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

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**FORM 10-K**

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(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2023**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-11437

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**LOCKHEED MARTIN CORPORATION**

(Exact name of registrant as specified in its charter)

**Maryland**

**52-1893632**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**6801 Rockledge**

**Drive, Bethesda, Maryland**

**20817**

(Address of principal executive offices)

(Zip Code)

**(301) 897-6000**

(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1 par value	LMT	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the

preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the last sales price of such stock, as of the last business day of the registrant’s most recently completed second fiscal quarter, which was June 23, 2023, was approximately \$115.2 billion.

There were 241,643,304 shares of our common stock, \$1 par value per share, outstanding as of January 19, 2024.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Lockheed Martin Corporation’s 2024 Definitive Proxy Statement are incorporated by reference into Part III of this Form 10-K. The 2024 Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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**Form 10-K**  
**For the Year Ended December 31, 2023**  
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## **PART I**

### **ITEM 1. Business**

#### **General**

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government.

We operate in a complex and evolving global security environment. Our strategy consists of the design and development of platforms and systems that meet the current needs of our customers and the future requirements of 21st Century Security. Our vision for 21st Century Security is to accelerate the adoption of advanced networking and leading-edge technologies into our national defense enterprise, while enhancing the performance and value of our platforms and products for our customers. The aim of 21st Century Security is to integrate new and existing systems across all domains with advanced, open-architecture networking and operational technologies to make defense forces more agile, adaptive and unpredictable.

Twenty-first Century Security is an overarching vision that guides our investment and strategy. We are also focused on four elements for potential growth in the near to mid-term: current programs of record, classified programs, hypersonics and new awards. We have multiple programs of record from each business segment that are entering growth stages, including the F-35 sustainment activity (Aeronautics); increased Patriot Advanced Capability-3 (PAC-3) production rates and increased demand for High Mobility Artillery Rocket System (HIMARS®) and Guided Multiple Launch Rocket Systems (GMLRS) (Missiles and Fire Control); radar surveillance systems and CH-53K King Stallion heavy lift helicopter (Rotary and Mission Systems); and the modernization and enhancements to the Trident II D5 Fleet Ballistic Missile (FBM) (Space). We are engaged in significant classified development programs and pending successful achievement of the objectives within those programs, we expect to begin the transition from development to production over the next few years. We are currently performing on multiple hypersonics programs and following the successful completion of ongoing testing and evaluation activity, multiple programs are expected to enter early production phases through 2026. Finally, we are always in pursuit of new program awards to develop future platforms that enable us to continue to place security capability into the market and expand our global reach.

Key to enabling success of our strategy is developing differentiating technologies, forging strategic partnerships, including with commercial companies, executing on our multi-year business transformation initiative to enhance our digital infrastructure and increase efficiencies and collaboration throughout our business and maintaining fiscal discipline. Underpinning our ability to execute our strategy is our talent and culture. We invest substantially in our people to ensure that our workforce has the technical skills necessary to succeed, and we expect to continue to invest internally in innovative technologies that address rapidly evolving mission requirements for our customers. We also will continue to

evaluate our portfolio and will make strategic acquisitions or divestitures, as appropriate, while deepening our connection to commercial industry through cooperative partnerships, joint ventures and equity investments.

## **Business Segments**

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space. We organize our business segments based on the nature of the products and services offered.

### **Aeronautics**

Aeronautics is engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies. Aeronautics also has contracts with the U.S. Government for various classified programs. Aeronautics' major programs include:

- F-35 Lightning II - international multi-role, multi-variant, fifth generation stealth fighter;
- C-130 Hercules - international tactical airlifter;
- F-16 Fighting Falcon - combat-proven, international multi-role fighter; and
- F-22 Raptor - air dominance and multi-role fifth generation stealth fighter.

The F-35 program is our largest program, generating 26% of our total consolidated net sales, as well as 64% of Aeronautics' net sales in 2023. The F-35 program consists of multiple development, production and sustainment contracts. Development is focused on modernization of F-35's capability and addressing emerging threats. Sustainment provides logistics

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and training support for the aircraft delivered to F-35 customers. For additional information on the F-35 program, see “Status of the F-35 Program” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. See also Item 1A - Risk Factors for a discussion of risks related to the F-35 program.

In addition to the aircraft programs above, Aeronautics is involved in advanced development programs incorporating innovative design and rapid prototype applications. Our Advanced Development Programs (ADP) organization, also known as Skunk Works®, is focused on future systems, including unmanned and manned aerial systems and next generation capabilities for air dominance, hypersonics, intelligence, surveillance, reconnaissance, situational awareness and air mobility. We continue to explore technology advancement and insertion into our existing aircraft. We also are involved in numerous network-enabled activities that allow separate systems to work together to increase effectiveness and we continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design, development and production.

### **Missiles and Fire Control**

MFC provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions. MFC also has contracts with the U.S. Government for various classified programs. MFC’s major programs include:

- The Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD) air and missile defense programs. PAC-3 is an advanced defensive missile for the U.S. Army and international customers designed to intercept and eliminate incoming airborne threats using kinetic energy. THAAD is a transportable defensive missile system for the U.S. Government and international customers designed to engage targets both within and outside of the Earth’s atmosphere.
- The Multiple Launch Rocket System (MLRS), Precision Strike Missile (PrSM), Joint Air-to-Surface Standoff Missile (JASSM), Long Range Anti-Ship Missile (LRASM), and Hellfire tactical and strike missile programs. MLRS is a highly mobile, automatic system that fires surface-to-surface rockets and missiles from the M270 and High Mobility Artillery Rocket System (HIMARS) platforms produced for the U.S. Army and international customers and PrSM is the next generation of precision strike surface-to-surface weapon systems that is compatible with the MLRS family of launchers in support of the U.S. Army. JASSM is an air-to-ground missile launched from fixed-wing aircraft, which is produced for the U.S. Air Force and international customers. LRASM is a precision guided anti-ship missile derived from JASSM and designed to interdict a variety of surface threats at very long range and produced for the U.S. Air Force, U.S. Navy, and international customers. Hellfire is an air-to-ground missile used on rotary and fixed-wing aircraft, which is produced for the U.S. Army, Navy, Marine Corps and international customers.
- The Apache fire control system, Sniper Advanced Targeting Pod (SNIPER®) and Infrared Search and Track (IRST21®) sensors and global sustainment programs. The Apache fire control system provides weapons-targeting capability for the Apache helicopter for the U.S. Army and international customers. SNIPER is a targeting system for several fixed-wing aircraft and is produced for the U.S. Air Force and international customers. IRST21 provides long-range infrared detection and tracking of airborne threats and is used on



several fixed-wing aircraft. IRST21 is produced for the U.S. Air Force, the U.S. Navy, the National Guard and international customers.

- The Special Operations Forces Global Logistics Support Services (SOF GLSS) program, which provides logistics support services to the special operations forces of the U.S. military.
- Hypersonics programs, which include several programs with the U.S. Air Force and U.S. Army to design, develop and build hypersonic strike weapons.
- The Javelin program, which is a one-person portable and platform-employable anti-tank and multi-target precision weapon system. Javelin was developed and is currently produced for the U.S. Army and U.S. Marine Corps by a joint venture between Lockheed Martin and RTX Corporation.

## **Rotary and Mission Systems**

RMS designs, manufactures, services and supports various military and commercial helicopters, surface ships, sea and land-based missile defense systems, radar systems, laser systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions. RMS also has contracts with the U.S. Government for various classified programs. RMS' major programs include:

- Sikorsky helicopter programs such as those related to the BLACK HAWK®, Seahawk® and CH-53K King Stallion heavy lift helicopters which are in service with U.S. and foreign governments, the Combat Rescue Helicopter (CRH) utilized by the U.S. Air Force, and the VH-92A helicopter for the U.S. Marine One transport mission.
- Integrated warfare systems and sensors (IWSS) programs such as Aegis Combat System (Aegis) programs that serve as an air and missile defense system for the U.S. Navy and international customers and is also a sea and land-based element of the U.S. missile defense system, and the Littoral Combat Ship (LCS) and Multi-Mission Surface Combatant (MMSC)

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programs to provide surface combatant ships for the U.S. Navy and international customers that are designed to operate in shallow waters and the open ocean.

- Command, control, communications, computers, cyber, combat systems, intelligence, surveillance, and reconnaissance (C6ISR) programs such as the Command, Control, Battle Management and Communications (C2BMC) program to provide an air operations center for the Ballistic Missile Defense System for the U.S. Government, undersea combat systems programs largely serving the U.S. Navy, and Australia's Joint Air Battle Management System (AIR 6500).
- Training and logistics solutions (TLS) programs such as those providing sustainment services and programs that provide simulators and associated training to U.S. military and foreign government customers.

### **Space**

Space is engaged in the research and design, development, engineering and production of satellites, space transportation systems, and strategic, advanced strike, and defensive systems. Space provides network-enabled situational awareness and integrates complex space and ground global systems to help our customers gather, analyze and securely distribute critical intelligence data. Space is also responsible for various classified systems and services in support of vital national security systems. Space's major programs include:

- The Next Generation Overhead Persistent Infrared (Next Gen OPIR) system, which provides the U.S. Space Force with enhanced worldwide missile warning capabilities.
- The Trident II D5 Fleet Ballistic Missile (FBM), a program with the U.S. Navy for the only submarine-launched intercontinental ballistic missile currently in production in the U.S.
- The Orion Multi-Purpose Crew Vehicle (Orion), a spacecraft for NASA utilizing new technology for human exploration missions beyond low earth orbit.
- Next Generation Interceptor (NGI), a program with the Missile Defense Agency (MDA) utilizing next generation propulsion and sensors to provide homeland missile defense.
- Global Positioning System (GPS) III, a program to modernize the GPS satellite system for the U.S. Space Force.
- Hypersonics programs, which include several programs with the U.S. Army and U.S. Navy to design, develop and build hypersonic strike weapons.
- The Transport Layer program, a small satellite program designed to support resilient space communications for the Space Development Agency.

### **Intellectual Property**

We routinely apply for and own a substantial number of U.S. and foreign patents and trademarks related to the products and services we provide. We also develop and own other intellectual property, including copyrights, trade secrets and research, development and engineering know-how, that contributes significantly to our business. In addition, we license intellectual property to and from third parties. The Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) provide the U.S. Government certain rights in intellectual property, including patents, developed by us and our subcontractors and suppliers in performance of government contracts or with government funding. The U.S. Government may use or authorize others, including competitors, to use such intellectual property. See the discussion of matters related to our intellectual property in Item 1A - Risk Factors. Non-U.S. governments also may have certain rights in patents and

other intellectual property developed in performance of our contracts for them. Although our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole.

### **Research and Development**

We conduct research and development (R&D) activities using our own funds (referred to as company-funded R&D or independent research and development (IR&D)) and under contractual arrangements with our customers (referred to as customer-funded R&D) to enhance existing products and services and to develop future technologies. R&D costs include basic research, applied research, concept formulation studies, design, development, and related test activities. See “Note 1 – Organization and Significant Accounting Policies” (under the caption “Research and development and similar costs”) included in our Notes to Consolidated Financial Statements.

### **Raw Materials, Suppliers and Seasonality**

Some of our products require relatively scarce raw materials, such as rare earth minerals. Other important materials and components, on which certain of our products rely, include aluminum, titanium, carbon fiber and advanced microelectronics, such as semiconductors. We rely on other companies to provide materials, components and products and to perform a portion of

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the services that are provided to our customers under the terms of most of our contracts. Although long-term agreements have historically helped enable a continued supply of these materials, the lingering effects of the COVID-19 pandemic, supply chain challenges, supplier disputes, regulatory restrictions, and inflationary pressures have caused certain parts' shortages, extended lead times and pricing escalations affecting certain sources of supply. We continue working to minimize the impact of supply chain challenges on us but many of the challenges are industry wide or caused by geopolitical events and general economic conditions that are outside of our control. These supplier disruptions have resulted in delays and increased costs and have adversely affected our program performance and operating results. These dynamics are expected to continue in 2024. For more information on the risks related to our suppliers and raw materials, see Item 1A - Risk Factors.

No material portion of our business is considered to be seasonal. Various factors, however, can affect the distribution of our sales between accounting periods, including the timing of government awards, the availability of government funding, product deliveries and customer acceptance.

### **Human Capital Resources**

Due to the specialized nature of our business, our performance depends on identifying, attracting, developing, motivating and retaining a highly skilled workforce with the requisite skills and, in many cases, security clearances, in multiple areas, including engineering, science, manufacturing, information technology, cybersecurity, business development and strategy and management. Our human capital management strategy, which we refer to as our people strategy, is tightly aligned with our business needs and technology strategy. During 2023, our human capital efforts were focused on continuing to accelerate the transformation of our technology for workforce management through investments in upgraded systems and processes. We also focused on increasing our ability to meet the quickly changing needs of the business, all while maintaining a respectful, supportive and inclusive working environment and culture. We use a variety of human capital measures in managing our business, including: workforce demographics and metrics in relation to representation, attrition, hiring, promotions and leadership; and talent management metrics, including retention rates of top talent.

### **Workforce Demographics**

As of December 31, 2023, we had a highly skilled workforce made up of approximately 122,000 employees, including approximately 65,000 engineers, scientists and information technology professionals. As of December 31, 2023, approximately 93% of our workforce was located in the U.S. and approximately 19% of our employees were covered by collective bargaining agreements with various unions. A number of our existing collective bargaining agreements expire in any given year. Historically, we have been successful in renegotiating expiring agreements without any material disruption of operating activities, and management considers employee and union relations to be good. This has continued to be the case in 2023.

