LOCKHEED MARTIN CORP
Form DEF 14A
March 08, 2013

**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**

Filed by the Registrant 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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to ss.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):**

**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):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Lockheed Martin Corporation

6801 Rockledge Drive Bethesda MD 20817

March 8, 2013

Dear Fellow Stockholders:

On behalf of the Board of Directors, we would like to invite you to attend our 2013 Annual Meeting of Stockholders. We will meet on Thursday, April 25, 2013, at 10:30 a.m. Central Daylight Time, at the Lockheed Martin Space Systems Company, 4800 Bradford Drive, Building 406, Huntsville, Alabama 35807. Prior to the meeting, you are invited to join the Board of Directors and senior management at a reception at 10:00 a.m.

While our industry experienced some challenges in 2012 due to the global economic environment, we delivered strong performance that enabled us to:

- attain record levels for several key financial metrics;
- increase our dividend by 15 percent, representing the tenth consecutive annual double-digit percentage increase; and
- generate total stockholder return of 20 percent.

We remain committed to achieving long-term business growth and delivering value to our stockholders through execution of sound business strategies, diligent risk oversight, top-quality talent development, and robust succession planning. During the last year, we strengthened our focus on corporate sustainability, investor engagement, and executive compensation best practices. Based on direct feedback from our investors and stakeholders, we have adopted additional improvements to our governance and compensation programs.

Your vote is important. We urge you to vote promptly, even if you plan to attend the Annual Meeting. The accompanying Notice and Proxy Statement provide information about the matters on which you may vote, our leadership changes, and our 2012 results.

For security reasons before being admitted into the Annual Meeting, you must present your admission ticket or proof of ownership and a valid photo identification. All hand-carried items will be subject to inspection, and all bags, briefcases, or packages must be checked.

Thank you for your continued support of Lockheed Martin. We look forward to seeing you at the Annual Meeting.

Sincerely,

**Marillyn A. Hewson**

*Chief Executive Officer and President*

**Robert J. Stevens**

*Executive Chairman and Strategic Advisor to the Chief Executive Officer*

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Lockheed Martin Corporation

6801 Rockledge Drive Bethesda MD 20817

Notice of 2013 Annual Meeting of Stockholders
Thursday, April 25, 2013

10:30 a.m. Central Daylight Time

Lockheed Martin Space Systems Company, 4800 Bradford Drive, Building 406, Huntsville, Alabama 35807

Lockheed Martin Corporation stockholders of record at the close of business on March 1, 2013 are entitled to receive notice of, and to vote at, the Annual Meeting.

Items of Business:

1.

Election of 12 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 2013.

3.

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

4.

Consideration of three stockholder proposals described in the accompanying Proxy Statement, if properly presented at the Annual Meeting.

5.

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

We have enclosed our 2012 Annual Report to Stockholders. The report is not part of the proxy soliciting materials for the Annual Meeting.

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, 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.

Sincerely,

**Maryanne R. Lavan**

*Senior Vice President, General Counsel and Corporate Secretary*

March 8, 2013

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on April 25, 2013: The 2013 Proxy Statement and 2012 Annual Report are available at ***http://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, Proxy Statement, and 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 25, 2013, at 10:30 a.m. Central Daylight Time, at Lockheed Martin Space Systems Company, 4800 Bradford Drive, Building 406, Huntsville, Alabama 35807, and at any adjournment or postponement thereof. Proxy Materials or a Notice of Internet Availability were first sent to stockholders on or about March 8, 2013.

## PROXY SUMMARY

This 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.

Business Highlights

Financial Highlights

We had a strong year financially and exceeded goals for several key financial metrics despite budget and financial uncertainties.

| | 2012 Goal | 2012 Actual | Assessment |
|---|---|---|---|
| • Sales | $ 45,000 – 46,000M | $ 47,182M | Exceeded Goal |
| • Segment Operating Profit* | $ 5,025 – 5,125M | $ 5,583M | Exceeded Goal |
| • Segment Operating Margin* | 11.2 % | 11.8 % | Exceeded Goal |
| • Earnings Per Share | $ 7.70 – 7.90 | $ 8.36 | Exceeded Goal |
| • Cash From Operations | $ 3,800M | $ 1,561M | $2.2B below goal after making discretionary pension contributions of $2.5B |
| • ROIC* | ≥14.5% | 15.5 % | Exceeded Goal |

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

In addition to the metrics presented in the table above, we also had a record amount of orders during 2012 which led to a record backlog at the end of 2012.

Returning Cash to Stockholders

Through effective cash management, we returned value to stockholders through $2,342 million in cash dividends and stock repurchases. In September 2012, we increased our dividend by 15%, marking the tenth year in a row that we have increased our dividend by a double-digit percentage.

Total Stockholder Return ("TSR")

Over the one-and three-year periods ended December 31, 2012, we provided better total returns to our stockholders than the market overall. During 2012, our TSR of 20% outperformed the S&P Aerospace and Defense (A&D) Index (15%) and the S&P 500 Index (16%). Over the three-year period ended December 31, 2012, we performed in line with the S&P A&D Index, while outperforming the S&P 500 Index.

*We use the following non-GAAP terms in this Proxy Statement – "segment operating profit," "segment operating margin," "return on invested capital (ROIC)," and "adjusted cash from operations" – 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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Our Governance Profile Reflects Best Practices

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- Simple Majority Voting for Directors
- Resignation Policy for Directors in Failed Elections
- Over 90% Average Board Meeting Attendance with No Director Attendance of Less Than 75%
- Regular Executive Sessions of Non-Management Directors
- Policy Prohibiting Pledging and Hedging of Our Stock by Directors and Employees
- Majority Independent Directors
- Independent Lead Director With Broad Authority
- Director Stock Ownership Guidelines
- Director Attendance at Annual Meeting
- Mandatory Retirement Policy

- Overboarding Policy

Corporate Sustainability

- Published Comprehensive Sustainability Report
- Ethics Policy
- Human Rights Policy
- "Go Green" Initiatives
- Disclosure of Corporate Political Contributions
- Target Zero Worker Safety Program
- Board-Level Committee With Ethics and Sustainability Oversight

Long-Standing Investor Engagement Program

We continued to expand our investor engagement program on governance and compensation matters and met or talked with investors representing more than half of the Corporation's outstanding shares. Consistent with our strong interest in investor engagement, communication, and transparency, the Management Development and Compensation Committee (the "Compensation Committee") continued to refine our executive compensation program to better align the interests of our executives and stockholders and respond to investor feedback, making the changes summarized below.

Executive Compensation Summary

2012 Pay Aligns to Performance

-

Our 2012 annual incentive bonus paid above target, reflecting record-setting financial results as well as key strategic and operational accomplishments.

•

The 2010-2012 Long-Term Incentive Performance (“LTIP”) award paid out at 150.8%, based on our three-year cash generation and return on invested capital (“ROIC”) performance against our long-range plan and our three-year cumulative TSR placing us in the 53rd percentile of the S&P Industrials Index.

Executive Compensation Changes

In response to feedback from our investors following our 2012 Annual Meeting, the Compensation Committee approved the following changes (effective for 2013, unless noted otherwise):

•

Reduced the number of shares we use each year for equity compensation (“burn rate”) by using Performance Stock Units (“PSUs”) instead of stock options.

