative TSR (50%)
			ROIC (25%)
			Performance Cash (25%)
			PSU awards are subject to the following caps:
			200% of target shares
			Up to 400% of stock price on date of grant times shares earned
			Relative TSR measure capped at 100% if the Corporation s TSR is negative
LTIP	20	Cash	Minimum, target and maximum award levels based on three-year:
			Relative TSR (50%)
			ROIC (25%)
			Performance Cash (25%)
			LTIP payout is subject to the following caps:
			200% of target amount
			Relative TSR measure capped at 100% if the Corporation s TSR is negative
RSUs	30	Equity	RSUs vest 100% three years after the grant date.
			Forfeiture to extent grant date value exceeds:
			CEO 0.2% of actual 2015 Performance Cash
			Other Elected Officers 0.1% of actual 2015 Performance Cash

In determining the appropriate level of equity grants for 2015, 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 year over year.

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 based on the fair value of each PSU element on the date of grant using the Monte Carlo simulation method for the Relative TSR component and the fair value on the date of grant discounted to reflect the deferral of dividends for ROIC and Performance Cash components.

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 award is 400% of the stock price 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. Participants also receive deferred dividend equivalents on the shares earned, which are only paid following vesting of the underlying shares.

LTIP Awards (20% of the LTI award)

LTIP awards are cash-based and 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 those used for 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 2015-2017 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 discounted to reflect deferral of dividends.

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All RSUs awarded to NEOs in 2015 were subject to forfeiture to the extent the grant date value of the RSUs exceeded 0.2% of 2015 Performance Cash in the case of the CEO and 0.1% of 2015 Performance Cash in the case of each of the other NEOs. These performance requirements were satisfied and no forfeitures occurred. Deferred dividend equivalents are accrued during the vesting period and paid following vesting of the underlying shares.

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 2015 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 because we believe they represent the best measures of value creation for the Corporation over a long-term period. We also 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 since 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 are intended to 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 2015-2017 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 actual performance compared to the Corporation s 2015-2017 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.

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2015-2017 Performance Goals

Relative TSR (50%)*

Relative TSR Percentile	Payout Factor
75th 100th	200%
60th	150%
50th	100% (Target)
40th	50%
35th	25%
<35th	0%

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

Performance Cash (25%)

Performance Cash Metric	Payout Factor
Plan + ≥ $2.0B	200%
Plan + $1.5B	175%
Plan + $1.0B	150%
Plan + $0.5B	125%
Plan *	100%
Plan - $0.2B	75%
Plan - $0.5B	50%
Plan - $0.7B	25%
Below Plan - $0.7B	0%

ROIC (25%)

ROIC Performance Metric	Payout Factor
Plan + ≥ 160 bps	200%
Plan + 120 bps	175%
Plan + 80 bps	150%
Plan + 40 bps	125%
Plan	100%
Plan - 10 bps	75%
Plan - 20 bps	50%
Plan - 30 bps	25%
Below Plan - 30 bps	0%

2013-2015 LTIP and PSU Awards

The cash-based LTIP and share-based PSU payouts for the three-year performance period ended December 31, 2015, were calculated by comparing actual corporate performance for each metric for the period January 1, 2013 through December 31, 2015, against a table 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 2013. The award calculation is formulaic and no adjustment can be made to the final payout factor. The S&P Aerospace Index was used for the 2013-2015 Relative TSR goal, since that Index was specified at the time the awards were made.

Measure	Performance Target	Performance Result	Weighting	Payout Factor
Relative TSR	50th Percentile	90th Percentile	50%	**200.0%**
Performance Cash	$13.00B	$14.95B	25%	**197.3%**
ROIC	15.7%	15.9%	25%	**112.5%**

2013-2015 LTIP Payouts

Based on a weighted payout factor of 177.4%, the following table shows the payouts under the 2013-2015 LTIP.