### **Diversity and Inclusion**

Diversity and inclusion is a business imperative for us, as we believe that it is key to our future success. We have focused our diversity and inclusion initiatives on employee

recruitment, including active engagement and outreach with minority-serving institutions, employee training and development, such as efforts focused on expanding the diverse talent pipeline, and employee engagement, including through participation in our Business Resource Groups. Our Business Resource Groups are voluntary, employee-led groups that are open to all employees while being aligned to demographic categories that we annually report on to the U.S. Government, including race/ethnicity, gender, disability and veteran status. The categories have been expanded to gain a deeper understanding of our workforce to include military service, sexual-orientation and gender identity which are not part of our annual government submission. The Business Resource Groups foster a diverse and inclusive workplace aligned with our organizational mission, values, goals and business practices and drive awareness and change within our organization. Through these and other focused efforts, including workforce availability, we have improved the diversity of our overall U.S. workforce and within leadership positions, specifically in the representation of women, people of color and people with disabilities. Additionally, veteran representation in our workforce remains outstanding, at almost four times the current annual national percentage of veterans in the civilian workforce.

Employee Profile (as of December 31, 2023):

	<b>Women<sup>(a)</sup></b>	<b>People of Color<sup>(a)</sup></b>	<b>Veterans<sup>(a)</sup></b>	<b>People with Disabilities<sup>(a)</sup></b>
Overall	23%	32%	21%	12%
Executives <sup>(b)</sup>	25%	17%	21%	13%

<sup>(a)</sup> Based on employees who self-identify. Includes only U.S. employees and expatriates except for data relating to women, which also includes local country nationals. Excludes casual workers, interns/co-ops and employees of certain subsidiaries and joint ventures.

<sup>(b)</sup> Executive is defined as director-level (one level below vice president) or higher.

## **Talent Acquisition, Retention and Development**

We strive to hire, develop and retain the top talent in the industry. During 2023, we hired nearly 15,000 employees. An integral part of our people strategy is early career hiring through college and intern pipelines, particularly in technical fields and critical skills areas. During the 2022-2023 academic year, we hired a record 6,000 college hires and interns. In addition to efforts focused on recruitment, we also monitor employee attrition across a broad array of categories and segments of the population, including with respect to diversity and top talent. Critical to attracting and retaining top talent is employee satisfaction, and we regularly conduct employee engagement surveys to gauge employee satisfaction and to understand the effectiveness of our people strategy and assess employee's intent to stay. We attract and reward our employees by providing market competitive compensation and benefits, including incentives and recognition plans that extend to non-represented employees of all levels in our organization and encourage excellence through our pay-for-performance philosophy. We have a hybrid workforce model that encourages flexible working arrangements for employees and teams who can meet our customer commitments remotely, which has helped recruit and retain talent. In addition, we invest in the development of our employees through training, apprenticeship programs, security clearance sponsorship, leadership development plans and offering tuition assistance programs for continuing education or industry certifications. We believe this employee development makes us more competitive and also assists with leadership succession planning throughout the corporation.

## **Employee Safety and Health**

Through our safety and health program we seek to optimize our operations with targeted safety, health and wellness opportunities designed to provide safe work conditions, and a healthy work environment, promote workforce resiliency and enhance business value. As part of this program, we track employee health and safety measures, including quarterly and yearly targets related to the number of injury and illness incidents that occur at work, those incidents that result in days lost, and the number of days lost due to workplace injuries and illness.

For information on the risks related to our human capital resources, see Item 1A - Risk Factors.

## **Competition**

We compete with many different companies in the defense and aerospace industry. The Boeing Company, General Dynamics, L3Harris Technologies, Northrop Grumman, and RTX Corporation are some of our primary competitors. Key characteristics of our industry include long operating cycles and intense competition, which is evident through the number of competitors bidding on program opportunities and the existence of bid protests (competitor protests of U.S. Government procurement awards).

We often collaborate with our competitors through teaming arrangements in efforts to provide our customers with the best mix of capabilities to address specific requirements. Additionally, a company competing to be a prime contractor may, upon ultimate award of the contract to another competitor, serve as a subcontractor to the ultimate prime contracting company. It is not unusual to compete for a contract award with a peer company and,

simultaneously, perform as a supplier to or a customer of that same competitor on other contracts.

Our broad portfolio of products and services competes domestically and internationally against products and services of the companies listed above, numerous smaller competitors and startups, and increasingly, non-traditional and non-U.S. defense contractors. In some areas of our business, customer requirements are changing to encourage or facilitate expanded competition. Principal factors of competition include: the technical excellence, reliability, safety and cost competitiveness of our products and services to the customer; technical and management capability; the ability to innovate and develop new products and technologies that improve mission performance and adapt to dynamic threats; successful program execution and on-time delivery of complex, integrated systems; the reputation and customer confidence derived from past performance; our demonstrated ability to execute and perform against contract requirements and successfully manage customer relationships; and our global footprint and accessibility to customers.

The competition for international sales for most of our products and services is subject to U.S. Government stipulations (e.g., export restrictions, market access, technology transfer, industrial cooperation and contracting practices). We compete against U.S. and non-U.S. companies (or teams) for contract awards by international governments. International competitions are also subject to different laws or contracting practices of international governments, which affects how we structure our bid for the procurement. In many international procurements, the purchasing government's relationship with the U.S. and its industrial cooperation programs designed to enhance local industry are important factors in determining the outcome of a competition. It is common for international customers to require contractors to comply with their industrial cooperation regulations, sometimes referred to as offset requirements, and we have entered into foreign offset agreements as part of securing

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some international business. For more information concerning our international business, see “International Business” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 1A - Risk Factors.

Technological advances in such areas as additive manufacturing, data analytics, digital engineering, artificial intelligence, advanced materials, autonomy and robotics, and new business models such as commercial access to space, are enabling new factors of competition for both traditional and non-traditional competitors.

### **Regulatory Matters**

Our business is heavily regulated. We contract with numerous U.S. Government agencies and entities, principally all branches of the U.S. military and NASA. We also contract with similar government authorities in other countries, either under the foreign military sales (FMS) program, contracted through the U.S. Government, or as a direct sale with the foreign government authority, which regulates these sales in a manner similar to the U.S. Government.

### **Government Contracts**

We must comply with, and are affected by, laws and regulations relating to the formation, administration and performance of U.S. Government and other governments’ contracts, including foreign governments. These laws and regulations, among other things:

- require certification and disclosure of all cost or pricing data in connection with certain types of contract negotiations;
- impose specific and unique cost accounting practices that may differ from U.S. generally accepted accounting principles (GAAP);
- impose acquisition regulations, which may change or be replaced over time, that define which costs can be charged to the U.S. Government, how and when costs can be charged, and otherwise govern our right to reimbursement under certain U.S. Government and foreign contracts;
- require specific security controls to protect U.S. Government controlled unclassified information and that our suppliers that have access to this type of information comply with cyber security regulations;
- restrict the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data;
- prohibit the acquisition from or use by contractors of materials, products or services procured from certain countries or entities located outside the United States (e.g., the prohibition on the acquisition of sensitive materials from non-allied foreign nations and prohibition on the acquisition and use of certain telecommunications and video surveillance services or equipment); and
- require the review and approval of contractor business systems, including accounting systems, estimating systems, earned value management systems for managing cost and schedule performance on certain complex programs, purchasing systems, material management and accounting systems for planning, controlling and accounting for the acquisition, use, issuing and disposition of material, and property management systems.



The U.S. Government and in limited cases certain other governments may terminate any of our government contracts and subcontracts either at their convenience or for default based on our performance. If a contract is terminated for convenience, we generally are protected by provisions covering reimbursement for costs incurred on the contract and profit on those costs. If a contract is terminated for default, we generally are entitled to payment for our work that has been accepted by the U.S. Government or other governments; however, the U.S. Government and other governments could make claims to reduce our recovery or recoup its procurement costs and could assess other special penalties. For more information regarding the U.S. Government's and other governments' right to terminate our contracts and the risks of doing work internationally, see Item 1A - Risk Factors. For more information regarding government contracting laws and regulations, see Item 1A - Risk Factors as well as "Critical Accounting Policies - Contract Accounting / Sales Recognition" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Additionally, our programs for the U.S. Government often operate for periods of time under undefinitized contract actions (UCAs), which means that we begin performing our obligations before the terms, specifications or price are finally agreed to between the parties. Although in most cases we historically have reached mutual agreement to definitize our UCAs, the U.S. Government has the ability to unilaterally definitize contracts and has done so in the past. Absent a successful appeal of such action, the unilateral definitization of the contract obligates us to perform under terms and conditions imposed by the U.S. Government. The U.S. Government's power to unilaterally definitize a contract can affect our ability to negotiate mutually agreeable contract terms and, if a contract is unilaterally imposed upon us, it may negatively affect our expected profit and cash flows on a program or impose burdensome terms.

## **Classified Contracts**

A portion of our business is classified by the U.S. Government and cannot be specifically described. The operating results of classified contracts are included in our consolidated financial statements. The business risks and capital requirements associated with classified contracts historically have not differed materially from those of our other U.S. Government contracts. However, under certain classified fixed price development and production contracts, we are unable to insure risk of loss to government property because of the classified nature of the contracts and the inability to disclose classified information necessary for underwriting and claims to commercial insurers. Our internal controls addressing the financial reporting of classified contracts are consistent with our internal controls for our non-classified contracts.

## **Commercial Aircraft**

Our commercial aircraft products are required to comply with U.S. and international regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety.

## **Environmental**

Our operations are subject to and affected by various federal, state, local and foreign environmental protection laws and regulations regarding the discharge of materials into the environment or otherwise regulating the protection of the environment. As a result of these environmental protection laws, we are involved in environmental remediation at some of our current and former facilities and at third-party-owned sites where we have been designated a potentially responsible party as a result of our prior activities and those of our predecessor companies. Although the extent of our financial exposure cannot in all cases be reasonably estimated, the costs of environmental compliance have not had, and we do not expect that these costs will have, a material adverse effect on our earnings, financial position and cash flow, primarily because substantially all of our environmental costs are allowable in establishing the price of our products and services under our contracts with the U.S. Government. For information regarding these matters, including current estimates of the amounts that we believe are required for remediation or cleanup to the extent that they are probable and estimable, see “Critical Accounting Policies - Environmental Matters” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 14 - Legal Proceedings, Commitments and Contingencies” included in our Notes to Consolidated Financial Statements. See also the discussion of environmental matters in Item 1A - Risk Factors.

## **Climate and Sustainability Reporting and Regulation**

There is an increasing global regulatory focus on greenhouse gas (GHG) emissions and their potential impacts relating to climate change. Various jurisdictions around the world in which we operate, including the U.S., the European Union, the United Kingdom, Australia and certain U.S. States, have adopted or proposed laws related to climate and sustainability reporting. These and future laws, regulations or policies in response to concerns over GHG emissions such as carbon taxes, mandatory reporting and disclosure obligations, including environmental requirements for certain federal contractors and subcontractors and the SEC’s proposed climate-related disclosure rule, and changes in procurement policies, including the

use of environmental goals in proposal evaluation, could significantly increase our operational and compliance burdens and costs. We monitor developments in climate-change related regulation for their potential effect on us and also have a comprehensive sustainability program that seeks to mitigate our impact on the environment, including targets to reduce our GHG emissions. For more information on the risk of climate-change related regulation, see Item 1A - Risk Factors.

### **Other Applicable Regulations**

Our businesses and operations are subject to both U.S. and non-U.S. government laws, regulations and procurement policies and practices, including regulations relating to product testing, import-export controls, technology transfer restrictions, foreign investment, tariffs, taxation, repatriation of earnings, sanctions, exchange controls, the Foreign Corrupt Practices Act and other anti-corruption laws and anti-boycott provisions of the U.S. Export Control Reform Act of 2018.

### **Available Information**

We are a Maryland corporation formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. Our principal executive offices are located at 6801 Rockledge Drive, Bethesda, Maryland 20817. Our telephone number is (301) 897-6000 and our website address is [www.lockheedmartin.com](http://www.lockheedmartin.com).

We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report on Form 10-K (Form 10-K).

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Throughout this Form 10-K, we incorporate by reference information from parts of other documents filed with the U.S. Securities and Exchange Commission (SEC). The SEC allows us to disclose important information by referring to it in this manner.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements for our annual stockholders' meetings and amendments to those reports are available free of charge on our website, [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor), as soon as reasonably practical after we electronically file the material with, or furnish it to, the SEC. In addition, copies of our annual report will be made available, free of charge, upon written request. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding SEC registrants, including Lockheed Martin Corporation.

### **Forward-Looking Statements**

This Form 10-K contains statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws and are based on our current expectations and assumptions. The words "believe," "estimate," "anticipate," "project," "intend," "expect," "plan," "outlook," "scheduled," "forecast" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties.

Statements and assumptions with respect to future sales, income and cash flows, growth, program performance, the outcome of litigation, anticipated pension cost and funding, environmental remediation cost estimates, planned acquisitions or dispositions of assets, or the anticipated consequences are examples of forward-looking statements. Numerous factors, including the risk factors described in the following section, could cause our actual results to differ materially from those expressed in our forward-looking statements.

Our actual financial results likely will be different from any projections due to the inherent nature of projections. Given these uncertainties, forward-looking statements should not be relied on in making investment decisions. The forward-looking statements contained in this Form 10-K speak only as of the date of its filing. Except where required by applicable law, we expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-K to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-K are intended to be subject to the safe harbor protection provided by the federal securities laws.