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Assigned weightings to the organizational metrics (60% financial, 20% operational, 20% strategic) we use as part of our assessment of performance in order to clarify the framework around which annual incentive compensation decisions are made. We made this change in 2012.

•

Increased the emphasis on company performance for annual incentive awards decisions by increasing the weighting of the organizational performance factors (as opposed to individual performance factors) to be used in the assessment.

•

Changed the equity component of our long-term incentive (“LTI”) package for the Chief Executive Officer (“CEO”) and the other named executive officers (“NEOs”) from 60% to 80%.

•

Increased the portion of our LTI that is based on achievement of specified performance goals from 40% to 70%.

•

Refined our executive compensation philosophy to:

–

Set the market rate for total compensation at the 50th percentile of our comparator group of peer companies, subject to the ability to set compensation above or below the market rate for performance, experience, time in position, and critical skill needs; and

–

Set salary and LTI for executives who are new to a position at 85% of the market rate with the goal of moving to a market-rate level in two years based on performance.

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You may vote in the following ways:

| By Internet | By Telephone | By Mail | QR Code | In Person |
|---|---|---|---|---|
| You can vote your shares online at *http://www.investorvote.com* | In the United States, Canada, and Puerto Rico, you can vote your shares by calling 1-800-652-8683; outside the United States 1-781-575-2300. | You can vote by mail by marking, dating, and signing your proxy card or voting instruction form and returning it in the accompanying postage-paid envelope. | Scan this QR code to vote with your mobile device. | Attend the meeting to vote in person. |

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## CORPORATE GOVERNANCE

Lockheed Martin has a culture dedicated to ethical behavior and responsible corporate activity. This commitment is reflected in our core values: "Do What's Right;" "Respect Others;" and "Perform with Excellence." These values are shared across the population of approximately 120,000 employees of Lockheed Martin and are the foundation of our commitment to sustainability: "Fostering innovation, integrity and security to preserve the environment, strengthen communities and propel responsible growth."

Lockheed Martin's Code of Ethics and Business Conduct ("Code of Conduct") has been in place since the Corporation was formed in 1995. The Code of Conduct (which is available on the Corporation's website located at *http://www.lockheedmartin.com/content/dam/lockheed/data/corporate/documents/setting-the-standard.pdf)*

applies to all directors, officers, and employees and provides our policies and expectations on a number of topics, including our commitments to good citizenship, promoting a positive and safe work environment, providing transparency in our public disclosures, avoiding conflicts of interest, honoring the confidentiality of sensitive information, preservation and use of company assets, compliance with all laws, and operating with integrity in all that we do. There were no waivers from any provisions of our Code of Conduct or amendments applicable to any director or executive officer. Directors and employees participate in ethics training annually. We inform active suppliers about our Code of Conduct annually and make it available for distribution.

### Corporate Sustainability

Corporate sustainability is part of our business strategy as it influences our operations and informs our decision-making at every stage of our business lifecycle. In 2012, we:

- **Amended the Charter for the Ethics and Sustainability Committee of the Board to clarify the Committee's responsibility for sustainability.** A copy of the Charter is available on the Corporation's website located at *http://www.lockheedmartin.com/board-ethics-charter.*

- **Created the Office of Sustainability.** The office is led by the Vice President of Ethics and Sustainability. The office has convened a Sustainability Council of executive leaders from each of our business areas and key corporate functions.

- **Published our first comprehensive Sustainability Report.** The report discloses performance indicators on our environmental and social responsibilities. A copy of the report is available on the Corporation's website located at *http://www.lockheedmartin.com/sustainability.*

- **Convened a formal stakeholder engagement session.** The purpose of the session with external constituencies was to collect input on our sustainability reporting, program goals, progress, and plans. This input will contribute to our ongoing assessment of environmental, social and governance issues, and their possible impact on our performance.

- **Achieved year-over-year reductions through our Go Green initiative.** Our reductions in carbon emissions, use of water, and waste in operations through our Go Green initiative are described in further detail on the Corporation's website located at *http:// www. lockheedmartin.com/go-green.*

- **Expanded our carbon disclosure.** Our expanded disclosure of Scope 1, 2, and 3 carbon measurement and reductions in our operations in the Carbon Disclosure Project, a copy of which is available at *https://www.cdproject.net/en-US/Results/Pages/Company-Responses.aspx?company=10820*.

- **Took additional steps to protect natural infrastructure.** We made multiple pledges, including increasing the number of certified e-Stewards® recyclers supporting our business, to ensure 95 percent of the Corporation's electronic waste is handled by such recyclers by June 2013. A full description of our pledge is included in the Corporate Eco Forum report available at *http://corporateecoforum.com/valuingnaturalcapital*.

- **Improved "Target Zero" program.** We improved our safety reporting and accident prevention through our "Target Zero" program aimed at eliminating workplace injuries. This program is described in greater detail on the Corporation's website located at *http://www.lockheedmartin.com/target-zero.*

Community Involvement and Employee Engagement

The Ethics and Sustainability Committee oversees the corporate social responsibility efforts in strategic philanthropy, employee engagement, corporate community involvement, and investing for social return. In 2012, we:

- Achieved $6.4 billion in total spending with small diverse businesses, including businesses owned by women, veterans, service-disabled veterans, small, disadvantaged businesses, and historically under-utilized business zones.

- Provided training and mentorship to develop 11 protégés within the U.S. Department of Defense Mentor-Protégé program.

- Partnered on more than 300 solicitation topics with over 130 suppliers to exploit new technologies through the Small Business Innovation Program.

- Attended more than 100 local and national conferences and events to meet small business and diverse suppliers.

- Expanded our disclosure of political contributions, a copy of which is available on the Corporation's website located at *http://www.lockheedmartin.com/corporate-governance*.

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- Published a policy to ensure that employees and suppliers take appropriate steps to mitigate the risk of human trafficking and slavery from occurring in any aspect of the supply chain, a copy of which is available on the Corporation's website located at *http://www.lockheedmartin.com/eradicate-human-trafficking*.

- Established a new Leadership Forum for three employee communities: People with Disabilities; Military/Veterans; and Lesbian, Gay, Bisexual, and Transgender—each of which held inaugural conferences to provide additional opportunities for professional development, mentoring, and networking.

- Increased our percentage of military veteran hires as a percentage of all external hires to approximately 39 percent and hired 2,956 veterans.

- Contributed more than $25 million to 1,251 charitable organizations in our community including those with a focus on veteran/military care and science, technology, engineering, and math (STEM) education. Separately, our employees contributed more than $21 million of their own money and volunteered more than 900,000 hours to worthy causes. Since 2002, employees have volunteered more than 11 million hours of their time in service to their communities.

Corporate Governance Guidelines

Lockheed Martin is committed to maintaining and practicing the highest standards of corporate governance. The Board has adopted Corporate Governance Guidelines that describe the framework within which the Board and its committees oversee the governance of the Corporation. The current Corporate Governance Guidelines are available on the Corporation's website located at *http://www.lockheedmartin.com/corporate-governance*, by clicking on "Corporate Governance Guidelines." The Nominating and Corporate Governance Committee (the "Governance Committee") regularly assesses our governance practices in light of new or emerging trends and best practices.