NEO	2013 Target ($)	2015 LTIP Payout ($)
Ms. Hewson	$2,040,000	$3,618,960
Mr. Tanner	$ 738,000	$1,309,212
Mr. Bennett	$ 450,000	$ 798,300
Mr. Carvalho [1]	$ 479,000	$ 849,746
Ms. Lavan [1]	$ 965,000	$1,711,910

(1) Mr. Carvalho s and Ms. Lavan s LTIP target awards represented 40% of their 2013 long-term incentive grant.

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Executive Compensation

2013-2015 PSU Awards

The 2013-2015 target PSU award value was allocated to each performance measure based on the pre-defined weightings, namely 50% to Relative TSR, 25% to ROIC, and 25% to Performance Cash. The number of PSUs granted for each element is based on the fair value on the date of grant using Monte Carlo simulation method for the Relative TSR component and the fair value on the date of grant discounted to reflect the deferral of dividends for ROIC and Performance Cash components. PSU awards earned are calculated by multiplying the payout factor for each performance metric by the target number of units granted. The actual value realized by the NEO also depends on the price of our stock which may be higher or lower than the grant date fair value.

	2013-2015 Target PSUs (#)			Total Shares Distributed/
NEO	Relative TSR	Performance Cash	ROIC	Earned
Ms. Hewson	41,715	14,287	14,288	**127,693**
Mr. Tanner	15,083	5,166	5,166	**46,171**
Ms. Bennett	9,200	3,151	3,151	**28,162**
Mr. Carvalho [1]	983	336	337	**3,009**
Ms. Lavan [1]	1,972	675	675	**6,036**

(1) Mr. Carvalho s and Ms. Lavan s PSU target awards represented 10% of their 2013 long-term incentive grant.

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 available to 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 annually. 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.
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 2015 are described in footnotes to the Summary Compensation Table on page 56. 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. Given the nature of our business, additional security may be provided for travel in high-risk areas or to address particular situations. 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

Classified Business and Security 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.

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Element	Description
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 2015, 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. In addition, we paid an amount estimated to cover the income tax imposed on employees (including the NEOs) who traveled out of their home state for business and became subject to income tax in another state due to the business travel. These items are reported in the All Other Compensation column of our Summary Compensation Table on page 54 and are further identified in the chart included in the footnote to that table on page 57. 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 were 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 to be provided.

2016 Compensation Decisions

2016 Base Salary

The Compensation Committee approved the following 2016 salary increases based on the executive s performance, time in position and movement in the market rate.

NEO	2015 Base Salary ($)	2016 Base Salary ($)	% Increase
Ms. Hewson	1,565,000	1,645,000	5%
Mr. Tanner	925,000	970,000	5%
Mr. Bennett	790,000	830,000	5%
Mr. Carvalho	790,000	830,000	5%
Ms. Lavan	735,000	770,000	5%

2016 Annual Incentive Plan

Following various conversations with our stockholders, Board members and plan participants concerning the complexity in design features of our annual incentive program, the Compensation Committee engaged Meridian and management engaged Willis Towers Watson to review the design of our annual incentive plan to better align with market best practice and reduce complexity.

We also sought stockholder input on the proposed design changes as part of our ongoing stockholder outreach program. Our stockholders were supportive of the new design. In particular, the simplified plan design in tandem with the enhanced weighting on financial criteria, was viewed positively by our institutional stockholders.

In the September 2015 meeting, the Compensation Committee approved amendments to the annual incentive plan, effective for 2016 annual incentives, to (i) eliminate the Business Segment and Individual performance factors for the CEO and her direct reports (including the NEOs); (ii) increase the weighting of the Financial component from 60% to 70% under the Enterprise Performance factor, with the remaining 30% of the Enterprise Performance factor to be based on key strategic and operational goals; and (iii) remove Orders from the financial metric under the Enterprise component given the timing issues surrounding Orders in our industry and because they are considered under strategic and operational goals, as manifested in key new business won or retained.