### **ITEM 1A. Risk Factors**

An investment in our common stock or debt securities involves risks and uncertainties. While we seek to identify, manage and mitigate risks to our business, risk and uncertainty cannot be eliminated or necessarily predicted. The outcome of one or more of these risks could have a material effect on our operating results, financial position, or cash flows. You should carefully consider the following factors, in addition to the other information contained in this Annual Report on Form 10-K, before deciding to trade in our common stock or debt securities.

## **Risks Related to our Reliance on Government Contracts, our Industry and the Economy**

**We depend heavily on contracts with the U.S. Government for a substantial portion of our business. Changes in the U.S. Government's priorities, or delays or reductions in spending could have a material adverse effect on our business.**

We derived 73% of our total consolidated net sales from the U.S. Government in 2023, including 64% from the Department of Defense (DoD). We expect to continue to derive most of our sales from work performed under U.S. Government contracts. A reduction in overall U.S. defense spending, on an absolute or inflation-adjusted basis, because of shifting priorities, budget compromises or otherwise could adversely affect our business. Budget uncertainty, the potential for U.S. Government shutdowns, the use of continuing resolutions, and the federal debt ceiling can adversely affect our industry and the funding for our programs. If appropriations are delayed or a government shutdown were to occur and continue for an extended period of time, we could be at risk of reduced orders, program cancellations and other disruptions and nonpayment. When the U.S. Government operates under a continuing resolution, new contract and program starts are restricted and funding for our programs may be unavailable, reduced or delayed.

Our contracts with the U.S. Government are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal year (FY) basis even though contract performance may extend over many years. Consequently, contracts are often partially funded initially, and additional funds are committed only as Congress makes further appropriations over time. To the extent we incur costs in excess of funds obligated on a contract or in advance of a contract

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award or contract definitization, we are at risk of not being reimbursed for those costs unless and until additional funds are obligated under the contract or the contract is successfully awarded, definitized and funded, which could adversely affect our results of operations, financial condition and cash flows.

Failure to fund or the termination of significant programs or contracts by the U.S. Government could adversely affect our business and financial performance. DoD's changes in funding priorities also could reduce opportunities in existing programs and in future programs or initiatives where we intend to compete and where we have made investments. While we would expect to compete and be well positioned as the incumbent on existing programs, we may not be successful and, even if we are successful, the replacement programs may be funded at lower levels or result in lower margins. In addition, our ability to grow in key areas such as hypersonics programs, classified programs and next-generation franchise programs will be affected by the overall budget environment and whether development programs transition to production and the timing of such transition, all of which are dependent on U.S. Government authorization and funding.

**The F-35 program comprises a material portion of our revenue and reductions or delays in funding for this program and risks related to performance, schedule, cost and requirements of the program could adversely affect our performance.**

The F-35 program, which consists of multiple development, production and sustainment contracts, is our largest program and represented 26% of our total consolidated net sales in 2023. A decision by the U.S. Government, international partners, or FMS customer countries to cut spending on this program or reduce or delay planned orders would have an adverse impact on our business and results of operations. Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to aircraft performance, program and delivery schedule, cost, and requirements as part of the DoD, Congressional, and international countries' oversight and budgeting processes. Challenges and risks associated with this program include supplier performance, software development, definitizing and receiving funding for contracts on a timely basis, execution of future flight tests and findings resulting from testing and operating the aircraft, the level of cost associated with life cycle operations, sustainment and potential contractual obligations, inflation-related cost pressures and the ability to improve affordability. See also the "Status of the F-35 Program" in Management Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the current program status and specific challenges and risks, including with respect to Technology Refresh 3 (TR-3) configuration development and deliveries.

We also may not be successful in making hardware upgrades and other modernization capabilities in a timely manner, including as a result of dependencies on suppliers, which could increase costs and create schedule delays. Our ability to capture and retain future F-35 growth in development, production and sustainment is dependent on the success of our efforts to achieve F-35 sustainment performance, customer affordability, supply chain improvements, continued reliability improvements and other efficiencies, some of which are outside our control. See also the Risk Factor below captioned "We are heavily dependent on suppliers and if our subcontractors or other suppliers or teaming agreement or joint venture partners fail to perform their obligations, our performance and ability to win future business could be adversely affected" for further discussion.

**We are subject to extensive procurement laws and regulations, including those that enable the U.S. Government to terminate contracts for convenience. Our business and reputation could be adversely affected if we or those we do business with fail to comply with these laws and regulations.**

We must comply with extensive laws and regulations relating to the award, administration and performance of U.S. Government contracts. Government contract laws and regulations affect how we do business with our customers and impose certain risks and costs on our business. A violation of these laws and regulations by us, our employees, others working on our behalf, a supplier or a joint venture partner could harm our reputation and result in the imposition of fines and penalties, the termination of our contracts, suspension or debarment from bidding on or being awarded contracts, loss of our ability to export products or perform services and civil or criminal investigations or proceedings. From time to time, the U.S. Government has proposed contract terms, imposed internal policies, or taken positions that represent fundamental changes from historical practices or that we believe are inconsistent with the FAR or other laws and regulations and that could adversely affect our business. In addition, costs to comply with new government regulations can increase our costs, reduce our margins and adversely affect our competitiveness. Also, a portion of our contracts are classified by the U.S. Government, which imposes security requirements that limit our ability to discuss our performance on these contracts, including any specific risks, disputes and claims.

Contract Termination. The U.S. Government may terminate any of our government contracts at its convenience or for default based on our performance, either of which could adversely affect our business and financial performance. Generally, prime contractors have similar termination rights under subcontracts related to government contracts. If a contract is terminated for convenience, we generally are protected by provisions covering reimbursement for costs incurred on the contract and profit on those costs. However, to the extent insufficient funds have been appropriated by the U.S. Government to cover our costs upon a termination for convenience, the U.S. Government may assert that it is not required to appropriate additional funding. If a contract is terminated for default, the U.S. Government could make claims to reduce our recovery or recoup its procurement costs and could assess other special penalties, exposing us to liability and adversely affecting our ability to compete for future

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contracts and orders. In addition, the U.S. Government could terminate a prime contract under which we are a subcontractor, notwithstanding the fact that our performance and the quality of the products or services we delivered were consistent with our contractual obligations as a subcontractor.

Un definitized Contract Action (UCA). When operating under a un definitized contract action (UCA), which is when we begin performing our obligations before the terms, specifications or price are finally agreed to between the parties, the U.S. Government has the right to unilaterally definitize contracts, which it has exercised in the past and which, absent a successful appeal, obligates us to perform under terms and conditions imposed by the U.S. Government. This can affect our ability to negotiate mutually agreeable contract terms. If a contract is unilaterally imposed upon us, it may negatively affect our expected profit and cash flows on a program or impose burdensome terms.

Bid Protests. U.S Government procurement laws permit legal challenges, referred to as bid protests, to the terms of a contract solicitation or the award of a contract. We may encounter bid protests from unsuccessful bidders on new program awards seeking to overturn the award. Unsuccessful bidders also may protest with the goal of being awarded a subcontract for a portion of the work in return for withdrawing the protest. Bid protests can result in significant expenses to us, contract modifications or even loss of the contract award and the resolution can extend the time until contract activity can begin and delay the recognition of sales and defer underlying cash flows and adversely affect our operating results. Our efforts to protest or challenge any bids for contracts that were not awarded to us also may be unsuccessful.

### **Competition and changing procurement policies could adversely affect our business and financial results.**

We operate in a highly competitive industry and our competitors may have more extensive or more specialized, engineering, technical, marketing and servicing capabilities than we do in certain areas. Our competitors may develop new technologies, products or services that could replace our current offerings. Additionally, if competitors can offer lower cost services and products, or provide services or products more quickly, at equivalent or in some cases even reduced capabilities, we may lose new business opportunities or contract recompetes, which could adversely affect our future results. We are facing increased competition from startups and non-traditional defense contractors, which may have a lower cost structure or be able to move quickly in addition to being favored, in certain cases, by procurement policy. Furthermore, acquisitions in our industry, including vertical integration, also could result in increased competition or limit our access to certain suppliers without appropriate remedies to protect our interests.

A substantial portion of our business is awarded through competitive bidding. The U.S. Government increasingly has relied on competitive contract award types, including indefinite-delivery, indefinite-quantity and other multi-award contracts, which have the potential to create pricing pressure and to increase our costs by requiring us to submit multiple bids and proposals. Multi-award contracts require us to make sustained efforts to obtain task orders under the contract. Additionally, procurements that do not evaluate whether the cost assumptions in the bids are realistic can lead to bidders taking aggressive



pricing positions, which could result in the winner realizing a loss upon contract award or an increased risk of lower margins or realizing a loss over the term of the contract. Competitors may be willing to accept more risk or lower profitability in competing for contracts than we are. The U.S. Government also may not award us large competitive contracts that we otherwise might have won in an effort to maintain a broad industrial base.

U.S. Government procurement policies and procedures and the application thereof are regularly changing and such changes could adversely affect our profitability or the ability to win new business. For example, an increase in the use of contract structures that shift risk to the contractor, such as fixed-price development contracts and incentive-based fee arrangements, or the U.S. Government using different award fee criteria than historically used (such as the evaluation of environmental factors) could adversely affect our profit rates or make it more difficult to win new contracts. The DoD is increasingly pursuing rapid acquisition pathways and procedures for new technologies, including through so called “other transaction authority” agreements (OTAs). OTAs are exempt from many traditional procurement laws, including the FAR, and an OTA award may be subject, in certain cases, to the condition that a significant portion of the work under the OTA is performed by a non-traditional defense contractor or that a portion of the cost of the prototype project is funded by non-governmental sources. Changes in regulations or interpretations of what are allowable costs under our government contracts could adversely impact our profitability and changes in contract financing policy for fixed-price contracts, such as changes in performance and progress payments policies, could significantly affect the timing of our cash flows.

**Our profitability and cash flow may vary based on the mix of our contracts and programs, our performance, and our ability to control costs.**

Our profitability and cash flow may vary materially depending on the types of government contracts undertaken, the nature of products produced or services performed under those contracts, the costs incurred in performing the work, the achievement of other performance objectives and the stage of performance at which the right to receive fees is determined, particularly under award and incentive-fee contracts. Failure to perform to customer expectations and contract requirements may result in reduced fees or losses and may adversely affect our financial performance.

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Contract types primarily include fixed-price and cost-reimbursable contracts. Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract plus a fee up to a ceiling based on the amount that has been funded. Cost, schedule or technical performance issues with respect to cost-reimbursable contracts could result in reduced fees, lower profit rates, or program cancellation. Fixed-price contracts are predominantly either firm fixed-price (FFP) contracts or fixed-price incentive (FPI) contracts. Under FFP contracts, we receive a fixed price irrespective of the actual costs we incur and therefore we carry the burden of any cost overruns. Under FPI contracts the U.S. Government is responsible for our costs up to a negotiated ceiling price and we generally share, based on a negotiated sharing formula, savings from cost underruns and expenses, up to the negotiated ceiling price, from cost overruns. We bear the risk for all cost overruns that exceed the negotiated ceiling price. Due to the fixed-price nature of the contracts, if our actual costs exceed our estimates, our margins and profits are reduced and we could incur a reach-forward loss. A reach-forward loss is when estimates of total costs to be incurred on a contract exceed total estimates of the transaction price. When this occurs, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is evident.

Under both fixed-price and cost-reimbursable contracts, if we are unable to control costs, our operating results could be adversely affected. Costs to complete a contract may increase for many reasons, including technical and manufacturing challenges, schedule delays, workforce-related issues, inaccurate initial contract cost estimates, the timeliness and availability of materials from suppliers, internal and subcontractor performance or product quality issues, inability to meet cost reduction initiatives or achieve efficiencies from digital transformation, changing laws or regulations, inflation and natural disasters. Certain contracts may impose other risks, such as forfeiting fees, paying penalties, or providing replacement systems in the event of performance failure.

Contracts for development programs include complex design and technical requirements and are often contracted on a cost-reimbursable basis, however, some of our existing development programs are contracted on a fixed-price basis. In addition, we have certain contracts where we bid upfront on cost-reimbursable development work and the follow-on fixed-price production options in one submission. We expect we also will bid on similar programs in the future. Fixed-price development work or fixed-price production options, especially on competitively bid programs, is inherently riskier than cost-reimbursable work because the revenue is fixed, while the estimates of costs required to complete these contracts are subject to significant variability due to the nature of development programs. The technical complexity coupled with the fixed-price contract structure of certain of our ongoing development programs or new programs increases the risk that our costs will be greater than anticipated, resulting in reduced margins, operating profit, or reach-forward losses during the period of contract performance or upon contract award, all of which could be significant to our operating results, cash flows, or financial condition. Bidding upfront on fixed-price production options increases the risk that we may experience lower margins than expected, or a loss, on the production options because we must estimate the cost of producing a product before it has been developed. These risks may cause us not to bid on certain future programs, which could adversely affect our future growth prospects and financial performance. See Note 1 – Organization and Significant Accounting Policies included

in our Notes to Consolidated Financial Statements for further details about losses incurred on certain programs, including fixed-price development programs.

Contracts for the transition from development to production (e.g., low rate initial production (LRIP) contracts) also create performance and financial risks to our business because of the challenge of starting and stabilizing a manufacturing production and test line while concurrently validating final design and managing change in requirements or capabilities requested by the customer.

Many of our contracts include multiple option years exercisable at the customer's discretion, which carries risk. The customer may decline to exercise an option, or the customer may exercise an option on a contract for which we expect to incur a loss or perform at a low margin, either of which could adversely affect our financial results.