Our Corporate Governance Guidelines cover a wide range of subjects, including: the role of the Board and director responsibilities; the role and enhanced responsibilities of the Lead Director; a comprehensive Code of Ethics and Business Conduct; director nomination procedures and qualifications; director independence standards; a policy for the review, approval, and ratification of related person transactions; director orientation and continuing education; procedures for annual performance evaluations of the Board, its committees, and directors; director stock ownership guidelines; a prohibition on hedging transactions; and a claw back policy for executive incentive compensation.

The Corporate Governance Guidelines state the Board's expectation that any incumbent director who fails to receive more votes for his or her election than against his or her election is required to offer his or her resignation to the Board, as well as set forth the procedures to be followed by the Board in considering whether to accept or reject the resignation.

In recent years, we have amended the Corporate Governance Guidelines to formally implement certain best governance practices and enhance the efficient operation of the Board and its effectiveness. For example, in 2011 we raised the mandatory retirement age for directors from 72 to 75 in recognition of the contributions that experienced directors, with knowledge of the Corporation, bring to effective board oversight. In 2012, we modified the responsibilities of our Lead Director making explicit his authority to approve all board and committee agendas, as well as the ability to call a special meeting of the Board at any time, at any place, and for any purpose. In 2013, we further amended the Bylaws to clarify that the Lead Director has authority to approve the topics and schedules of Board meetings, approve information sent to the Board, and call a special meeting of independent directors.

In addition, all directors and employees are prohibited from hedging and pledging transactions involving our stock either through corporate policy statements or the Corporate Governance Guidelines.

Described below are some of the other significant corporate governance practices conducted by the Board.

Role of the Board of Directors

The Board plays an active role in overseeing management and representing the interests of stockholders. Directors are expected to attend Board meetings, the meetings of the committees on which they serve, and the Annual Meeting. Between meetings, directors interact with the Executive Chairman, the Lead Director, the CEO, and other members of management and are available to provide advice and counsel to management.

In 2012, the Board met a total of ten times. All directors attended at least 75 percent of the total board and committee meetings to which they were assigned. Marillyn A. Hewson was elected to the Board in November 2012 and attended all meetings after that date in her capacity as a director. All incumbent directors attended the 2012 Annual Meeting.

The Board and the committees regularly schedule and hold executive sessions without any members of management present.

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## Service on Other Boards

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 have the opportunity to dedicate sufficient time to their service on the Corporation's Board. Therefore, the Corporate 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; or
- If the director is an active CEO or equivalent of another public company, the director may not serve on the boards of more than two other public companies; and
- 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. This policy was added in 2013 in acknowledgement of the increased workload on the committee.

In addition, directors must notify the Chairman, 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.

## Lead Director

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. In accordance with our Bylaws and Corporate 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 when the Executive Chairman is ill, absent, incapacitated, or otherwise unable to carry out the duties of Executive Chairman.
- 

Determine the frequency and timing of executive sessions of non-management directors and report to the Executive Chairman on all relevant matters arising from those sessions, and shall invite the Executive Chairman to join the executive session for further discussion as appropriate.

- Consult with the Executive Chairman, the CEO, and committee chairs regarding the topics and schedules of the meetings of the Board and committees and approve the topics and schedules of Board meetings.

- Review and approve all Board and committee agendas and provide input to management on the scope and quality of and approve information sent to the Board.

- Assist with recruitment of director candidates and, along with the Executive Chairman, may extend the invitation to a new 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 member of the Executive Committee of the Board.

- Serve as 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.

- Perform all other duties as may be assigned by the Board from time to time.

The Lead Director and the committee Chairmen review and discuss the agendas for the meetings in advance of distribution of the agendas and related board material.

Mr. McCorkindale served as the elected Lead Director in 2012 and was re-elected to serve as Lead Director by the independent directors for 2013.

## Positions of Chairman and Chief Executive Officer

The Board periodically reviews and considers whether the positions of Chairman and CEO should be combined or separated as part of its regular review of the effectiveness of the Corporation's governance structure. The Corporation's policy as to whether the roles of the Chairman and CEO should be separate is to adopt the practice that best serves the Corporation's needs at any particular time.

The Board believes that no single, one-size fits all, board-leadership model is universally or permanently appropriate. In the past, the positions have been separated when deemed appropriate by the Board. This structure has proven especially useful to facilitate executive succession and orderly transitions.

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In 2012, the Board reviewed its leadership structure in connection with Mr. Stevens' announcement of his plans to retire as CEO at the end of 2012. The Board determined that the transition to the new CEO would be best accomplished by having Mr. Stevens serve as Executive Chairman through 2013 which results in a separation of the roles of Chairman and CEO. As Executive Chairman, Mr. Stevens will lead the Board in its governance and oversight responsibilities with regard to the Corporation. He will also continue as an employee in the role of Strategic Advisor to the CEO in order to provide assistance and counsel to Ms. Hewson with regard to the day-to-day management of the Corporation. At present, the Board believes that this structure, along with the authority given to the independent Lead Director, effectively maintains independent oversight of management. We plan to continue to examine our corporate governance policies and leadership structures on an ongoing basis to ensure that they continue to meet the Corporation's needs.

The Compensation Committee is responsible for reviewing and approving corporate goals and objectives relevant to the compensation of both the CEO and the Strategic Advisor to the CEO, evaluating the performance of these officers and, either as a committee or together with the other independent members of the Board, determining and approving the compensation levels of the CEO, Strategic Advisor to the CEO, and senior management. Consistent with its historic policy of not providing board compensation to employee directors, Mr. Stevens will not receive director or chairman compensation for his services as Executive Chairman.

## Succession Planning and Talent Management

The Board is actively engaged in talent management. We have established bi-annual talent reviews that coincide with our business operating processes, 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 so that we can actively develop them for future leadership roles. 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.

## Enterprise Risk Management

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

Matters of risk management are brought to the attention of the Audit Committee by the Executive Vice President and Chief Financial Officer ("CFO"), who serves as the Corporation's Chief Risk Officer, or by the Vice President, Internal Audit, who regularly reviews and assesses internal processes and controls for ongoing compliance with internal policies and legal and regulatory requirements, as well as for potential deficiencies that could result in a failure of an internal control process. Management reviews and reports on potential areas of risk at the request of the Audit Committee or other members of the Board.

We have a number of risk identification and mitigation strategies. A panel of executives reviews all major proposals to ensure the technical and pricing structures are consistent with our tolerance for risk. Corporate management conducts reviews of ongoing business performance and financial results and future opportunities through the long-range planning process, executive management meetings, and staff meetings. In addition, the Integrated Risk Council, composed of representatives of the direct reports to the CEO and President, is charged with overseeing the

Corporation's Enterprise Risk Management program and with the integration and dissemination of risk information to management and throughout the Corporation. This Committee met eight times in 2012 and reports to a risk council made up of the Executive Vice President and CFO; Senior Vice President, General Counsel and Corporate Secretary; Vice President, Corporate Communications; Vice President, Ethics and Sustainability; and the Vice President of Internal Audit. At the request of the Audit Committee, the Risk and Compliance Committee has undertaken to survey our businesses to identify risks, analyze the probability of occurrence and potential impact to our business of those risks, and assess mitigation efforts.