The Compensation Committee, in collaboration with the executive leadership team, will continue to set pre-established measures at the beginning of the performance cycle, which will be disclosed to stockholders prospectively, similar to our current practice.

The new design is intended to:

- Align with stockholder interests given the emphasis on key metrics that drive performance at the enterprise level;
- Support a more collaborative team approach among the CEO s direct reports, including our NEOs; and
- Enhance line of sight and goal congruence through a simplified design for plan participants.

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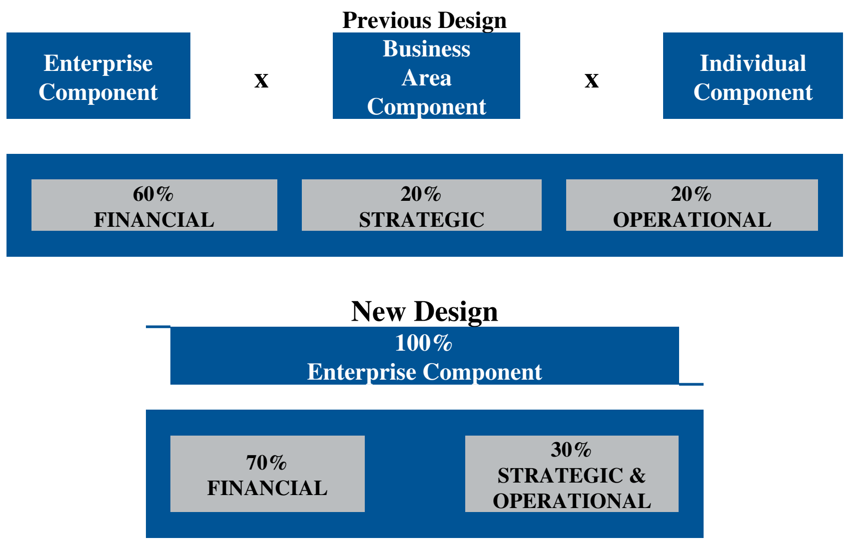
Executive Compensation

The change in the annual incentive formula and the weightings underlying the Enterprise component for NEOs are shown below:



The Board or Compensation Committee may adjust a NEO s payout at their discretion.

As in prior years, the Compensation Committee retains discretion in setting target levels for participants, choosing and approving metrics, assigning weighting to the metrics and assessing performance.

Under the terms of the annual incentive program, as amended, the CEO s bonus still may not exceed 0.3% of Performance Cash from operations for the plan year and the bonus for each of the other NEOs may not exceed 0.2% of Performance Cash from operations for the plan year. These caps were not modified and remain consistent with the prior plan features. Similarly, annual incentive payouts for any participant may not exceed 200% of the target award.

No changes were made to annual incentive target percentages for any of the NEOs for 2016 other than for our EVP & CFO, which was increased to 110% of his base salary to better align with the 2016 market rate (50^{th} percentile).

2016 Annual Incentive Metrics and Goals

The Compensation Committee approved the key corporate commitments set forth below for purposes of assessing performance in 2016.

2016 Enterprise Financial Goals (Weighted 70%)

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 2016 in our year-end earnings release. These commitments for 2016 are set forth below.

2016 Commitments	Weighting	2016 Goal ($M)
Sales	20%	49,500 51,000
Segment Operating Profit	40%	4,900 5,050
Cash from Operations	40%	≥ 5,300

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 non-recurring items, such as acquisitions or divestitures. Our 2016 public guidance assumed a full year of operations of our IS&GS business segment. The Leidos transaction is expected to be completed in the third or fourth quarter of 2016 and an adjustment could be made to take into account the completion of the transaction. Cash from Operations results have been adjusted in prior years for unplanned pension contributions so that the impact on incentive compensation is not a factor in the decision to make the additional pension contribution.