**We are routinely subject to audit by our customers on government contracts and the results of those audits could have an adverse effect on our business, reputation and results of operations.**

U.S. Government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's compliance with applicable laws, regulations and contract terms, regarding, among other things, contract pricing, contract performance, cost structure and business systems. U.S. Government audits and investigations often take years to complete, and many result in no adverse action against us. Like many U.S. Government contractors, we have received audit and investigative reports recommending the reduction of certain contract prices or that certain payments be repaid, delayed, or withheld, and may involve substantial amounts. Similarly, like other U.S. Government contractors, audits and investigations also occur related to cost reimbursements that are based upon our final allowable incurred costs for each year. We have unaudited or unsettled incurred cost claims related to past years, which limits our ability to issue final billings on contracts for which authorized and appropriated funds may be expiring or can result in delays in final billings and our ability to close out a contract.

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If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including reductions of the value of contracts, contract modifications or terminations, forfeiture of profits, suspension of payments, penalties, fines or suspension or debarment from doing business with the U.S. Government. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us. Similar government oversight and risks to our business and reputation exist in most other countries where we conduct business.

### **Other Risks Related to our Operations**

**We are heavily dependent on suppliers and if our subcontractors or other suppliers or teaming agreement or joint venture partners fail to perform their obligations, our performance and ability to win future business could be adversely affected.**

We are the prime contractor on most of our contracts and rely on other companies to provide materials, major components and products, and to perform a portion of the services that are provided to our customers under the terms of most of our contracts. These arrangements may involve subcontracts, teaming arrangements, joint ventures, or supply agreements with other companies on which we rely (contracting parties) and, in many cases, our contracting parties in turn rely on lower-tier subcontractors. We sometimes have disputes with our contracting parties, including disputes regarding the cost, quality and timeliness of work performed, workshares, customer concerns about the other party's performance, issues related to lower-tier subcontractor performance, our failure to issue or extend task orders, or our hiring the personnel of a subcontractor, teammate or joint venture partner or vice versa. We also could be adversely affected by actions or issues experienced by our contracting parties that are outside of our control, such as misconduct and reputational issues involving our contracting parties, which could subject us to liability or adversely affect our ability to compete for contract awards. The financial stability and viability of our contracting parties or lower-tier subcontractors have and in the future could adversely affect their ability to meet their performance obligation.

A failure by one or more of our contracting parties to provide the agreed-upon materials, components or products, or perform the agreed-upon services, on a timely basis, according to specifications, including compliance with regulatory requirements we flow down from our prime contracts, or at all, has and may adversely affect our ability to perform our obligations and require that we transition the work to other companies. Contracting party performance deficiencies may result in additional costs or delays in product deliveries and affect our operating results and could result in a customer terminating our contract for default or convenience. A default termination could expose us to liability and affect our ability to compete for future contracts and orders. A failure by our contracting parties to meet affordability targets could negatively affect our profitability, result in contract losses and affect our ability to win new business.

Additionally, we are affected by government procurement restrictions and issues affecting industry supply chains broadly. For example, U.S. Government statutes and regulations impose restrictions in the sourcing of items from specified countries. We seek to manage

supply risk through long-term contracts, identifying domestic or other U.S. allied alternative sources of items and maintaining an acceptable level of our key materials in inventories. Advanced microelectronics, including semiconductors, underpin many of our current and future critical technologies and platforms, and global shortages of these products due to increased demand or other supply chain challenges could result in increased procurement lead times and increased costs and potential shortages, which could affect our performance. We also must comply with specific procurement requirements that can limit the number of eligible suppliers and a significant number of the components or supplies used are currently single or sole sourced. Because the identification and qualification of new or additional suppliers can take an extended period of time, issues with suppliers or trade actions that limit our ability to use certain suppliers, especially when single or sole sourced, can have an adverse impact on our business. Complying with U.S. Government contracting regulations that limit the source or manufacture of suppliers and impose stringent cybersecurity regulations also may create challenges for our supply chain and increase costs.

We remain heavily dependent on our supply chain for sourcing contractually compliant components, which is outside of our direct control and is multi-tiered. The future occurrence of non-compliant components in our programs could cause suspensions in product deliveries, remediation work on installed components, contract price adjustments and alternate supply sourcing, all of which could adversely affect our results of operations, financial condition and cash flows.

**Our success depends, in part, on our ability to develop new technologies, products and services and efficiently produce and deliver existing products.**

Many of the products and services we provide are highly engineered and involve sophisticated technologies with related complex manufacturing and systems integration processes. Our customers' requirements change and evolve regularly. Accordingly, our future performance depends, in part, on our ability to adapt to changing customer needs rapidly, identify emerging technological trends, develop and manufacture innovative products and services efficiently and bring those offerings to market quickly at cost-effective prices. This includes efforts to provide mission solutions that integrate capabilities and resources across all forces and domains, which we refer to as joint all domain operations, and to implement emerging digital and network technologies and capabilities. Artificial intelligence technologies have rapidly developed and our business may be

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adversely affected if we cannot successfully integrate the technology into our internal business processes and product and service offerings in a timely, cost-effective, compliant and responsible manner. To advance our innovation and position us to meet our customers' requirements, we make investments in emerging technologies that we believe are needed to keep pace with rapid industry innovation and seek to collaborate with commercial entities that we believe have complementary technologies to ours. These commercial entities may not be accustomed to government contracting and may be unwilling to agree to the government's customary terms, including with respect to intellectual property, liability and indemnification term, which may prevent or lessen the benefit of collaboration. We may not be successful in identifying or developing emerging technologies and may spend significant resources on projects that ultimately are unsuccessful or yield a low return on the amount invested.

Our future success in delivering innovative and affordable solutions to our customers relies, in part, on our multi-year business transformation initiative that seeks to significantly enhance our digital infrastructure to increase efficiencies and collaboration throughout our business while reducing costs. This digital transformation effort requires substantial investment and if we are unable to successfully implement the strategy or do so in a timely manner, our results of operations and future competitiveness may be adversely affected.

If we fail in our development projects or if our new products or technologies fail to achieve customer acceptance or competitors develop more capable technologies or offerings, we may be unsuccessful in obtaining new contracts or winning all or a portion of next generation programs, including in key areas such as hypersonics and classified work, and this could adversely affect our future performance and financial results.

### **Geopolitical, macroeconomic and public health events and conditions could adversely affect our business, operating results, financial condition and cash flows.**

Geopolitical. Our business is highly sensitive to geopolitical and security issues, including foreign policy actions taken by governments such, as tariffs, sanctions, embargoes, export and import controls and other trade restrictions, which can affect the demand for our products and services, the ability to sell our products and services, and disrupt our supply chain, all of which could adversely affect our business.

Global conflicts, including Russia's invasion of Ukraine, have significantly elevated global geopolitical tensions and security concerns. The conflict has resulted in increased demand for some of our products and services; however, if we are unable to increase production to meet demand on the timeframe expected by potential customers, whether it be from supply constraints, government funding or otherwise, then we may lose sales opportunities as they seek alternatives, even less capable ones, that may be able to be delivered more quickly. In addition, the U.S. Government and other nations have implemented broad economic sanctions and export controls targeting Russia, which, combined with the Ukraine conflict, has indirectly disrupted the global supply chain and increased pressures on certain resources. The Ukraine conflict also has increased the threat of malicious cyber activity from nation states and other actors.

China's Ministry of Commerce announced in 2023 that it had added Lockheed Martin Corporation to its "unreliable entities list" in connection with certain foreign military sales by the U.S. Government to Taiwan involving our products and services, and that it would impose certain sanctions against us, including a fine equal to twice the value of the arms that we had sold to Taiwan since September 2020. In addition, China prohibited our CEO, COO and CFO from traveling or working in China. We will continue to follow official U.S. Government guidance as it relates to sales to Taiwan and do not currently expect a material impact to our business from these actions. In 2023, China also implemented broad-based export restrictions on certain minerals used in the production, among other things, of semiconductors and missile systems. If China were to further restrict the export of certain materials, take further actions to enforce the existing sanctions on us or impose additional sanctions, or impose sanctions on our suppliers, teammates or partners, our business could be adversely affected.

International sales also may be adversely affected by actions taken by the U.S. Government in the exercise of foreign policy, Congressional oversight or the financing of particular programs, including the prevention or imposition of conditions upon the sale and delivery of our products or the transfer of sensitive technology, the imposition of sanctions, or Congressional action to restrict sales of our products. For example, the U.S. Government has imposed certain sanctions on Turkish entities and persons, which has affected our ability to obtain certain U.S. export permits or authorizations necessary to perform under our existing contracts supporting the Turkish Utility Helicopter Program (TUHP), our work with Turkish industry and our opportunity for sales in Türkiye generally. See "Note 1 – Organization and Significant Accounting Policies" included in our Notes to Consolidated Financial Statements for more information on TUHP. Our inability to perform under contracts with international customers as a result of actions taken by the U.S. Government has resulted and may in the future result in our inability to recover our costs and reach forward losses, claims and contract terminations by these customers and suppliers, which could have an adverse effect on our operating results.

Macroeconomic. Heightened levels of inflation and the potential worsening of macroeconomic conditions, including slower growth or recession, changes to fiscal and monetary policy, tighter credit, higher interest rates and currency fluctuations, present a risk for us, our suppliers and the stability of the broader defense industrial base. If we are unable to successfully

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mitigate the impact of inflation, our profits, margins and cash flows, particularly for existing fixed-price contracts, may be adversely affected. Although we believe defense spending is more resilient to adverse macro-economic conditions than many other industrial sectors, our suppliers and other partners, many of which are more exposed to commercial markets or have fewer resources, may be adversely impacted to a more significant degree than we are by an economic downturn, which could affect their performance and adversely impact our operations. In addition, macroeconomic conditions could cause budgetary pressures for our government customers resulting in reductions or delays in spending, which could adversely impact our business. Higher interest rates increase the borrowing costs on new debt and could affect the fair value of our investments. Interest rates also impact our pension. For example, higher interest rates generally reduce the measure of our gross pension obligations while lower interest rates increase it.

Public health. We face a wide variety of risks related to public health crises, epidemics, pandemics or similar events, including COVID-19. If a new health epidemic or outbreak were to occur, we could experience broad and varied impacts similar to the impact of COVID-19, including adverse impacts to our workforce and supply chain, inflationary pressures and increased costs, schedule or production delays, market volatility and other financial impacts. If any of these were to occur, our future results and performance could be adversely impacted.

### **International sales may pose different economic, regulatory, competition and other risks.**

International sales present risks that are different and potentially greater than those encountered in our U.S. business. In 2023, 26% of our total net sales were from international customers. International sales are subject to numerous political and economic factors, including changes in foreign national priorities, foreign government budgets, global economic conditions, and fluctuations in foreign currency exchange rates, the possibility of trade sanctions and other government actions, regulatory requirements, significant competition, taxation, and other risks associated with doing business outside the U.S. Sales of military products and services and any associated industrial development (offset) agreements are subject to U.S. export regulations and foreign policy, and there could be significant delays or other issues in reaching definitive agreements for announced programs. See the Risk Factor “Geopolitical, macroeconomic and public health events and conditions could adversely affect our business, operating results, financial condition and cash flows.” Competition for international sales is intense, including from international manufacturers whose governments sometimes provide research and development assistance, marketing subsidies and other assistance for their products and services.

Our international business is conducted through foreign military sales (FMS) contracted through the U.S. Government and by direct commercial sales (DCS) to international customers. FMS contracts with the U.S. Government are subject to the FAR and the DFARS. Because the U.S. Government functions as an intermediary in FMS sales, we are reliant on the capacity and speed of the DoD’s administration of requests from non-U.S. countries to convert requests to sales. In contrast, DCS transactions represent sales directly to international customers and are subject to U.S. and foreign laws and regulations, including product testing, import-export control, technology transfer restrictions, investments, taxation, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act and



other anti-corruption laws and regulations, and the anti-boycott provisions of the U.S. Export Control Reform Act of 2018. While we have extensive policies in place to comply with such laws and regulations, failure by us, our employees or others working on our behalf to comply with these laws and regulations could result in administrative, civil, or criminal liabilities, including suspension, debarment from bidding for or performing government contracts, or suspension of our export privileges, which could have a material adverse effect on us. We frequently team with international subcontractors and suppliers who also are exposed to similar risks.

We believe DCS transactions present a higher level of potential risks because they involve direct commercial relationships with parties with which we typically have less familiarity. Additionally, international procurement and local country rules and regulations, contract laws and judicial systems differ from those in the U.S. and, in some cases, may be less predictable than those in the U.S., which could impair our ability to enforce contracts and increase the risk of adverse or unpredictable outcomes, including the possibility that certain matters that would be considered civil matters in the U.S. are treated as criminal matters in other countries.