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## Identifying and Evaluating Nominees for Directors

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 Executive Chairman. Director candidates may also be identified by stockholders and will be evaluated and considered by the Governance Committee in the same manner as other director candidates. The Corporation has retained Korn/Ferry International from time to time to assist in the identification and evaluation of potential director candidates. Stockholder proposals for nominations to the Board should be submitted to the Nominating and Corporate Governance Committee, c/o the Senior Vice President, General Counsel and Corporate Secretary, at Lockheed Martin Corporation, 6801 Rockledge Drive, Bethesda, MD 20817. To be considered by the Board for nomination at the 2014 Annual Meeting, written notice of nominations by a stockholder must be received between the dates of October 9, 2013 and November 8, 2013, inclusive.

The information requirements for any stockholder proposal or nomination can be found in Section 1.10 of our Bylaws available on the Corporation's website located at *http://www.lockheedmartin.com/corporate-governance*. Self-nominations will not be considered. Proposed stockholder nominees are presented to the Chairman of the Governance Committee, who decides if further consideration should be given to the nomination by the Board.

## Majority Voting Policy for Uncontested Director Elections

The Corporation's Charter and Bylaws provide for simple majority voting. Pursuant to the Corporate Governance Guidelines, in any uncontested election of directors, any incumbent director who fails to receive more "FOR" votes than "AGAINST" votes 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).

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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 their election by the stockholders, then the independent members of the Board 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 resignation(s), 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.

### Stockholder Right to Call Special Meeting

As part of the Board's continuing commitment to best corporate governance practices and as a result of dialogue with stockholders, the Board amended the Corporation's Bylaws in 2010 to permit any stockholder who individually owns 10%, or stockholders who in the aggregate own 25%, of the outstanding common stock to call a special meeting to consider any business properly before the stockholders.

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## Director Independence

Under applicable NYSE listing standards, a majority of the Board and each member of the Audit Committee, Governance Committee, and Compensation Committee must be independent.

Under the NYSE listing standards and our Corporate 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 Corporate Governance Guidelines, which are available on our Corporation's website located at *http://www.lockheedmartin.com/corporate-governance*.

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

The Board has determined that the following directors are independent: Nolan D. Archibald, Rosalind G. Brewer, David B. Burritt, James O. Ellis, Jr., Thomas J. Falk, Gwendolyn S. King, James M. Loy, Douglas H. McCorkindale, Joseph W. Ralston, and Anne Stevens. Robert J. Stevens, Executive Chairman, and Marillyn A. Hewson, CEO and President, are employees of the Corporation (as was Christopher E. Kubasik) and are not independent under the NYSE listing standards or our Corporate Governance Guidelines. In determining that each of the non-management director-nominees 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 director-nominees are or have been directors or officers. These relationships included: Mr. Archibald (Stanley Black & Decker, Inc., Brunswick Corporation, and Huntsman Corporation); Mrs. Brewer (Sam's Club, a subsidiary of Walmart Stores, Inc.); Mr. Ellis (Inmarsat plc and Level 3 Communications, Inc.); Mr. Falk (Kimberly-Clark Corporation and Catalyst, Inc.); Mr. Loy (RAND Corporation); Mr. Ralston (Lynden Incorporated, The Timken Company, and URS Corporation); and Ms. Stevens (Anglo American plc). In determining that these relationships did not affect the independence of those directors, the Board considered that none of the director-nominees had any direct material interest in, or received any special compensation in connection with, the Corporation's business relationships with those companies.

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 Corporate Governance Guidelines and NYSE listing standards as these currently apply and as these will apply to NYSE listed corporations after our Annual Meeting.

## 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 located at *http:// www.lockheedmartin.com/corporate-governanc*e. 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 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 executive officer of the company, any person who is known to be the beneficial owner of more than 5 percent of any class of the company's voting securities, an immediate family member of any person described above, and any firm, corporation, or other entity controlled by any person described above.

The policy requires each director and executive officer to complete an annual questionnaire to identify their 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.

The policy contemplates that the Governance Committee may ratify transactions after they commence or pre-approve categories of transactions or relationships, because it may not be possible or practical to pre-approve all related person transactions. 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.

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## 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 2012, we paid The Cohen Group approximately $670,000 for consulting services and expenses.

In accordance with the requirements of our Bylaws and the Corporation’s past practice, the Corporation paid for the expenses of individual legal counsel for Linda R. Gooden, Executive Vice President, Information Systems & Global Solutions, one of our NEOs, in connection with the City of Pontiac General Employees’ Retirement System litigation. These expenses totaled approximately $233,143.

We currently employ approximately 120,000 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. These relationships (and 2012 compensation) were Mr. Stevens’ son, John E. Stevens, Assistant General Counsel in the Legal Department ($195,150 in base salary, an annual incentive bonus of $49,200, and a grant of 580 restricted stock units (“RSUs”)) and a board member’s (Joseph Ralston) brother-in-law, Mark E. Dougherty, Business Development Analyst ($159,443 in base salary). Messrs. Stevens and Dougherty may participate in other employee benefit plans and arrangements which are generally made available to other employees at the same level (including health, welfare, vacation, and retirement plans). Their compensation was established in accordance with the Corporation’s employment and compensation practices applicable to employees with equivalent qualifications, experience, and responsibilities. Neither John Stevens nor Mark Dougherty served as an executive officer of the Corporation during 2012.

From time to time, the Corporation has purchased services in the ordinary course of business from financial institutions that beneficially own 5 percent or more of Lockheed Martin’s common stock. In 2012, the Corporation paid fees of approximately $4,648,708 to State Street Bank and Trust Company for credit facility and benefit plan administration and its affiliates for investment management fees, and $227,000 to Capital Guardian, an affiliate of Capital World Investors, for investment management fees.

## Director Orientation and Continuing Education

Upon joining the Board, directors are provided with an orientation about our Corporation, including our business operations, strategy, and governance. Directors may enroll in director education programs on the principles of corporate governance and director professionalism offered by nationally-recognized sponsoring organizations at the Corporation’s expense. Directors also may attend outside director continuing education programs sponsored by educational and other institutions to assist them in remaining abreast of developments in corporate governance and critical issues relating to the operation of public company boards. Members of our senior management regularly present reports at Board meetings and review the operating plan of each of our business areas and the Corporation as a whole. The Board also conducts periodic visits to our facilities as part of its regularly scheduled Board meetings.

## Board Performance Self-Assessment

Each year the Board evaluates its performance and effectiveness. Each director participates in an annual performance evaluation to elicit feedback on specific aspects of the Board's role, organization, and meetings (including committee meetings). The collective ratings and comments are compiled by the Senior Vice President, General Counsel and Corporate Secretary or her delegate and presented to the Governance Committee and the full Board. Each Board committee conducts an annual performance self-assessment through a similar process.