2016 Enterprise Strategic and Operational Goals (Weighted 30%)

The strategic and operational commitments for the Enterprise Performance Factor for 2016 are set forth below:

- Secure key Focus and Keep Sold Program wins.
- Achieve Mission Success® milestones.
- Execute programs to achieve customer satisfaction and increase stockholder value.
- Review portfolio on an ongoing basis to maximize stockholder value, to include mergers and acquisition activity, execution of the strategic review and appropriate technology and other enterprise investments.
- Attract, develop and retain the workforce needed to deliver commitments to customers and stockholders.

2016 Long-Term Incentive Award Opportunities

The Compensation Committee approved 2016 LTI award opportunities for all executive officers commensurate with their respective 2016 LTI market rate, the executive s performance and time in position.

For 2016, the LTI award opportunity for the CEO and the other NEOs is allocated 50% toward PSUs, 20% toward LTIP and 30% toward RSUs.

The terms of the 2016-2018 RSU grants are the same as for the 2015-2017 RSUs awards (see page 45), other than the following changes:

- The grants will vest on a pro-rata basis in the event of a divestiture (rather than accelerated vesting), unless the other party to the divestiture assumes the awards fully and continues the awards on the same terms.
- The awards will be forfeited if the executive is terminated for misconduct, even if retirement eligible.

The same measures and approach used for the 2015-2017 PSU and LTIP awards (see page 45) will be used to determine the 2016-2018 PSU and LTIP awards, other than the following:

- The targets for Performance Cash and ROIC will be adjusted to exclude the impact of an acquisition or divestiture valued at more than $1 billion. (Note: this provision does not apply to the 2014-2016 or 2015-2017 awards.)
- The awards will be forfeited if the executive is terminated for misconduct, even if retirement eligible.

For the 2016-2018 LTIP grants, any amount payable to a single participant in excess of $10 million will be forfeited.

Other Corporate Governance Considerations in Compensation

Our Use of Independent Compensation Consultants

The independent compensation consultant provides 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 2015, 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 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.

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Executive Compensation

At its February 2016 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 36.

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. 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

The Governance Guidelines include 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 another 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.

The clawback policy is included in our annual incentive plan and in the award agreements for the RSUs, stock options, PSUs and LTIP.

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.

There were no clawback actions taken by the Board during 2015.

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 based on the following guidelines:

Title	Annual Base Salary Multiple
Chairman, President and CEO	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 no longer may be counted towards ownership levels beginning with 2015 awards) and stock units under our 401(k) plans and other deferral plans. As of February 1, 2016, each of our NEOs exceeded their respective ownership requirements.

Post-Employment, Change in Control, Divestiture 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 of 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 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. 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).

For executives whose business unit is divested, 2014 and 2015 RSUs accelerate and PSUs and LTIP are prorated to the day of the divestiture and paid at end of the cycle. For 2016 awards, RSUs, PSUs and LTIP are pro-rated to the day of the divestiture unless assumed by the successor.

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).

We are proposing that stockholders re-approve the performance-based goals applicable to awards under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan, as amended and restated (2011 IPAP or Plan) for five additional years (see Proposal 4 on page 71). The performance goals must be approved by stockholders every five years to preserve, to the extent possible, our tax deduction for certain awards made under the Plan in accordance with Section 162(m) of the Internal Revenue Code of 1986.

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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, 2015 and, where applicable, the prior fiscal years. Numbers have been rounded to the nearest dollar.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(e)	(g)	(h)	(i)	(j)
Marillyn A. Hewson	2015	1,603,221	8,962,915	9,096,460	8,402,875	500,573	28,566,044
Chairman, President and Chief Executive Officer	2014	1,497,692	8,905,240	7,060,860	15,817,715	415,055	33,696,562
	2013	1,368,654	8,166,696	5,979,710	9,409,264	238,150	25,162,474
Bruce L. Tanner	2015	937,436	3,213,033	3,251,712	2,004,331	63,043	9,469,555
Executive Vice President and Chief Financial Officer	2014	884,311	3,243,441	4,350,640	3,864,483	55,018	12,397,893
	2013	838,586	2,952,952	3,384,234	865,902	74,779	8,116,453
Dale P. Bennett	2015	717,720	2,000,641	2,233,730	2,980,085	69,117	8,001,293
Executive Vice President Mission Systems and Training	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Orlando P. Carvalho	2015	795,370	2,400,882	2,350,746	3,033,253	59,180	8,639,431
Executive Vice President Aeronautics	2014	720,836	2,407,492	1,949,430	3,694,876	72,074	8,844,708
	-	-	-	-	-	-	-
Maryanne R. Lavan	2015	744,704	2,080,765	3,073,510	1,475,058	53,873	7,427,910
Senior Vice President, General Counsel and Corporate Secretary	2014	702,287	2,122,226	2,723,950	2,745,209	48,970	8,342,642
	2013	668,348	1,447,149	2,114,090	1,193,094	46,158	5,468,839