In conjunction with defense procurements, some international customers require contractors to comply with industrial cooperation regulations, including entering into industrial participation, industrial development or localization agreements, sometimes referred to as offset agreements (also known as offset contracts), as a condition to obtaining orders for our products and services. These offset agreements generally extend over several years and obligate the contractor to perform certain commitments, which may include in-country purchases, technology transfers, local manufacturing support, consulting support to in-country projects, investments in joint ventures and financial support projects, and preference for local suppliers or subcontractors. The customer's expectations in respect of the scope of offset commitments can be substantial, including high-value content, and may exceed existing local technical capability. Failure to meet these commitments, which can be subjective and outside of our control, may result in significant penalties, and could lead to a reduction in sales to a country. Furthermore, some of our existing offset agreements are dependent upon the successful operation of joint ventures that we do not control and involve products and services that are outside of our core business, which may increase the risk of breaching our obligations,

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exposing us to compliance risks of the joint venture, and impairing our ability to recover our investment. For more information on our industrial development obligations, including the notional value of our remaining industrial development obligations and potential penalties for non-compliance, see “Contractual Commitments” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### **We may be unable to benefit fully from or adequately protect our intellectual property rights or use third-party intellectual property, which could negatively affect our business.**

We own a substantial number of U.S. and foreign patents and trademarks related to the products and services we provide. In addition to owning a large portfolio of patents and trademarks, we develop and own other intellectual property, including copyrights, trade secrets and research, development and engineering know-how, which contribute significantly to our business. We also license intellectual property to and from third parties. The FAR and DFARS provide that the U.S. Government obtains certain rights in intellectual property, including patents, developed by us and our subcontractors and suppliers in performance of government contracts or with government funding. The U.S. Government may use or authorize others, including competitors, to use such intellectual property. Non-U.S. governments also may have certain rights in patents and other intellectual property developed in performance of our contracts with these entities. The U.S. Government is pursuing aggressive positions regarding the types of intellectual property to which government use rights apply and when it is appropriate for the government to insist on broad use rights. The DoD is also implementing an overarching intellectual property acquisition policy that will require a greater focus and planning as to intellectual property rights for its programs, and we have no assurance as to the potential impacts of this policy or any associated regulatory changes on future acquisitions. The DoD’s efforts could affect our ability to protect and exploit our intellectual property and to leverage supplier intellectual property, for example, if we are unable to obtain necessary licenses from our suppliers to meet government requirements. Additionally, third parties may assert that our products or services infringe their intellectual property rights, which could result in costly and time-consuming disputes, subject us to damages and injunctions and adversely affect our ability to compete and perform on certain contracts.

### **Our business and financial performance depends on us identifying, attracting and retaining a highly skilled workforce.**

Our performance is dependent upon us identifying, attracting, developing, motivating and retaining a highly skilled workforce with the requisite skills in multiple areas including: engineering, science, manufacturing, information technology, cybersecurity, business development and strategy and management. Due to the national security nature of our work, our performance is also dependent upon personnel who hold security clearances and receive substantial training to work on certain programs or tasks and can be difficult to replace on a timely basis if we experience unplanned attrition. The market for highly skilled workers and leaders in our industry as well as the market for individuals holding high-level security clearances is extremely competitive and not confined to our industry. For example, we compete with commercial technology companies outside of the aerospace and defense industry for qualified technical, cyber and scientific positions, which may not face the same type of cost pressures as a government contractor and which may be able to offer more

flexible work arrangements given that certain of our employees must perform the majority of their work in a secure facility because of the need to access classified information. If we cannot adequately attract and retain personnel with the requisite skills or clearances in this competitive market, our performance and future prospects may be adversely affected.

Workforce dynamics are constantly evolving. If we do not manage changing workforce dynamics effectively, it could adversely affect our culture, reputation and operational flexibility. Beginning with the COVID-19 pandemic, a significant portion of our workforce began working remotely and we expect a significant portion to continue working remotely under our hybrid workforce model. If we are unable to effectively adapt to this hybrid work environment long term, then we may experience a less cohesive workforce, increased attrition, reduced program performance and less innovation.

It is also critical that we develop and train employees, hire new qualified personnel, and successfully manage the short and long-term transfer of critical knowledge and skills, including leadership development and succession planning throughout our business. While we have processes in place for management transition and the transfer of knowledge and skills, the loss of key personnel, coupled with an inability to adequately train other personnel, hire new personnel or transfer knowledge and skills, could significantly impact our ability to perform under our contracts and execute on new or growing programs.

Additionally, approximately 19% of our workforce is comprised of employees that are covered by collective bargaining agreements with various unions. If we encounter difficulties with renegotiations or renewals of collective bargaining arrangements or are unsuccessful in those efforts, we could incur additional costs and experience work stoppages. Union actions at suppliers also can affect us. Any delays or work stoppages could adversely affect our ability to perform under our contracts, which could negatively impact our results of operations, cash flows, and financial condition.

**Cyber-attacks and other security threats and disruptions could have a material adverse effect on our business.**

As an aerospace and defense company, we face a multitude of security threats, including cybersecurity threats ranging from attacks common to most industries, such as ransomware and denial-of-service, to attacks from more advanced and persistent, highly organized adversaries, including nation state actors, which target the defense industrial base and other critical infrastructure sectors. The sophistication of the threats continue to evolve and grow, including the risk associated with the use of emerging technologies, such as artificial intelligence and quantum computing, for nefarious purposes. In addition to cybersecurity threats, we face threats to the security of our facilities and employees from terrorist acts, sabotage or other disruptions, any of which could adversely affect our business. The improper conduct of our employees or others working on behalf of us who have access to export controlled, classified or other sensitive information could also adversely affect our business and reputation. Our customers (including sites that we operate and manage for our customers), suppliers, subcontractors and joint venture partners, experience similar security threats.

If we are unable to protect sensitive information, including complying with evolving information security, data protection and privacy regulations, our customers or governmental authorities could investigate the adequacy of our threat mitigation and detection processes and procedures; and could bring actions against us for noncompliance with applicable laws and regulations. Moreover, depending on the severity of an incident, our customers' data, our employees' data, our intellectual property (including trade secrets and research, development and engineering know-how), and other third-party data (such as subcontractors, suppliers and vendors) could be compromised, which could adversely affect our business. Products and services we provide to customers also carry cybersecurity risks, including risks that they could be breached or fail to detect, prevent or combat attacks, which could result in losses to our customers and claims against us, and could harm our relationships with our customers and financial results.

Given the persistence, sophistication, volume and novelty of threats we face, we may not be successful in preventing or mitigating an attack that could have a material adverse effect on us and the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. The national security aspects of our business and much of the data we protect increase and create different risks relative to other industries. National security considerations may also preclude us from publicly disclosing a cybersecurity incident.

Our customers, suppliers, subcontractors, joint venture partners and acquired entities face similar security threats and an incident at one of these entities could adversely impact our business. These entities are typically outside our control and may have access to our information with varying levels of security and cybersecurity resources, expertise, safeguards and capabilities. Their relationships with government contractors, including us, may increase the risk that they are targeted by the same threats we face, however, they may not be as prepared for such threats. Adversaries actively seek to exploit security and cybersecurity weaknesses in our supply chain. Breaches in our multi-tiered supply chain, which is comprised of thousands of direct and indirect suppliers, has and could in the future compromise our data and adversely affect customer deliverables. We also must rely on our

supply chain for adequately detecting and reporting cyber incidents, which could affect our ability to report or respond to cybersecurity incidents effectively or in a timely manner.

For information on our cybersecurity risk management, strategy and governance, see Item 1C. - Cybersecurity.

**If we fail to successfully complete or manage acquisitions, divestitures, equity investments and other transactions or if acquired entities or equity investments fail to perform as expected, our financial results, business and future prospects could be harmed.**

In pursuing our business strategy, we routinely conduct discussions, evaluate companies, and enter into agreements regarding possible acquisitions, joint ventures, other investments and divestitures. We seek to identify acquisition or investment opportunities that will expand or complement our existing products and services or customer base, at reasonable valuations. To be successful, we must conduct due diligence to identify valuation issues and potential loss contingencies or underlying risks, some of which are difficult to discover or assess prior to consummation of an acquisition or investment; negotiate transaction terms; complete and close complex transactions; integrate acquired companies and employees; and realize anticipated operating synergies efficiently and effectively. U.S. regulators have increased their scrutiny of mergers and acquisitions in recent years, which could continue to limit our ability to execute certain transactions that we might otherwise pursue.

Acquisition, divestiture, joint venture and investment transactions often require substantial management resources and have the potential to divert our attention from our existing business. Unidentified or identified but uncertain liabilities that are not covered by indemnification or other coverage could adversely affect our future financial results. This is particularly the case in respect of successor liability under procurement laws and regulations such as the False Claims Act or the Truthful Cost or Pricing Data Act (formerly the Truth in Negotiations Act), anti-corruption, environmental, tax, import-export and technology transfer laws, which provide for civil and criminal penalties and the potential for debarment. We also may incur unanticipated

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costs or expenses, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, employee retention, transaction-related or other litigation, and other liabilities. Any of the foregoing could adversely affect our business and results of operations.

Joint ventures and other noncontrolling investments operate under shared control with other parties. These investments typically face many of the same risks and uncertainties as we do, but may expose us to additional risks not present if we retained full control. A joint venture partner may have economic or other business interests that are inconsistent with ours and we may be unable to prevent strategic decisions that may adversely affect our business, financial condition and results of operations. We also could be adversely affected by, or liable for, actions taken by these joint ventures that we do not control, including violations of anti-corruption, import and export, taxation and anti-boycott laws.

Depending on our rights and percentage of ownership, we may consolidate the financial results of such entities or account for our interests under the equity method. Under the equity method of accounting for nonconsolidated ventures and investments, we recognize our share of the operating profit or loss of these joint ventures in our results of operations. Our operating results are affected by the conduct and performance of businesses over which we do not exercise control and, as a result, we may not be successful in achieving the growth or other intended benefits of strategic investments.

We make investments in early-stage companies that we believe are advancing or developing new technologies applicable to our businesses. These investments are generally illiquid at the time of investment and typically we hold a non-controlling interest. We have and expect to continue to recognize gains or losses attributable to adjustments of the investments' fair value, including impairments up to and including the full value of the investment, which events are generally outside of our control such as the success or failure of the company and market volatility.

### **Risks Related to Significant Contingencies, Uncertainties and Estimates, including Pension, Taxes, Environmental and Litigation Costs**

**Pension funding requirements and costs are dependent on return on pension assets and other economic and actuarial assumptions which if changed may cause our future earnings and cash flow to fluctuate significantly and affect the affordability of our products and services.**

Many of our employees and retirees participate in defined benefit pension plans, retiree medical and life insurance plans, and other postemployment plans (collectively, postretirement benefit plans). The impact of these plans on our earnings may be volatile in that the amount of expense or income we record for our postretirement benefit plans may materially change from year to year because the calculations are sensitive to changes in several key economic assumptions, including interest rates and rates of return on plan assets, other actuarial assumptions, including participant longevity (also known as mortality), as well as the timing of cash funding. Changes in these factors, including actual returns on plan assets, may also affect our plan funding, cash flows and stockholders' equity. We could be required to make pension contributions earlier and/or in excess than planned if our return on pension assets is less than our assumptions, which would reduce our free cash flow.

With regard to cash flow, we have made substantial cash contributions to our plans as required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and expect to make future contributions as required or when deemed prudent. We generally can recover a significant portion of these contributions related to our plans as allowable costs on our U.S. Government contracts, including FMS. However, there is a lag between the time when we contribute cash to our plans under pension funding rules and when we recover pension costs under U.S. Government Cost Accounting Standards (CAS), which can affect the timing of our cash flows. Our business segments' results of operations include pension expense as calculated under CAS while our consolidated financial statements must present pension income or expense in accordance with U.S. GAAP Financial Accounting Standards (FAS); differences in these accounting rules may result in significant period adjustments referred to as our FAS/CAS pension adjustments.

In recent years, we have taken actions intended to mitigate the risk related to our defined benefit pension plans including pension risk transfer transactions whereby we purchase group annuity contracts (GACs) from insurance companies using assets from the pension trust. We expect to continue to evaluate such transactions in the future. Although under the majority of the GACs we have purchased we are relieved of all responsibility for the associated pension obligations, we have purchased and may in the future purchase GACs whereby the insurance company reimburses the pension plans but we remain responsible for paying benefits under the plans to covered retirees and beneficiaries and are subject to the risk that the insurance company will default on its obligations to reimburse the pension trusts. While we believe pension risk transfer transactions are beneficial; future transactions, depending on their size, could result in us making additional contributions to the pension trust and/or require us to recognize noncash settlement charges in earnings in the applicable reporting period.

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For more information on how these factors could impact earnings, financial position, cash flow and stockholders' equity, see "Critical Accounting Policies - Postretirement Benefit Plans" in the MD&A and "Note 11 - Postretirement Benefit Plans" included in our Notes to Consolidated Financial Statements.

### **Our estimates and projections may prove to be inaccurate and certain of our assets may be at risk of future impairment.**

The accounting for some of our most significant activities is based on judgments and estimates, which are complex and subject to many variables. For example, accounting for sales using the percentage-of-completion cost-to-cost method requires that we assess risks and make assumptions regarding future schedule, cost, technical and performance issues for thousands of contracts, many of which are long-term in nature. This process can be especially difficult when estimating costs for development programs because of the inherent uncertainty in developing a new product or technology. Because of the significance of the judgments and estimation processes involved in accounting for our contracts, materially different amounts or revenue and operating profit could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future financial condition and results of operations. Additionally, we initially allocate the purchase price of acquired businesses based on a preliminary assessment of the fair value of identifiable assets acquired and liabilities assumed. For significant acquisitions we may use a one-year measurement period to analyze and assess several factors used in establishing the asset and liability fair values as of the acquisition date which could result in adjustments to asset and liability balances.

We have \$10.8 billion of goodwill assets recorded on our consolidated balance sheet as of December 31, 2023 from previous acquisitions, which represents approximately 21% of our total assets. These goodwill assets are subject to annual impairment testing and more frequent testing upon the occurrence of certain events or significant changes in circumstances that indicate goodwill may be impaired. If we experience changes or factors arise that negatively affect the expected cash flows of a reporting unit, we may be required to write off all or a portion of the reporting unit's related goodwill assets.

Actual financial results could differ from our judgments and estimates. See "Critical Accounting Policies" in the MD&A and Results of Operations and "Note 1 - Organization and Significant Accounting Policies" included in our Notes to Consolidated Financial Statements for a complete discussion of our significant accounting policies and use of estimates.