## Stockholder Rights Plan

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

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## COMMITTEES OF THE BOARD OF DIRECTORS

The Board has seven standing committees as prescribed by our Bylaws. The following table lists our board committees, the chairs of each committee, the directors who currently serve on them, and the number of Committee meetings held in 2012. Charters for each committee are available on the Corporation's website located at *http://www.lockheedmartin.com/corporate-governance.*

Membership on Board Committees

| **Director** | **Audit** | **Classified Business and Security** | **Ethics and Sustainability** | **Executive** | **Management Development and Compensation** | **Nominating and Corporate Governance** | **Strategic Affairs and Finance** |
|---|---|---|---|---|---|---|---|
| Nolan D. Archibald | | | | X | | X | Chair |
| Rosalind G. Brewer | | | X | | X | | |
| David B. Burritt | Chair | | | X | X | | X |
| James O. Ellis, Jr. | | Chair | | X | | X | X |
| Thomas J. Falk | X | | | | | X | |
| Marillyn A. Hewson* | | | | X | | | |
| Gwendolyn S. King | | | Chair | X | | X | |
| James M. Loy | | X | X | | | | X |
| Douglas H. McCorkindale** | X | X | | X | X | Chair | |
| Joseph W. Ralston | | X | X | | | | X |
| Anne Stevens | X | | | X | Chair | | |
| Robert J. Stevens | | | | Chair | | | |
| **Meetings held in 2012** | **5** | **3** | **3** | **0** | **8** | **4** | **3** |

*

Elected Committee member on January 24, 2013

**

Lead Director

Audit Committee

The Audit Committee oversees our financial reporting process on behalf of the Board. In addition to oversight of the Corporation's internal audit organization, it is directly responsible for the appointment, compensation, and oversight of the Corporation's independent auditors. The functions of the Audit Committee are further described under the heading "Audit Committee Report" on page 18.

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

The Board has determined that Mr. Burritt, Chairman of the Audit Committee, Mr. Falk, and Mr. McCorkindale are qualified audit committee financial experts within the meaning of 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.

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 and who possess the appropriate security clearance credentials, at least one of whom shall 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.

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Ethics and Sustainability Committee

The Ethics and Sustainability Committee monitors compliance and recommends changes to our Code of Ethics and Business Conduct. It reviews our policies, procedures, and compliance with respect to sustainability, including corporate responsibility, human rights, environmental stewardship, employee health and safety, ethical business practices, community outreach, philanthropy, diversity, inclusion, and equal opportunity. It oversees matters pertaining to community and public relations, including government relations, political contributions, and charitable contributions.

Executive Committee

The Executive Committee primarily serves 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.

Management Development and Compensation Committee

The Compensation Committee reviews and approves the corporate goals and objectives relevant to the compensation of the CEO and the Strategic Advisor to the CEO, evaluates the performance of the CEO and the Strategic Advisor to 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 of the CEO and the Strategic Advisor to 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 28, “Compensation Discussion and Analysis (“CD&A”)” beginning on page 28, and specifically to the discussion on “Other Corporate Governance Considerations in Compensation” beginning on page 48.

All members of the Compensation Committee are independent within the meaning of the NYSE listing standards and our Corporate 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 Corporate Governance Guidelines. The Governance Committee assists the Board by selecting candidates to be nominated to the Board, making recommendations concerning the composition of Board committees, and by overseeing the evaluation of the Board and its committees.

The Governance Committee reviews and recommends to the Board the compensation of directors. Our executive officers do not play a role in determining director pay other than to gather publicly available information, although the Executive Chairman is consulted regarding the impact of any change in director pay on the Corporation as a whole.

All members of the Governance Committee are independent within the meaning of the NYSE listing standards and our Corporate Governance Guidelines.

Strategic Affairs and Finance Committee

The Strategic Affairs and Finance Committee ("Finance Committee") reviews and recommends to the Board management's long-term strategy including allocation of corporate resources. The Finance Committee reviews the financial condition of the Corporation, the status of all benefit plans, and proposed changes to our capital structure.

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## Audit Committee Report

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

In connection with the December 31, 2012 audited consolidated financial statements, we have:

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

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

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

Based on the reviews and discussions above, we recommended to the Board that the audited consolidated financial statements for 2012 be included in Lockheed Martin's Annual Report on Form 10-K for the year ended December 31, 2012 for filing with the SEC. The Board approved our recommendation.

Submitted on February 28, 2013 by the Audit Committee:

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

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## PROPOSAL 1: ELECTION OF DIRECTORS

There are 12 director-nominees for election to the Board at the Annual Meeting. Each director-nominee currently serves as a director. Each director-nominee was recommended for nomination by the Governance Committee. The Governance Committee has determined that all the current director-nominees, except for Robert J. Stevens, our Executive Chairman, and Marillyn A. Hewson, CEO and President, are independent under the listing standards of the NYSE and our Corporate 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.

Director-nominees are expected to attend the 2013 Annual Meeting. All incumbent directors attended the 2012 Annual Meeting, except for Ms. Hewson who was elected to the Board in November 2012 following the Annual Meeting. All director-nominees who are elected will serve a one-year annual term that will end at the 2014 Annual Meeting except Mr. Stevens who will retire as a director on December 31, 2013. If any of the director-nominees are unable or unwilling to stand for election at the 2013 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 2013 Annual Meeting.

### 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 represent a special interest or a particular stockholder or group of stockholders. Subject to election as a director by the stockholders, the Board intends to elect Mr. Stevens as Executive Chairman. As a result of Mr. Stevens' announcement that he will retire from the Board effective December 31, 2013, the Board will elect a new Chairman effective January 1, 2014.

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.

Under the Corporate 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 Corporate Governance Guidelines, as well as other relevant factors as 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.

•

**Senior Leadership Experience.** Directors who have served in senior leadership positions are important, as they 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.

- **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 and oversight matters, and oversight of a changing mix of strategic, operational, and compliance-related matters.

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

- **Government and Military Expertise.** Directors who have served in government and senior military positions can provide experience and insight into working constructively with our core customer and governments around the world and addressing significant public policy issues, particularly in areas related to the Corporation's business and operations. They also provide support for science, technology, engineering, and mathematics education.

- **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.

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As part of its annual assessment of Board effectiveness, the Board is asked to evaluate whether it has the appropriate mix of general business expertise, skills, and specific expertise in areas vital to our success. The 2012 assessment reflected that the incumbent slate has the right mix, and the addition of Ms. Hewson complements and strengthens the Board's business and operations background. Under our Bylaws, unless exempted by the Board, an individual is not eligible to be elected as a director for a term that expires at the Annual Meeting following the individual's 75th birthday.

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

Director-Nominees

*Nolan D. Archibald*

(Age 69)

*Director Since April 2002*

**Committees:** Executive Committee; Nominating and Corporate Governance Committee; Strategic Affairs and Finance Committee (Chair)

Executive Chairman of the Board of Stanley Black & Decker, Inc. since March 2010. 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 held various management positions at Beatrice Companies, Inc. from 1977 to 1985, including Senior Vice President and President of the Consumer & Commercial Products Group, and currently serves as a director of Brunswick Corporation and Huntsman Corporation.

Skills and Qualifications:

- Experience with the demands and challenges of the global marketplace with a focus on innovation from his prior positions as Executive Chairman of Stanley Black & Decker, Inc. and Chairman, CEO and Chief Operating Officer of The Black & Decker Corporation, companies that have 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.

*Rosalind G. Brewer*

(Age 50)

*Director Since April 2011*

**Committees:** Ethics and Sustainability Committee; Management Development and Compensation Committee

President and Chief Executive Officer of Sam's Club since February 2012. Previously, Mrs. Brewer was Executive Vice President and President of Walmart Stores, Inc.'s East Business Unit from February 2011 to January 2012; Executive Vice President and President of Walmart South from February 2010 to February 2011; Senior Vice President and Division President of Southeast Operating Division from March 2007 to January 2010; and Regional General Manager, Georgia Operations, from 2006 to February 2007. Previously, Mrs. Brewer was President of Global Nonwovens Division for Kimberly-Clark Corporation from 2004 to 2006; and held various management positions of increasing responsibilities 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 and Westminster Schools.