* See explanation of Total Without Change In Pension Value on page 57.

Name and Principal Position (Column (a))

Ms. Hewson was appointed Chairman of the Board effective January 2014 and President and CEO effective January 2013. Information is provided for 2015 and 2014 only for Mr. Carvalho as he was not a NEO in 2013, and for 2015 only for Dale P. Bennett as he was not a NEO in 2014 or 2013.

Salary (Column (c))

Salary is paid weekly 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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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 2015, 2014 and 2013, and PSUs granted in 2015, 2014 and 2013, disregarding potential forfeitures based on service requirements.

	2015 Grant Date Fair Value RSUs ($)	2015 Grant Date Fair Value PSUs ($)
Ms. Hewson	3,359,901	5,603,014
Mr. Tanner	1,204,442	2,008,591
Mr. Bennett	749,892	1,250,749
Mr. Carvalho	899,870	1,501,011
Ms. Lavan	779,888	1,300,877

The ASC 718 grant date fair value of one 2015 RSU ($192.28), one 2014 RSU ($146.85) and one 2013 RSU ($89.24), is 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 $188.96 for 2015, $134.59 for 2014 and $61.29 for 2013 for the TSR portion of the PSU 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 2.92-year period for 2015, 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 0.81% for 2015, 0.73% for 2014 and 0.44% for 2013. The grant date fair value of $192.28 for 2015, $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 grant date fair values for the 2013-2015 and 2014-2016 PSUs have been modified from the disclosure in prior years to make an immaterial correction (less than 50 cents per share) in the Monte Carlo simulation model. In addition to the level of performance achieved, the value of the PSUs earned will be determined by the price of our stock which may be more or less than the grant date fair value.

The maximum grant date fair values of the 2015 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $11,206,028; Mr. Tanner: $4,017,182; Mr. Bennett: $2,501,498; Mr. Carvalho: $3,002,023 and Ms. Lavan: $2,601,754.

The maximum grant date fair values of the 2014 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $11,138,497; Mr. Tanner: $4,057,101; Mr. Carvalho: $3,011,372; and Ms. Lavan: $2,654,654.

The maximum grant date values of the 2013 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $10,213,491; Mr. Tanner: $3,692,930; and Ms. Lavan: $482,676.

Non-Equity Incentive Plan Compensation (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.

The table below shows the respective 2015 annual incentive bonus and amount earned under the 2013-2015 LTIP and reported for each NEO:

	Annual Incentive Payout ($)	LTIP Payout ($)
Ms. Hewson	5,477,500	3,618,960
Mr. Tanner	1,942,500	1,309,212
Mr. Bennett	1,435,430	798,300
Mr. Carvalho	1,501,000	849,746
Ms. Lavan	1,361,600	1,711,910

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Executive Compensation

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, 2014 to December 31, 2015) 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 2015; 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 2015, 2014 and 2013 used a discount rate of 4.375%, 4.00% and 4.75% respectively, as the interest rate. This is the same rate we used to report pension liabilities in our financial statements for each of those years.