### **Changes in tax laws and regulations or exposure to additional tax liabilities could adversely affect our financial results.**

Changes in U.S. (federal or state) or foreign tax laws and regulations, or their interpretation and application, including those with retroactive effect, could result in increases in our tax expense and affect profitability and cash flows. For example, beginning in 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development expenditures immediately in the year incurred and requires taxpayers to amortize such expenditures over five years for tax purposes (research and development capitalization). While the most significant impact of this provision was to cash tax liability for



2022, the tax year in which the provision took effect, the impact will continue over the five-year amortization period, but decline to an immaterial amount in year six.

The amount of net deferred tax assets will change periodically based on several factors, including the measurement of our postretirement benefit plan obligations, actual cash contributions to our postretirement benefit plans, change in the amount or reevaluation of uncertain tax positions, and future changes in tax laws. In addition, we are regularly under audit or examination by tax authorities, including foreign tax authorities. The final determination of tax audits and any related litigation could similarly result in unanticipated increases in our tax expense and affect profitability and cash flows.

**Our business involves significant risks and uncertainties that may not be covered by indemnity or insurance.**

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology products and systems. New technologies may be untested or unproven. Failure of some of these products and services could result in extensive loss of life or property damage. Accordingly, we may incur liabilities that are unique to our products and services. In some but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through U.S. Government indemnifications under Public Law 85-804, 10 U.S.C. 3861, the Commercial Space Launch Act or the Price-Anderson Act, qualification of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, contractual provisions or otherwise.

We seek to obtain insurance coverage from established and reputable insurance carriers to the extent available in order to cover these risks and liabilities. However, the amount of insurance coverage that we maintain or that is available to purchase in the market may not be adequate to cover all claims or liabilities. Insurance coverage is subject to the terms and conditions of the insurance contract and is further subject to any sublimits, exclusions, restrictions, or defenses, including standard exclusions for acts of war. Existing coverage is renewed annually and may be canceled pursuant to the terms of the policies while we remain

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exposed to the risk and it is not possible to obtain insurance to protect against all operational risks, natural hazards and liabilities. For example, we are limited in the amount of insurance we can obtain to cover unusually hazardous risks or certain natural hazards such as earthquakes, fires or extreme weather conditions, some of which may be exacerbated by climate change. We have significant operations in geographic areas prone to these risks, such as in California, Florida and Texas and certain of our properties have suffered damage from natural disasters in the past and may again in the future. We could incur significant costs to improve the climate resiliency of our infrastructure and supply chain and otherwise prepare for, respond to, and mitigate the effects of climate change. In addition, under certain classified fixed price development and production contracts, we are unable to insure risk of loss to government property because of the classified nature of the contracts and the inability to disclose classified information necessary for underwriting and claims to commercial insurers. Even if insurance coverage is available, we may not be able to obtain it in an amount, at a price or on terms acceptable to us. Some insurance providers may be unable or unwilling to provide us insurance given the nature of our business or products. Additionally, disputes with insurance carriers over coverage terms or the insolvency of one or more of our insurance carriers may significantly affect the amount or timing of our cash flows.

Substantial costs resulting from an accident; failure of or defect in our products or services; natural catastrophe or other incident; or liability arising from our products and services in excess of any legal protection, indemnity, and our insurance coverage (or for which indemnity or insurance is not available or not obtained) could adversely impact our financial condition, cash flows, and operating results. Any accident, failure of, or defect in our products or services, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public and make it more difficult for us to compete effectively. It also could affect the cost and availability of adequate insurance in the future.

### **Environmental regulations, including in relation to climate change, could adversely affect our future earnings as well as the affordability of our products and services.**

We are subject to federal, state, local and foreign requirements for the protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to the complexity and pervasiveness of these requirements, we are a party to or have property subject to various lawsuits, proceedings, and remediation obligations. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We have incurred and will continue to incur liabilities for environmental remediation at some of our current and former facilities and at third-party-owned sites where we have been designated a potentially responsible party as a result of our historical activities and those of our predecessor companies. Environmental remediation activities usually span many years, and the extent of financial exposure can be difficult to estimate. Among the variables management must assess in evaluating costs associated with these cases and remediation sites are the status of site assessment, extent of the contamination, impacts on natural resources, changing cost estimates, evolution of technologies used to remediate the site, continually evolving environmental standards, availability of insurance coverage and indemnification under existing agreements and cost allowability issues, including varying efforts by the U.S. Government to limit allowability of our costs in resolving liability at third-

party-owned sites. Our environmental remediation related liabilities also could increase significantly because of acquisitions, stricter remediation standards for existing or newly regulated substances, changes in the interpretation or enforcement of existing laws and regulations, or the discovery of previously unknown or more extensive contamination. For information regarding these matters, including current estimates of the amounts that we believe are required for environmental remediation to the extent probable and estimable, see “Critical Accounting Policies - Environmental Matters” in the MD&A and “Note 14 - Legal Proceedings, Commitments and Contingencies” included in our Notes to Consolidated Financial Statements.

We manage and have managed various U.S. Government-owned facilities on behalf of the U.S. Government. At such facilities, environmental compliance and remediation costs historically have been the responsibility of the U.S. Government. We have relied, and continue to rely with respect to past practices, on U.S. Government funding to pay at least a portion if not all of such costs, notwithstanding efforts by some U.S. Government representatives to limit the U.S. Government’s responsibility. Although the U.S. Government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance typically is borne by either the U.S. Government or the contractor, depending on the contract and the relevant facts. Some environmental laws include criminal provisions. A conviction under environmental law could affect our ability to be awarded future or perform under existing U.S. Government contracts.

The increasing global regulatory focus on greenhouse gas (GHG) emissions and their potential impacts relating to climate change could result in laws, regulations or policies that significantly increase our direct and indirect operational and compliance burdens, which could adversely affect our financial condition and results of operations. These laws, regulations or policies could take many forms, including carbon taxes, cap and trade regimes, increased efficiency standards, GHG reduction commitments, incentives or mandates for particular types of energy or changes in procurement laws. Changes in government

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procurement laws that mandate or take into account climate change considerations, such as the contractor's GHG emissions, GHG emission reduction targets, lower emission products or other climate risks, in evaluating bids could result in costly changes to our operations or affect our competitiveness on future bids, or our ability to bid at all. In addition to incurring direct costs to implement any climate-change related laws, regulations or policies, we may see indirect costs rise, such as increased energy or material costs, as a result of policies affecting other sectors of the economy. Although most of these increased costs likely would be recoverable through pricing, to the extent that the increase in our costs as a result of these policies are greater than our competitors we may be less competitive on future bids or the total increased cost in our industry's products and services could result in lower demand from our customers. We monitor developments in climate change-related laws, regulations and policies for their potential effect on us, however, we currently are not able to accurately predict the materiality of any potential costs associated with such developments. In addition, climate change-related litigation and investigations have increased in recent years and any claims or investigations against us could be costly to defend and our business could be adversely affected by the outcome.

### **We are involved in several legal proceedings. We cannot predict the outcome of litigation and other contingencies with certainty.**

Our business may be adversely affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As required by U.S. GAAP, we estimate loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable considering the facts and circumstances known to us at a particular point in time. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements. For a description of our current legal proceedings, see Item 3 - Legal Proceedings, "Critical Accounting Policies - Environmental Matters" in Management's Discussion and Analysis of Financial Condition and Results of Operations and "Note 14 - Legal Proceedings, Commitments and Contingencies" included in our Notes to Consolidated Financial Statements.

### **Risks Related to Ownership of our Common Stock**

#### **There can be no assurance that we will continue to increase our dividend or to repurchase shares of our common stock.**

Cash dividend payments and share repurchases are subject to limitations under applicable laws and the discretion of our Board of Directors and are determined after considering then-existing conditions, including earnings, other operating results and capital requirements and cash deployment alternatives. Our payment of dividends and share repurchases could vary from historical practices or our stated expectations. Decreases in asset values or increases in liabilities, including liabilities associated with employee benefit plans and assets and liabilities associated with taxes, can reduce net earnings and stockholders' equity. Under certain circumstances, a deficit in stockholders' equity could limit our ability to pay dividends and make share repurchases under Maryland state law in the future. In addition, the timing and amount of share repurchases under Board of Directors approved share repurchase plans may differ from stated expectations and is within the discretion of management and will depend on many factors, including our ability to generate

sufficient cash flows from operations in the future or to borrow money from available financing sources, our results of operations, capital requirements and applicable law.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 1C. Cybersecurity**

We believe cybersecurity is critical to advancing our 21st Century Security vision and enabling our digital transformation efforts. As an aerospace and defense company, we face a multitude of cybersecurity threats that range from attacks common to most industries, such as ransomware and denial-of-service, to attacks from more advanced and persistent, highly organized adversaries, including nation state actors, that target the defense industrial base and other critical infrastructure sectors. Our customers, suppliers, subcontractors and joint venture partners face similar cybersecurity threats, and a cybersecurity incident impacting us or any of these entities could materially adversely affect our operations, performance and results of operations. These cybersecurity threats and related risks make it imperative that we are a leader in the information security field, and we expend considerable resources on cybersecurity.

The Board of Directors oversees management's processes for identifying and mitigating risks, including cybersecurity risks, to help align our risk exposure with our strategic objectives. Senior leadership, including our Chief Information Security Officer (CISO), regularly briefs the Board of Directors on our cybersecurity and information security posture and the Board of Directors is apprised of cybersecurity incidents deemed to have a moderate or higher business impact, even if immaterial to us. The Classified Business and Security Committee of the Board of Directors is briefed by senior leadership, as appropriate, on the

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cybersecurity of classified programs and the security of our classified business supply chain. Other than oversight of classified business cybersecurity, the full Board retains oversight of cybersecurity because of its importance to Lockheed Martin and the heightened risk in the aerospace and defense industry. In the event of an incident, we intend to follow our detailed incident response playbook, which outlines the steps to be followed from incident detection to mitigation, recovery and notification, including notifying functional areas (e.g. legal), as well as senior leadership and the Board, as appropriate.

Our corporate information security organization, led by our CISO, is responsible for our overall information security strategy, policy, security engineering, operations and cyber threat detection and response. The current CISO has extensive information technology and program management experience, and has served many years in our corporate information security organization. The corporate information security organization manages and continually enhances a robust enterprise security structure with the ultimate goal of preventing cybersecurity incidents to the extent feasible, while simultaneously increasing our system resilience in an effort to minimize the business impact should an incident occur. Central to this organization is our computer incident response team (CIRT), which is responsible for the protection, detection and response capabilities used in the defense of Lockheed Martin's data and enterprise computing networks. Employees outside of our corporate information security organization also have a role in our cybersecurity defenses and they are immersed in a corporate culture supportive of security, which we believe improves our cybersecurity.

The corporate information security organization has implemented a governance structure and processes to assess, identify, manage and report cybersecurity risks. We also have a corporate-wide counterintelligence and insider threat detection program to proactively identify external and internal threats, and mitigate those threats in a timely manner. As a defense contractor, we must comply with extensive regulations, including requirements imposed by the Defense Federal Acquisition Regulation Supplement (DFARS) related to adequately safeguarding controlled unclassified information (CUI) and reporting cybersecurity incidents to the DoD. We have implemented cybersecurity policies and frameworks based on industry and governmental standards to align closely with DoD requirements, instructions and guidance. Moreover, we continue to work with the DoD on assessing cybersecurity risk and on policies and practices aimed at mitigating these risks. For example, we have worked in collaboration with the other members of the defense industrial base to support DoD's development of the Cybersecurity Maturity Model Certification (CMMC) program, DoD's program to ensure members of the defense industrial base meet cybersecurity requirements for handling CUI and federal contract information. We believe we are well positioned to meet the requirements of the CMMC and are preparing for certification once the requirements are effective. In addition to following DoD guidance and implementing pre-existing third party frameworks, we have developed our own practices and frameworks, which we believe enhance our ability to identify and manage cybersecurity risks. For example, we use a proactive risk management strategy that we developed and implemented called the Intelligence Driven Defense<sup>®</sup> model that seeks to identify and prevent cybersecurity incidents by understanding the nature of adversaries and using this information to minimize the impact of an attack.

Third parties also play a role in our cybersecurity. We engage third-party services to conduct evaluations of our security controls, whether through penetration testing,

independent audits or consulting on best practices to address new challenges. These evaluations include testing both the design and operational effectiveness of security controls. We also share and receive threat intelligence with our defense industrial base peers, government agencies, information sharing and analysis centers and cybersecurity associations.

Assessing, identifying and managing cybersecurity related risks are integrated into our overall enterprise risk management (ERM) process. Cybersecurity related risks are included in the risk universe that the ERM function evaluates to assess top risks to the enterprise on an annual basis. To the extent the ERM process identifies a heightened cybersecurity related risk, risk owners are assigned to develop risk mitigation plans, which are then tracked to completion. The ERM process's annual risk assessment is presented to the Board of Directors.

We rely heavily on our supply chain to deliver our products and services to our customers, and a cybersecurity incident at a supplier, subcontractor or joint venture partner could materially adversely impact us. We assess third party cybersecurity controls through a cybersecurity questionnaire and include security and privacy addendums to our contracts where applicable. We also contractually flow cybersecurity regulatory requirements to our subcontractors as required by the DFARS and other government agency specific requirements. These contractual flow downs include the requirement that our subcontractors implement certain security controls, and that our subcontractors self-report the status of their implementation of these controls to the U.S. Government. These government contracting regulations may create challenges for our supply chain and increase costs. We also require that our subcontractors report cybersecurity incidents to us so that we can assess the impact of the incident on us. For select suppliers, we engage third-party cybersecurity monitoring and alerting services, and seek to work directly with those suppliers to address potential deficiencies identified. We also make available cybersecurity education and awareness materials and briefings to our suppliers.