Skills and Qualifications:

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

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

- Leadership and executive expertise in international consumer business operations.

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*David B. Burritt*

(Age 57)

*Director since April 2008*

**Committees:** Audit Committee (Chair); Executive Committee; Management Development and Compensation Committee; Strategic Affairs and Finance Committee

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 for Caterpillar Inc. in finance, tax, accounting, and international operations from 1978 to 2002; and currently serves as a director of Aperam and Global Brass & Copper Holdings, Inc.

Skills and Qualifications:

- Expertise in public company accounting, risk management, disclosure, and financial system management from roles as CFO and Controller at Caterpillar Inc.

- Experience with the demands and challenges of the global marketplace from his positions at Caterpillar Inc., a company that manufactures equipment in over 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."

- Contributing member of Pathways Commission to define the future of the accounting profession.

*James O. Ellis, Jr.*

(Age 65)

*Director since November 2004*

**Committees:** Classified Business and Security Committee (Chair); Executive Committee; Nominating and Corporate Governance Committee; Strategic Affairs and Finance Committee

President and Chief Executive Officer, Institute of Nuclear Power Operations from May 2005 until his retirement in May 2012. Retired from active duty in July 2004. 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, U.S. 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; director of Burlington Capital Group from 2004 to 2007; and currently serves as a director of Inmarsat plc and Level 3 Communications, Inc. In February 2013, Mr. Ellis was elected as a member of the National Academy of Engineering.

Skills and Qualifications:

- Industry-specific expertise and knowledge of our core customer 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 U.S. Navy.

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*Thomas J. Falk*

(Age 54)

*Director since June 2010*

**Committees:** Audit Committee; Nominating and Corporate Governance Committee

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; director of Centex Corporation from 2003 to 2009 (Centex Corporation was acquired by Pulte Homes in 2009); and 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.

Skills and Qualifications:

- Experience with the demands and challenges associated with managing global organizations from his experience as Chairman and CEO 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."

*Marillyn A. Hewson*

(Age 59)

*Director since November 2012*

**Committee:** Executive Committee

Chief Executive Officer and President of Lockheed Martin since January 2013; President and Chief Operating Officer from November 2012 to December 2012; Executive Vice President – Electronic Systems from January 2010 to December 2012; President, Systems Integration – Owego from September 2008 to December 2009; Executive Vice President – Global Sustainment for Aeronautics from February 2007 to August 2008; President, Lockheed Martin Logistics Services Company from January 2007 to February 2007; and President and General Manager, Kelly Aviation Center, L.P. from August 2004 to December 2007; and director of Carpenter Technology Corporation from

2002 to 2006. Ms. Hewson chairs the Board of Directors of Sandia Corporation, serves on the Association of the U.S. Army Council of Trustees and the University of Alabama's Culverhouse College of Commerce and Business Administration Board of Visitors, and currently serves as a director of 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.

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*Gwendolyn S. King*

(Age 72)

*Director since March 1995*

**Committees:** Ethics and Sustainability Committee (Chair); Executive Committee; Nominating and Corporate Governance Committee

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

Skills and Qualifications:

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

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

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

*James M. Loy*

(Age 70)

*Director since August 2005*

**Committees:** Classified Business and Security Committee; Ethics and Sustainability Committee; Strategic Affairs and Finance Committee

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; a director of L-1 Identity Solutions, Inc. from 2006 to 2011; and currently serves as a director of Rivada Networks, LLC and Board of Trustees of RAND Corporation, a nonprofit organization.

Skills and Qualifications:

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

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

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*Douglas H. McCorkindale*

(Age 73)

*Director since April 2001*

**Committees:** Audit Committee; Classified Business and Security Committee; Executive Committee; Management Development and Compensation Committee; Nominating and Corporate Governance Committee (Chair)

Chairman of Gannett Co., Inc. (“Gannett”) from 2001 until his retirement in June 2006. Chief Executive Officer of Gannett from June 2000 to 2005; President of Gannett from 1997 to 2005; Vice Chairman of Gannett from 1984 to January 2001; Chief Financial Officer of Gannett from 1979 to 1997; Chief Administrative Officer of Gannett from 1985 to 1997; director of Continental Airlines, Inc. from 1993 to 2010; and currently serves as a director or trustee of approximately 60 fund portfolios in the Prudential Fund Complex, the boards of which meet concurrently and function as a single board.

Skills and Qualifications:

- Experience with the demands and challenges associated with managing global organizations from prior positions as Chairman, CEO, and President of Gannett Co., Inc.

- Expertise in financial system management, public company accounting, disclosure, and financial markets from prior roles as CFO at Gannett Co., Inc. and as trustee of mutual funds.

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

- The Board has determined that Mr. McCorkindale meets the SEC’s criteria of an “audit committee financial expert.”

*Joseph W. Ralston*

(Age 69)

*Director since April 2003*

**Committees:** Classified Business and Security Committee; Ethics and Sustainability Committee; Strategic Affairs and Finance Committee

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; and currently serves as a director of The Timken Company and URS Corporation.

Skills and Qualifications:

- Industry-specific expertise and insight into our core customer, 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.

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*Anne Stevens*

(Age 64)

*Director since September 2002*

**Committees:** Audit Committee; Executive Committee; Management Development and Compensation Committee (Chair)

Chairman, Chief Executive Officer and Principal of SA IT Services since June 2011. 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 until her retirement in 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 held various management positions at Ford Motor Company from 1990, including executive director in Vehicle Operations in North America, and held various engineering, manufacturing and marketing positions at Exxon Chemical Co. before joining Ford Motor Company. Member of the National Academy of Engineering and a Trustee of Drexel University and currently serves as a director of Anglo American plc.

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.

*Robert J. Stevens*

(Age 61)

*Director since October 2000*

**Committee:** Executive Committee (Chair)

Executive Chairman and Strategic Advisor to the Chief Executive Officer of Lockheed Martin Corporation since January 2013; Chairman of the Board and Chief Executive Officer from January 2010 to December 2012; Chairman of the Board, President and Chief Executive Officer from April 2005 to January 2010; President and Chief Executive

Officer from August 2004 to April 2005; President and Chief Operating Officer from October 2000 to August 2004; Executive Vice President and Chief Financial Officer from October 1999 to March 2001; Vice President of Strategic Development from November 1998 to October 1999; and currently serves as a director of Monsanto Company. In January 2012, President Obama appointed Mr. Stevens to the Administration's Advisory Committee for Trade Policy and Negotiations.

Skills and Qualifications:

- Industry leader with insight into the complexities of operating a global, technology-driven business, strategic planning, regulatory, legislative and public policy matters based on more than two decades of experience in executive and operational roles with the Corporation and in our industry.

- Expertise in finance, information technology, technology development, manufacturing, marketing, and human resources, and broad international business management experience.

- Corporate governance and risk management experience gained through position of Chairman and CEO of the Corporation.