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 beginning in 2014 reflect the use of new longevity assumptions, which results in a larger accumulated pension benefit than otherwise would be the case under the 2013 longevity assumptions. We used the same new longevity and interest rate assumptions to report pension liabilities for all pension plan participants in our financial statements beginning in 2014.

All Other Compensation (Column (i)

Perquisites and other personal benefits provided to the NEOs in 2015 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, 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 2015 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 ($120,768) and (ii) use of the corporate aircraft for Ms. Hewson ($253,397). 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 2015 (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 NEOs consistent with what is provided to corporate executives in other public companies in our industry. Given the nature of our business, additional security may be provided for travel in high-risk areas or to address particular situations. We believe that providing personal security in response to concerns 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 2016 to match 2015 executive contributions or actions as applicable.

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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	41,581	4,500	57,789	15,741	1,000
Mr. Tanner	4,740	4,500	32,259	9,104	0
Mr. Bennett	31,125	4,500	23,474	6,317	1,000
Mr. Carvalho	23,200	10,600	0	7,379	0
Ms. Lavan	2,460	4,500	24,701	7,168	11,000

In 2015, the Corporation provided tax assistance on business-related items associated with taxable business association expenses, security expenses, non-resident state taxes on business travel and travel expenses for a family member accompanying the NEO while on business travel.

*Total Without Change In Pension Value

The separate column labeled 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.

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Executive Compensation

2015 Grants of Plan-Based Awards

Name	Grant Date	Award Type	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	Grant Date Fair Value of Stock Awards ($)
(a)	(b)		(c)	(d)	(e)	(f)	(g)	(h)	(l)
Marillyn A. Hewson	1/29/2015	MICP	342,344	2,738,750	5,477,500	-	-	-	0
	1/29/2015	RSU	-	-	-	0	17,474	17,474	3,359,901
	1/29/2015	LTIP	140,000	2,240,000	4,480,000	-	-	-	0
	1/29/2015	PSU	-	-	-	1,821	29,396	58,792	5,603,014
Bruce L. Tanner	1/29/2015	MICP	121,406	971,250	1,942,500	-	-	-	0
	1/29/2015	RSU	-	-	-	0	6,264	6,264	1,204,442
	1/29/2015	LTIP	50,188	803,000	1,606,000	-	-	-	0
	1/29/2015	PSU	-	-	-	653	10,538	21,076	2,008,591
Dale P. Bennett	1/29/2015	MICP	89,714	717,715	1,435,430	-	-	-	0
	1/29/2015	RSU	-	-	-	0	3,900	3,900	749,892
	1/29/2015	LTIP	31,250	500,000	1,000,000	-	-	-	0
	1/29/2015	PSU	-	-	-	407	6,562	13,124	1,250,749
Orlando P. Carvalho	1/29/2015	MICP	93,813	750,500	1,501,000	-	-	-	0
	1/29/2015	RSU	-	-	-	0	4,680	4,680	899,870
	1/29/2015	LTIP	37,500	600,000	1,200,000	-	-	-	0
	1/29/2015	PSU	-	-	-	488	7,875	15,750	1,501,011
Maryanne R. Lavan	1/29/2015	MICP	87,281	698,250	1,396,500	-	-	-	0
	1/29/2015	RSU	-	-	-	0	4,056	4,056	779,888
	1/29/2015	LTIP	32,500	520,000	1,040,000	-	-	-	0
	1/29/2015	PSU	-	-	-	423	6,825	13,650	1,300,877

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

Includes annual incentive grants (MICP) for 2015 and LTIP grants for the 2015-2017 period ending December 31, 2017.

The MICP measures performance over a one-year period and is described under Annual Incentive on page 40 in the CD&A. The threshold, or minimum amount payable, is 12.5% of target while the maximum is 200% of target.