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Notwithstanding the extensive approach we take to cybersecurity, we may not be successful in preventing or mitigating a cybersecurity incident that could have a material adverse effect on us. While Lockheed Martin maintains cybersecurity insurance, the costs related to cybersecurity threats or disruptions may not be fully insured. See Item 1A. “Risk Factors” for a discussion of cybersecurity risks.

### ITEM 2. Properties

At December 31, 2023, we owned or leased building space (including offices, manufacturing plants, warehouses, service centers, laboratories and other facilities) at 335 locations primarily in the U.S. Additionally, we manage or occupy 9 government-owned facilities under lease and other arrangements. At December 31, 2023, we had significant operations in the following locations:

- **Aeronautics** - Palmdale, California; Marietta, Georgia; Greenville, South Carolina; and Fort Worth, Texas.
- **Missiles and Fire Control** - Camden, Arkansas; Ocala and Orlando, Florida; Lexington, Kentucky; and Grand Prairie, Texas.
- **Rotary and Mission Systems** - Stratford, Connecticut; Orlando, Florida; Moorestown/ Mt. Laurel, New Jersey; Owego and Syracuse, New York; Manassas, Virginia; and Mielec, Poland.
- **Space** - Huntsville, Alabama; Sunnyvale, California; Denver, Colorado; Cape Canaveral, Florida; and Valley Forge, Pennsylvania.
- **Corporate activities** - Bethesda, Maryland.

The following is a summary of our square feet of floor space owned, leased, or utilized by business segment at December 31, 2023 (in millions):

	Owned	Leased	Government-Owned	Total
Aeronautics	5.5	3.0	14.8	23.3
Missiles and Fire Control	7.8	2.6	2.0	12.4
Rotary and Mission Systems	10.8	4.7	0.2	15.7
Space	9.3	3.0	0.1	12.4
Corporate activities	2.4	0.9	—	3.3
Total	35.8	14.2	17.1	67.1

We believe our facilities are in good condition and adequate for their current use. We may add, improve, replace, or reduce facilities as considered appropriate to meet the needs of our operations.

### ITEM 3. Legal Proceedings

We are a party to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment, and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters will have a



material adverse effect on the corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings and cash flows in any particular interim reporting period. We cannot predict the outcome of legal or other proceedings with certainty.

We are subject to federal, state, local and foreign requirements for the protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to the complexity and pervasiveness of these requirements, we are a party to or have property subject to various lawsuits, proceedings and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time.

For information regarding the matters discussed above, including current estimates of the amounts that we believe are required for remediation or clean-up to the extent estimable, see “Critical Accounting Policies - Environmental Matters” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Note 14 - Legal Proceedings, Commitments and Contingencies” included in our Notes to Consolidated Financial Statements.

#### **ITEM 4. Mine Safety Disclosures**

Not applicable.

#### **ITEM 4(a). Information about our Executive Officers**

Our executive officers as of January 23, 2024 are listed below, with their ages on that date, positions and offices currently held, and principal occupation and business experience during at least the last five years. There are no family relationships among any of our executive officers and directors. All executive officers serve at the discretion of the Board of Directors.

##### **Timothy S. Cahill (age 58), Executive Vice President - Missiles and Fire Control**

Mr. Cahill has served as Executive Vice President for the Missiles and Fire Control (MFC) business segment, since November 2022. Mr. Cahill previously served as Senior Vice President of Global Business Development & Strategy (GBD&S) from March 2021 to October 2022. Prior to that, Mr. Cahill served as Senior Vice President Lockheed Martin International from October 2019 to March 2021; and as Vice President, Integrated Air and Missile Defense (IAMD) Systems for MFC from January 2016 to October 2019.

##### **Stephanie C. Hill (age 58), Executive Vice President - Rotary and Mission Systems**

Ms. Hill has served as Executive Vice President of the Rotary and Mission Systems (RMS) business segment since June 2020. She previously served as Senior Vice President, Enterprise Business Transformation from June 2019 to June 2020. Prior to that, she was Deputy Executive Vice President of RMS from October 2018 to June 2019; and Senior Vice President for Corporate Strategy and Business Development from September 2017 to October 2018.

##### **Maryanne R. Lavan (age 64), Senior Vice President, General Counsel and Corporate Secretary**

Ms. Lavan has served as Senior Vice President, General Counsel and Corporate Secretary since September 2010.

##### **Robert M. Lightfoot, Jr. (age 60), Executive Vice President - Space**

Mr. Lightfoot has served as Executive Vice President of the Space business segment since January 2022. He previously served as Vice President, Operations for the Space business segment from June 2021 to December 2021. Prior to that, he served as Vice President, Strategy and Business Development of Space from May 2019 to June 2021. Prior to joining Lockheed Martin in 2019, Mr. Lightfoot served as President, LSINC Corporation, a provider of product development and engineering services, from May 2018 to May 2019. Prior to that, he was Associate Administrator at the National Aeronautics & Space Administration (NASA), the agency's highest-ranking civil service position, from March 2012 to April 2018.

##### **Jesus Malave (age 55), Chief Financial Officer**

Mr. Malave has served as Chief Financial Officer since January 31, 2022. Prior to joining Lockheed Martin in 2022, Mr. Malave served as Senior Vice President and Chief Financial Officer of L3Harris Technologies, Inc. (L3Harris) from June 2019 to January 2022. Before joining L3Harris, Mr. Malave worked at United Technologies Corporation (UTC) as Vice President and Chief Financial Officer of UTC's Carrier Corporation from April 2018 to June

2019; and as Chief Financial Officer of UTC's Aerospace Systems from January 2015 to April 2018.

**H. Edward Paul, III (age 48), Vice President and Controller**

Mr. Paul has served as Vice President and Controller since June 2022. Previously, he served as Vice President, Accounting from March 2015 to July 2023.

**Maria A. Ricciardone (age 48), Vice President, Treasurer and Investor Relations**

Ms. Ricciardone has served as Vice President, Treasurer and Investor Relations since January 1, 2024. She previously served as Vice President, Investor Relations from October 2022 to December 2023. Prior to joining Lockheed Martin in October 2022, she served as Vice President, Finance – FP&A and Global Components for Arrow Electronics from June 2019 to October 2022. Prior to that, she served as Vice President, Strategy and Investor Relations at Hubbell Incorporated from March 2015 to June 2019.

**Frank A. St. John (age 57), Chief Operating Officer**

Mr. St. John has served as Chief Operating Officer since June 2020. He previously served as Executive Vice President of RMS from August 2019 to June 2020. Prior to that, he served as Executive Vice President of MFC from January 2018 to August 2019; and as Executive Vice President and Deputy Programs for MFC from June 2017 to January 2018.

**James D. Taiclet (age 63), Chairman, President and Chief Executive Officer**

Mr. Taiclet has served as Chairman since March 2021 and as President and Chief Executive Officer (CEO) of Lockheed Martin since June 2020. He has served on the Lockheed Martin Board of Directors since January 2018. Previously, he was Chairman, President and CEO of American Tower Corporation from February 2004 to March 2020; and Executive Chairman from March 2020 to May 2020.

**Gregory M. Ulmer (age 59), Executive Vice President - Aeronautics**

Mr. Ulmer has served as Executive Vice President for the Aeronautics business segment since February 2021. He served as Vice President and General Manager, F-35 Lightning II Program from March 2018 to January 2021. Prior to that, he served as Vice President, F-35 Aircraft Production business unit from March 2016 to March 2018.

## **PART II**

### **ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

At January 19, 2024, we had 22,665 holders of record of our common stock, par value \$1 per share. Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol LMT.

#### **Stockholder Return Performance Graph**

The following graph compares the total return on a cumulative basis through December 31, 2023, assuming reinvestment of dividends, of \$100 invested in Lockheed Martin common stock as of market close on December 31, 2018 to the Standard and Poor's (S&P) 500 Index and the S&P Aerospace & Defense Index.

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The S&P Aerospace & Defense Index comprises The Boeing Company, General Dynamics Corporation, Howmet Aerospace Inc., Huntington Ingalls Industries, L3Harris Technologies, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, RTX Corporation, Textron Inc. and Transdigm Group Inc. The stockholder return performance indicated on the graph is not a guarantee of future performance.

This graph is not deemed to be "filed" with the U.S. Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933 or the Exchange Act.

## Purchases of Equity Securities

There were no sales of unregistered equity securities during the quarter ended December 31, 2023.

The following table provides information about our repurchases of our common stock that is registered pursuant to Section 12 of the Securities Exchange Act of 1934 during the quarter ended December 31, 2023.

Period <sup>(a)</sup>	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs <sup>(b)</sup>
				(in millions)
September 25, 2023 – October 29, 2023	1,265,110	\$ 446.24	1,264,627	\$ 12,459
October 30, 2023 – November 26, 2023	2,775,003	\$ 447.82	2,774,470	\$ 11,217
November 27, 2023 – December 31, 2023	2,675,777	\$ 446.97	2,669,558	\$ 10,023
Total <sup>(c)</sup>	6,715,890	\$ 447.18	6,708,655	

<sup>(a)</sup> We close our books and records on the last Sunday of each month to align our financial closing with our business processes, except for the month of December, as our fiscal year ends on December 31. As a result, our fiscal months often differ from the calendar months. For example, November 27, 2023 was the first day of our December 2023 fiscal month.

<sup>(b)</sup> In 2010, our Board of Directors approved a share repurchase program pursuant to which we are authorized to repurchase our common stock in privately negotiated transactions or in the open market at prices per share not exceeding the then-current market prices. From time to time, our Board of Directors authorizes increases to our share repurchase program. On October 6, 2023, the Board of Directors authorized an increase to the program by \$6.0 billion. The total remaining authorization for future common share repurchases under our share repurchase program was \$10.0 billion as of December 31, 2023. Under the program, management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. This includes purchases pursuant to Rule 10b5-1 plans, including accelerated share repurchases. The program does not have an expiration date.

<sup>(c)</sup> During the fourth quarter of 2023, the total number of shares purchased included 7,235 shares that were transferred to us by employees in satisfaction of tax withholding obligations associated with the vesting of restricted stock units. These purchases were made pursuant to a separate authorization by our Board of Directors and are not included within the share repurchase program described above.



## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our results of operations and financial condition. The MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and notes thereto included in Item 8 - Financial Statements and Supplementary Data.

The MD&A generally discusses 2023 and 2022 items and year-to-year comparisons between 2023 and 2022. Discussions of 2021 items and year-to-year comparisons between 2022 and 2021 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on January 26, 2023.

### **Business Overview**

We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. Our main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. In 2023, 73% of our \$67.6 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 64% from the Department of Defense (DoD)), 26% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1% were from U.S. commercial and other customers.

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space. We organize our business segments based on the nature of the products and services offered.

We operate in a complex and evolving global security environment. Our strategy consists of the design and development of platforms and systems that meet the current needs of our customers and the future requirements of 21st Century Security. Our vision for 21st Century Security is to accelerate the adoption of advanced networking and leading-edge technologies into our national defense enterprise, while enhancing the performance and value of our platforms and products for our customers. The aim of 21st Century Security is to integrate new and existing systems across all domains with advanced, open-architecture networking and operational technologies to make defense forces more agile, adaptive and unpredictable.

Twenty-first Century Security is an overarching vision that guides our investment and strategy. We are also focused on four elements for potential growth in the near to mid-term: current programs of record, classified programs, hypersonics and new awards. We have multiple programs of record from each business segment that are entering growth stages, including the F-35 sustainment activity (Aeronautics); increased Patriot Advanced



Capability-3 (PAC-3) production rates and increased demand for High Mobility Artillery Rocket System (HIMARS®) and Guided Multiple Launch Rocket Systems (GMLRS) (Missiles and Fire Control); radar surveillance systems and CH-53K King Stallion heavy lift helicopter (Rotary and Mission Systems); and the modernization and enhancements to the Trident II D5 Fleet Ballistic Missile (FBM) (Space). We are engaged in significant classified development programs and pending successful achievement of the objectives within those programs, we expect to begin the transition from development to production over the next few years. We are currently performing on multiple hypersonics programs and following the successful completion of ongoing testing and evaluation activity, multiple programs are expected to enter early production phases through 2026. Finally, we are always in pursuit of new program awards to develop future platforms that enable us to continue to place security capability into the market and expand our global reach.

Key to enabling success of our strategy is developing differentiating technologies, forging strategic partnerships, including with commercial companies, executing on our multi-year business transformation initiative to enhance our digital infrastructure and increase efficiencies and collaboration throughout our business and maintaining fiscal discipline. Underpinning our ability to execute our strategy is our talent and culture. We invest substantially in our people to ensure that our workforce has the technical skills necessary to succeed, and we expect to continue to invest internally in innovative technologies that address rapidly evolving mission requirements for our customers. We also will continue to evaluate our portfolio and will make strategic acquisitions or divestitures, as appropriate, while deepening our connection to commercial industry through cooperative partnerships, joint ventures and equity investments.

### **Portfolio Shaping Activities**

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our customers. We accomplish this in part by our independent research and development activities and through acquisition, divestiture and internal realignment activities.

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We selectively pursue the acquisition of businesses, investments and ventures at attractive valuations that will expand or complement our current portfolio and allow access to new customers or technologies. We also may explore the divestiture of businesses, investments or ventures that no longer meet our needs or strategy or that could perform better outside of our organization or with a different owner. In pursuing our business strategy, we routinely conduct discussions, evaluate targets and enter into agreements regarding possible acquisitions, divestitures, joint ventures and equity investments.

### **U.S. Budget Environment**

With nearly three quarters of our sales from the U.S. Government, U.S. Government spending levels, particularly defense spending, and timely funding thereof can affect our financial performance over the short and long term.