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## PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP, an independent registered public accounting firm, as the independent auditors to perform an integrated audit of the Corporation for the year ending December 31, 2013. Ernst & Young LLP served as our independent auditors in 2012. The services provided to the Corporation by Ernst & Young LLP 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, termination and oversight of the Corporation’s independent auditor in accordance with the NYSE listing standards. The Audit Committee also is responsible for the audit fee negotiations associated with the retention of Ernst & Young LLP. 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 LLP’s new lead engagement partner. The members of the Audit Committee and the Board believe that the continued retention of Ernst & Young LLP to serve as the Corporation’s independent external auditor is in the best interest of our stockholders.

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

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

The Board unanimously recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as independent auditors for 2013.

### 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 it. 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 may delegate to one or more of its members pre-approval authority with respect to permitted services, provided that the member must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

### Fees Paid to Independent Auditors

The following table presents the fees billed by Ernst & Young LLP, an independent registered public accounting firm, for audit, audit-related services, tax services, and all other services rendered for 2012 and 2011. 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 LLP was compatible with the maintenance of the auditor’s independence.

| | **2012** | **2011** |
|---|---|---|
| **Ernst & Young LLP Fees** | **($)** | **($)** |
| Audit Fees | 15,185,000 | 15,990,000 |
| Audit-Related Fees | 1,280,000 | 1,220,000 |
| Tax Fees | 2,150,000 | 2,275,000 |
| All Other Fees | 40,000 | 40,000 |

**Audit Fees:** This category includes fees for services related to the annual audit of the consolidated financial statements, including the audit of internal control over financial reporting, the interim reviews of our quarterly financial statements, statutory audits of our foreign subsidiaries, SEC registration statements and other filings, and consultation on accounting matters.

**Audit-Related Fees:** For 2012, this category principally includes fees for services related to audits of employee benefit plans and services related to a service organization review at a business segment. For 2011, this category principally includes fees for services related to audits of employee benefit plans and due diligence in connection with acquisitions.

**Tax Fees:** This category includes domestic and international tax compliance and advisory services.

**All Other Fees:** This category includes services related to government contracting matters.

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

We ask our stockholders to vote annually to approve, on an advisory (non-binding) basis, the compensation of our named executive officers ("NEOs") as described in detail in the Compensation Discussion and Analysis ("CD&A") and the accompanying tables in the Executive Compensation section beginning on page 28. 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 program and other important items.

We believe that the information provided in this Proxy Statement demonstrates that our executive compensation program is 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 2013 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 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 included in the Corporation's Schedule 14A Proxy Statement, filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended. Based on that review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement and incorporated by reference in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012. The Board approved our recommendation.

Submitted on February 28, 2013 by the Management Development and Compensation Committee:

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

### Compensation Committee Interlocks and Insider Participation

None of our executive officers served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or our Compensation Committee.

Accordingly, there were no interlocks with other companies within the meaning of the SEC's proxy rules during 2012.

### Compensation Discussion and Analysis ("CD&A")

This CD&A discusses the compensation decisions for the NEOs listed in the Summary Compensation Table on page 49. The NEOs are:

| Name | Title in 2012 |
|---|---|
| **Robert J. Stevens** | Chairman & Chief Executive Officer |
| **Bruce L. Tanner** | Executive Vice President & Chief Financial Officer |
| **Marillyn A. Hewson** | Executive Vice President, Electronic Systems; President & Chief Operating Officer |
| **Linda R. Gooden** | Executive Vice President, Information Systems & Global Solutions |
| **Joanne M. Maguire** | Executive Vice President, Space Systems |
| **Christopher E. Kubasik** | Vice Chairman, President & Chief Operating Officer (resigned November 9, 2012) |

Mr. Stevens retired as CEO effective December 31, 2012; during 2013, he is serving as Executive Chairman and Strategic Advisor to the CEO. Ms. Hewson served as Executive Vice President, Electronic Systems until December 31, 2012; effective with Mr. Kubasik's resignation on November 9, 2012, Ms. Hewson was elected

President and Chief Operating Officer. Effective January 1, 2013, she was elected CEO and President. Ms. Maguire and Ms. Gooden will step down from their respective positions as Executive Vice Presidents effective April 1, 2013. All references to CEO compensation in this CD&A (unless otherwise noted) reflect Mr. Stevens' pay because he was the CEO during all of 2012.

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

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CD&A Highlights

We Align Pay To Performance

- **At-Risk Compensation:** We divide compensation opportunities into base salary, annual incentives, and long-term incentives (“LTI”). The annual incentive and LTI opportunities are at risk depending on performance.

- **Specific Goals and Measurement:** We identify specific financial, strategic, and operational goals, and assess at-risk compensation against performance on those goals and against our relative TSR.

- **Market-Based:** We benchmark compensation at the size-adjusted $50^{th}$ percentile of the comparator group of companies we have identified for compensation purposes. We refer to this as the “market rate” for compensation. Realized pay is above or below market rate based on performance against pre-determined goals.

Our 2012 Performance

- **Strong Total Stockholder Return:** Our 2012 TSR of 20% outperformed both the S&P Aerospace & Defense Index and the S&P 500 Index.

- **Record Performance:** We reached record levels for sales, segment operating profit, segment operating margin, earnings per share (“EPS”), orders, and backlog.

Our 2012 Pay Decisions

**Awards Reflective of Strong Performance:** Our 2012 annual incentive awards reflected strong 2012 financial, strategic, and operational performance, and our LTI awards reflected strong 2010-2012 performance.

Investor Feedback in 2012

**Investor Outreach:** We spoke with owners of a majority of our shares after receiving 68% approval on our 2012 advisory Say-on-Pay proposal and made changes to our programs based on this feedback.

Our Compensation Program Incorporates Best Practices

| Best Practices in our Program | Practices We Do Not Engage In or Allow |
|---|---|
| Pay for Performance | No Employment Agreements (Other than Exit Transitions) |
| Active Investor Engagement Program | No Dividend Equivalents Paid Prior to Vesting (After 2010 Grants) |
| Target Pay Set At or Below Market in Most Circumstances | No Option Backdating or Repricing |
| Long-Term Incentives Based on Relative Total Stockholder Return and Value-Driving Financial Metrics | No Hedging or Pledging of Company Stock by Directors or Employees |
| Caps on Annual Bonuses and Long-Term Incentives | No Excise Tax Assistance upon a Change in Control |
| Lower Cap for Performance Stock Units ("PSUs") When TSR Outperforms Comparator Group but is Negative | No Separate Change in Control Agreements |
| Perquisites Limited to Those That are Business-Related | No Automatic Acceleration of Unvested Incentive Awards in the Event of Termination |
| Severance Provisions At or Below Market | No Enhanced Retirement Formula or Inclusion of Long-Term Incentives in Pensions |
| Claw Back Policy on All Variable Pay | No Enhanced Death Benefits for Executives |
| 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 | |
| Plan Design and Administration Used to Minimize Incentives for Imprudent Risk Taking | |
| Independent Consultant Reports Directly to the Compensation Committee | |

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## Compensation Changes We Are Making

### Response to Our 2012 Advisory Say-on-Pay Vote

In 2012, the Compensation Committee worked with management and its compensation consultants to strengthen the pay for performance alignment of our executive compensation program. To allow for sufficient time to consider available alternatives, appropriate changes in compensation philosophy and plan design, and stockholder feedback, the Compensation Committee added meetings to its schedule for 2012.