The LTIP award measures performance against three separate metrics described under 2015 Long-Term Incentive Compensation on page 45 in the CD&A. The threshold is the minimum amount payable for a specified level of performance stated in the LTIP award agreement. For the 2015-2017 award, the threshold amount payable is 6.25% of the target award. The maximum award payable under the LTIP award is 200% of target value. Awards are subject to forfeiture upon termination of employment prior to the end of the performance cycle, 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 2015-2017 LTIP awards 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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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 29, 2015. 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 0.2% for the CEO and 0.1% for each of the other NEOs of 2015 Performance Cash. Based on 2015 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. Following a change in control, the RSUs vest upon involuntary termination without cause or voluntary termination for good reason or if the RSUs are not assumed. If the employee retires or is laid off after July 29, 2015, but prior to the third anniversary of the date of grant, the RSUs become nonforfeitable and are paid at the end of the vesting period. During the vesting period, dividend equivalents are accrued and subject to the same vesting schedule as the underlying RSUs. At the end of the vesting period, the RSUs are paid in shares of stock and the deferred dividend equivalents are paid in cash. If any tax withholding is required on the 2015 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.

The table includes PSU grants for the 2015-2017 period ending December 31, 2017. At the end of the three-year vesting period, which ends on the third anniversary of the date of grant, 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 vesting period, except in the event of termination following retirement, death, disability, divestiture, or layoff. If the event occurs after July 29, 2015, but prior to the end of the vesting period, PSU awards are paid out at the end of the vesting period on a prorated basis. Following a change in control, the PSUs 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 on page 45. 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 25% of the target shares attributable to ROIC or Performance Cash, the lowest level payable under these metrics. The maximum number of shares payable under the PSU is 200% of the number of target shares.

Grant Date Fair Value of Stock Awards (Column (1))

Represents the aggregate grant date fair value computed in accordance with FASB ASC 718 for RSUs and PSUs granted in 2015, disregarding potential forfeitures based on service requirements.

The grant date fair value of the 2015 RSU grant is $192.28 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 $188.96 for the Relative TSR portion of the award is determined using a Monte Carlo simulation model. The grant date fair value of $192.28 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.

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Executive Compensation

Outstanding Equity Awards at 2015 Fiscal Year-End

	Option Awards			Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested [1] (#)	Market Value of Shares or Units of Stock That Have Not Vested [2] ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested [3] (#)	Equity Incenti Plan Award Market or Payo Value of Unearn Shares, Units Other Rights Th Have Not Veste (
(a)	(b)	(e)	(f)	(g)	(h)	(i)	
Marillyn A. Hewson	82,935	82.01	1/28/2022	17,474 [5]	3,794,479	31,353 [6]	6,808,3
	59,434	79.60	1/29/2021	21,913 [7]	4,758,408	46,183 [8]	10,028,6
	-	-	-	34,289 [9]	7,445,856	-	
	-	-	-	127,693 [10]	27,728,535	-	
Bruce L. Tanner	97,213	82.01	1/28/2022	6,264 [5]	1,360,228	11,240 [6]	2,440,7
	64,531	79.60	1/29/2021	7,897 [7]	1,714,834	16,822 [8]	3,652,8
	55,000	74.89	1/31/2020	12,399 [9]	2,692,443	-	
	49,700	82.52	1/25/2019	46,171 [10]	10,026,033	-	
Dale P. Bennett	10,800	106.87	1/26/2018	3,900 [5]	846,885	6,999 [6]	1,519,8
	-	-	1/28/2022	4,817 [7]	1,046,012	10,182 [8]	2,211,0
	-	-	1/29/2021	7,562 [9]	1,642,088	-	
	-	-	-	28,162 [10]	6,115,379	-	
Orlando P. Carvalho	29,705	82.01	1/28/2022	4,680 [5]	1,016,262	8,399 [6]	1,823,8
	20,466	79.60	1/29/2021	5,940 [7]	1,289,871	12,486 [8]	2,711,3
	15,300	74.89	1/31/2020	6,712 [9]	1,457,511	-	
	12,700	82.52	1/25/2019	3,009 [10]	653,404	-	
Maryanne R. Lavan	8,202	82.01	1/28/2022				