At our 2012 Annual Meeting, 68% of the votes cast by stockholders on the advisory Say-on-Pay proposal were in favor of the compensation of the NEOs in our 2012 proxy statement. Following the meeting, the Compensation Committee requested that management follow up with our investors to obtain additional feedback on the Say-on-Pay vote and our corporate governance practices and to discuss ways in which we could improve our executive compensation program. Management met or talked with representatives of stockholders owning a majority of our outstanding shares.

Although the investors we talked to represent a broad range of investment styles and have differing views on various corporate governance and executive compensation topics, most of them indicated that they viewed our executive compensation program as sound. Not surprisingly, we found differing views among investors on what types of programs would best motivate management, what level of discretion is appropriate in annual bonus plans, and the appropriate methodology for measuring whether pay is aligned with performance.

Our Corporate Governance Committee considered the feedback relating to corporate governance issues, and our Compensation Committee considered the feedback relating to our executive compensation program. The Compensation Committee considered all of these views in the context of our compensation philosophy, the programs of our competitors, and the unique demands of our industry, and adopted a number of changes to our executive compensation program. Many of the changes are effective for grants and compensation decisions beginning in 2013 because in many cases it was not possible to make changes mid-cycle to ongoing executive compensation programs.

A summary of the feedback we received from our investors and others, and the actions we have taken are highlighted below.

| Investor Feedback | Action Taken by the Company* | Impact of Company Response |
|---|---|---|
| Annual usage of shares (burn rate) for equity grants is too high | • Replaced stock options with PSUs. | • *Reduces the burn rate. A lower number of PSUs is required to achieve the same long-term incentive value as a higher number of options.*<br>• *For the 2013 grant, this resulted in awarding nearly 3.7 million fewer shares when counting PSUs at target (or 3.4 million fewer shares when counting PSUs at maximum* |

| | | |
|---|---|---|
| | | *payout). In 2012, 5.4 million shares were granted as options and RSUs. In 2013, 1.7 million shares (at target) and 2.0 million (at maximum) were granted as RSUs and PSUs.* |
| Level of discretion under the annual incentive program | • For 2012 annual bonuses, assigned weightings to organizational metrics (60% financial, 20% operational, and 20% strategic).<br>• For 2013 annual bonuses, we will use three categories to measure performance (enterprise, business area, and individual). The financial goals at the enterprise level are based on publicly disclosed guidance provided to investors in the first quarter of 2013 or disclosed in this Proxy Statement. | • *Clarifies the framework for assessing organizational performance and how Compensation Committee discretion may be applied.*<br>• *By using two company performance factors instead of one, increased emphasis on organizational performance rather than individual performance.* |
| Proportion of equity as part of total compensation | • Reduced the cash component of our long-term compensation package for the CEO and the other NEOs from 40% to 20%. | • *Increases the portion of long-term incentive compensation that is equity based from 60% to 80%, resulting in a closer alignment of interests between executives and stockholders.* |
| Strength of link between compensation and performance | • Increased the portion of our long-term incentive compensation that is based on achievement of specified performance goals from 40% to 70%. | • *Closer alignment of long-term incentive compensation with stockholder interests.* |
| Concerns about above-market pay | The Compensation Committee clarified its compensation philosophy to:<br>• Confirm that the market rate used for compensation is the size adjusted 50th percentile, subject to the ability to adjust the market-rate (up or down) for differences in job scope compared to our comparator group of companies; and<br>• Set base salary and long-term incentive compensation opportunities for executives | • *Clarifies approach for aligning compensation with market rate.*<br>• *The Compensation Committee approved compensation for Ms. Hewson in her new CEO role to align with our pay philosophy, where the combined values for base salary, target bonus, and long-term incentives are positioned at 85% of the market rate which means Ms. Hewson's compensation is below market (85% of the 50 th percentile).* |

who are new to a position at 85% of the market-rate with the goal of moving to a market-rate level in two years, subject to performance, experience, time in position, and critical skills.

*

Unless otherwise noted, all actions apply to compensation programs beginning January 1, 2013.

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## Other Changes We Made Since Our 2012 Annual Meeting

In addition to the changes that were directly related to our discussions with many of our stockholders in 2012, we made the following changes in our executive compensation program:

- We added double triggers for payouts following a change of control for all long-term incentive compensation awards. With a double trigger, if the successor assumes the LTI agreements, vesting accelerates following a change in control only for an employee who is terminated without cause or who terminates voluntarily for good reason.

- Beginning with the 2013 long-term incentive awards, we made changes that enable the Compensation Committee to provide for continued vesting in situations involving layoff or retirement. Given the uncertainty in the aerospace and defense industry and the Corporation's need to respond to changes in government programs as a result of budget pressures, the Compensation Committee concluded that the revised vesting schedule would be helpful in addressing concerns about the timing of organizational changes.

## Summary of Our Compensation Approach

### Principal Objective

The objective of our compensation program is to align pay to performance. The program is designed to provide employees with a competitive compensation package that rewards performance against specific identified financial, strategic, and operational goals that the Compensation Committee and the Board believe are critical to the Corporation's long-term success and the achievement of sustainable long-term total return to our stockholders. The principal elements of the compensation program are base salary, cash-based annual incentive compensation, and cash- and equity-based long-term incentive compensation.

### How We Implement This Objective

#### Pay for Performance

- The vast majority of executive pay is "at-risk" based on individual and business performance.

- Annual incentive compensation awards are based on achievement of pre-established financial, strategic, and operational goals and individual performance against specific objectives that are tailored to the positions of each of our executive officers.

-

Long-term incentive awards are tied to key business financial goals and TSR:

–

Stock options, which were part of our equity incentives through the end of 2012, provide value from stock price appreciation. In recent years, stock options granted to our CEO included performance goals based on the achievement of specified levels of adjusted cash from operations and ROIC.

–

Restricted stock units, or “RSUs,” provide value based on our stock price performance. RSUs for the NEOs are forfeitable to the extent the grant date value exceeds a cap based on adjusted cash from operations in the year in which the RSUs are granted.

–

Cash-based long-term incentive performance (“LTIP”) awards are earned based on relative TSR performance (50%), adjusted cash from operations (25%), and ROIC (25%) over a three-year performance period.

–

PSUs, which replaced stock options in 2013, are earned based on relative TSR performance (50%), adjusted cash from operations (25%), and ROIC (25%) over a three-year performance period and provide value based on stock price performance.

Pay Relative to Market

•

We utilize a group of companies that we believe represent an appropriate comparator group for compensation purposes. The companies range from one-half to two times our revenue.

•

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

•

We establish the market rate for each element of compensation at the size adjusted $50^{th}$ percentile of the comparator group of companies. We use the market rate as a reference point in our compensation decisions.

•

We generally set the target level for our incentive compensation at the market rate, with actual pay received determined by performance against the pre-established goals that are designed to support the Corporation’s objectives and sustainable long-term total return to stockholders.

•

We seek to provide other benefits that are consistent with the types of benefits being offered by our comparator group of companies and limit perquisites to those that are business-related in light of our business and the global security environment and industry in which we operate.

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Our 2012 Performance and Compensation Decisions

2012 Performance

Despite financial, economic, and budget uncertainties, we had a strong year financially and attained record levels for six key financial metrics:

- sales
- segment operating profit
- segment operating margin
- earnings per share
- orders
-