The President's Fiscal Year (FY) 2024 budget request was submitted to Congress on March 9, 2023, initiating the FY 2024 defense authorization and appropriations legislative process. The request included \$886 billion for National Defense, of which \$842 billion is for the Department of Defense (DoD) base budget.

On June 3, 2023, the President signed H.R. 3746 "The Fiscal Responsibility Act" (FRA) into law. The legislation suspended the debt ceiling until January 1, 2025, and, among other provisions, capped national defense spending at \$886 billion for FY 2024 (President's Budget Request level) and \$895 billion for FY 2025. Supplemental funding legislation is not subject to the budget caps. If a continuing resolution is enacted and still in effect and Congress does not pass all twelve defense and non-defense discretionary appropriations bills by April 30, 2024, the FRA will result in a decrease in government spending for FY 2024 by one percent from FY 2023 enacted levels.

The House and Senate continue the legislative process on the FY 2024 budget. On December 22, 2023, the President signed the FY 2024 National Defense Authorization Act (NDAA) into law. The NDAA authorizes funding at the FRA cap of \$886 billion for National Defense.

On January 19, 2024, the President signed a continuing resolution that extends funding of four appropriations bills to March 1, 2024 and the remaining eight to March 8, 2024. This will provide Congress additional time to enact all twelve FY 2024 appropriations bills based on the overarching U.S. Government spending agreement reached by House and Senate leaders on January 7, 2024 which comports with the FRA cap of \$886 billion for National Defense in FY 2024. Overall, congressional sentiment remains strong for supporting the National Defense Strategy and defense spending. However, the logistical and political challenges, especially in the U.S. House of Representatives, are complex and add funding risk.

Under the continuing resolution, funding at amounts consistent with appropriated levels for FY 2023 are available, subject to certain restrictions, but new contract and program starts are not authorized. We expect our key programs will continue to be supported and funded under the continuing resolution. However, during periods covered by continuing resolutions, we may experience delays in new awards of our products and services, and those delays may adversely affect our results of operations.

On October 20, 2023, the President submitted a \$106 billion supplemental funding request to Congress for assistance to Ukraine, Israel and the Indo-Pacific; related U.S. restock of capacity transfers to Ukraine and Israel; and U.S. border security. Congress has not yet acted on this request, which is part of the broader debate on FY 2024 U.S. Government funding and border security policy. Supplemental and emergency funding are not subject to the FRA cap. If enacted, this would provide a partial relief valve for DoD funding limits under the FRA or other limiting scenarios such as a prolonged continuing resolution.

If Congress is not able to enact FY 2024 appropriations bills or extend the continuing resolution, the U.S. Government will enter a whole or partial shutdown. The impact of any government shutdown is uncertain. However, if a government shutdown were to occur and were to continue for an extended period, we could be at risk of reduced orders, program cancellations, schedule delays, production halts and other disruptions and nonpayment, which could adversely affect our results of operations. Further, if any one of the 12 appropriations bills is under a continuing resolution as of April 30, 2024, USG funding levels will reset to FY 2023 enacted levels minus 1% for the remainder of FY 2024 or until all 12 appropriations are enacted.

We anticipate the federal budget will continue to be subject to debate and compromise shaped by, among other things, heightened political tensions, the global security environment, inflationary pressures, and macroeconomic conditions. The result may be shifting funding priorities, which could have material impacts on defense spending broadly and our programs.

### **Geopolitical and Economic Environment**

We operate in a complex and evolving global security environment and our business is affected by geopolitical issues. Russia's invasion of Ukraine significantly elevated global geopolitical tensions and security concerns resulting in increased

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interest for certain of our products and services as countries seek to improve their security posture. In addition, security assistance provided by the U.S. Government and its allies to Ukraine has created U.S. Government and allied demand to replenish U.S. stockpiles, resulting in additional and potential future orders for our products, including for the ramp-up in production capacity for certain products. Although we received new orders in 2023 attributable to a response to the conflict and continue to expect to receive them over the next several years, given the long-cycle nature of our business and current industry capacity, the orders did not result in a significant increase in 2023 sales. We continue to work with the U.S. Government and our supply chain to evaluate increases in capacity at certain of our operations to anticipate potential demand and enable us to deliver critical capabilities.

Our business and financial performance is also affected by general economic conditions. Supply chain disruptions persist, and we continue to experience supply chain challenges, including supplier shortages and performance issues, which have delayed certain customer deliveries and adversely impacted our performance and our 2023 financial results. Although we continue working to minimize the impact of supply chain challenges, many of these challenges are industry wide or caused by geopolitical events that are outside of our control. In addition, heightened levels of inflation and the potential worsening of macro-economic conditions present risks for Lockheed Martin, our suppliers and the stability of the broader defense industrial base. Certain costs, including rising labor rates and supplier costs, on several of our programs have increased as a result of inflation, and put pressure on achieving our expected margins on the programs. In addition, some suppliers are reducing the typical duration of pricing validity in their proposals to us, which can be operationally challenging and increase the risk of cost volatility. If we continue to experience high rates of inflation, and we are unable to successfully mitigate the impact, our future profits, margins and cash flows, particularly for existing fixed-price contracts, may be adversely affected. Inflation and higher interest rates can also constrain the overall purchasing power of our customers for our products and services potentially impacting future orders. We remain committed to our ongoing efforts to increase the efficiency of our operations and improve the cost competitiveness and affordability of our products and services, which may, in part, offset cost increases from inflation.

### **International Business**

A key component of our strategic plan is to grow our international sales. To accomplish this growth, we continue to focus on strengthening our relationships internationally through partnerships and joint technology efforts. Our international business is conducted either by foreign military sales (FMS) contracted through the U.S. Government or by direct commercial sales (DCS) to international customers. In 2023, approximately 75% of our sales to international customers were FMS and about 25% were DCS. Additionally, in 2023, substantially all of our sales from international customers were in our Aeronautics, MFC and RMS business segments. Space's sales from international customers were not material in 2023. See Item 1A - Risk Factors for a discussion of risks related to international sales.

In 2023, international customers accounted for 33% of Aeronautics' net sales. There continues to be strong international interest in the F-35 program, which includes commitments from the U.S. Government and seven international partner countries and nine FMS customers, as well as expressions of interest from other countries. The U.S. Government and the partner countries continue to work together on the design, testing, production and

sustainment of the F-35 program. Other areas of international expansion at our Aeronautics business segment include the F-16 and C-130J programs, which continue to draw interest from international customers for new aircraft.

In 2023, international customers accounted for 31% of MFC's net sales. Our MFC business segment continues to generate significant international interest, most notably in the air and missile defense product line, which produces the PAC-3 and Terminal High Altitude Area Defense (THAAD) systems. Fifteen nations have chosen PAC-3 Cost Reduction Initiative (CRI) and PAC-3 Missile Segment Enhancement (MSE) to provide missile defense capabilities. Additionally, we continue to see international demand for our tactical and strike missile products, where we received orders for precision fires systems from Germany and Taiwan and for Long Range Anti-Ship Missiles (LRASM) from Australia.

In 2023, international customers accounted for 31% of RMS' net sales. Our RMS business segment continues to experience international interest in the Aegis Ballistic Missile Defense System (Aegis) for which we perform activities in the development, production, modernization, ship integration, test and lifetime support for ships of international customers such as Japan, Spain, Republic of Korea and Australia. We have ongoing combat systems programs associated with different classes of surface combatant ships for customers in Canada, Chile and New Zealand. Our Multi-Mission Surface Combatant (MMSC) program will provide surface combatant ships for international customers, such as the Kingdom of Saudi Arabia, designed to operate in shallow waters and the open ocean. In our training and logistics solutions portfolio, we have active programs and pursuits in the United Kingdom, the Kingdom of Saudi Arabia, Canada, Singapore, Australia, Germany and France. We have active development, production and sustainment support of the S-70 Black Hawk and MH-60 Seahawk helicopters to international customers, including India, Philippines, Australia, Republic of Korea, Thailand, the Kingdom of Saudi Arabia and Greece. Additionally, in December 2021, the Israeli Ministry of Defense signed a Letter of Offer and Acceptance (LOA) to procure 12 CH-53K King Stallion heavy lift helicopters, with the first four awarded in 2022 and the remaining awarded in 2023.

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Commercial aircraft are sold to international customers to support search and rescue missions as well as VIP and offshore oil and gas transportation.

### **Status of the F-35 Program**

The F-35 program primarily consists of production contracts, sustainment activities, and new development efforts. Production of the aircraft is expected to continue for many years given the U.S. Government's current inventory objective of 2,456 aircraft for the U.S. Air Force, U.S. Marine Corps, and U.S. Navy; commitments from our seven international partner countries and nine Foreign Military Sales (FMS) customers; as well as interest from other countries. We continue to see strong international demand for the F-35. The Government of Canada announced in January 2023 its commitment to purchase 88 F-35 aircraft. In February 2023, the Government of Singapore announced its intent to exercise an option to purchase an additional eight F-35 aircraft, increasing its total quantity to 12. In September 2023, the Israel Defense Ministry submitted an official letter of request to advance Israel's procurement of a third F-35 squadron, increasing its total quantity of aircraft from 50 to 75. Also in September 2023, the U.S. Department of State formally approved the sale of up to 25 more F-35s to South Korea, beyond the currently approved purchase of 40 aircraft. In November 2023, the Government of Romania submitted an official letter of request for a Letter of Offer and Acceptance to the U.S. Government for 32 F-35 aircraft.

During 2023, we delivered 98 aircraft and had a backlog of 373 aircraft. Since program inception through the end of 2023, we delivered 992 production F-35 aircraft to U.S. and international customers, including 710 F-35A variants, 197 F-35B variants, and 85 F-35C variants, demonstrating the F-35 program's continued progress and longevity.

Regarding the F-35 Technology Refresh 3 (TR-3) status, a second quarter 2024 customer acceptance of delivery software remains our target; however, we believe the third quarter 2024 may be a more likely scenario for TR-3 software acceptance. Additionally, we remain focused on receiving the necessary hardware from our suppliers to deliver this critical combat capability for the F-35.

Given the size and complexity of the F-35 program, we anticipate that there will be continual reviews related to aircraft performance, program, and delivery schedule, cost, and requirements as part of the DoD, Congressional, and international countries' oversight, and budgeting processes. Areas of focus include our and our suppliers' performance, software development (including, in particular, software maturation related to the TR-3 configuration), execution of future flight tests and findings resulting from testing and operating the aircraft, the level of cost associated with life cycle operations, sustainment and potential contractual obligations, inflation-related cost pressures, and the ability to improve affordability.

### **Backlog**

At December 31, 2023, our backlog was \$160.6 billion compared with \$150.0 billion at December 31, 2022. Backlog is converted into sales in future periods as work is performed or deliveries are made. We expect to recognize approximately 36% of our backlog over the next 12 months and approximately 62% over the next 24 months as revenue, with the remainder recognized thereafter.

Our backlog includes both funded (firm orders for our products and services for which funding has been both authorized and appropriated by the customer) and unfunded (firm orders for which funding has not been appropriated) amounts. We do not include unexercised options or potential orders under indefinite-delivery, indefinite-quantity (IDIQ) agreements in our backlog. If any of our contracts with firm orders were to be terminated, our backlog would be reduced by the expected value of the unfilled orders of such contracts. Funded backlog was \$107.4 billion at December 31, 2023, as compared to \$95.5 billion at December 31, 2022. For backlog related to each of our business segments, see below.

## Consolidated Results of Operations

Our operating cycle is primarily long-term and involves many types of contracts for the design, development and manufacture of products and related activities with varying delivery schedules. Consequently, the results of operations of a particular year, or year-to-year comparisons of sales and profits, may not be indicative of future operating results. The following discussions of comparative results should be reviewed in this context. All per share amounts cited in these discussions are presented on a “per diluted share” basis, unless otherwise noted. Our consolidated results of operations were as follows (in millions, except per share data):

	2023	2022	2021
Net sales	<b>\$67,571</b>	\$ 65,984	\$ 67,044
Cost of sales	<b>(59,092)</b>	(57,697)	(57,983)
Gross profit	<b>8,479</b>	8,287	9,061
Other income, net	<b>28</b>	61	62
Operating profit	<b>8,507</b>	8,348	9,123
Interest expense	<b>(916)</b>	(623)	(569)
Non-service FAS pension income (expense)	<b>443</b>	(971)	(1,292)
Other non-operating income (expense), net	<b>64</b>	(74)	288
Earnings before income taxes	<b>8,098</b>	6,680	7,550
Income tax expense	<b>(1,178)</b>	(948)	(1,235)
Net earnings	<b>\$ 6,920</b>	\$ 5,732	\$ 6,315
Diluted earnings per common share	<b>\$ 27.55</b>	\$ 21.66	\$ 22.76

Certain amounts reported in other income (expense), net, including our share of earnings or losses from equity method investees, are included in the operating profit of our business segments. Accordingly, such amounts are included in the discussion of our business segment results of operations.

## Net Sales

We generate sales from the delivery of products and services to our customers. Our consolidated net sales were as follows (in millions):

	2023	2022	2021
Products	<b>\$56,265</b>	\$55,466	\$56,435
% of total net sales	<b>83.3 %</b>	84.1 %	84.2 %
Services	<b>11,306</b>	10,518	10,609
% of total net sales	<b>16.7 %</b>	15.9 %	15.8 %
Total net sales	<b>\$67,571</b>	\$65,984	\$67,044

Substantially all of our contracts are accounted for using the percentage-of-completion cost-to-cost method. Under the percentage-of-completion cost-to-cost method, we record net sales on contracts over time based upon our progress towards completion on a particular



contract, as well as our estimate of the profit to be earned at completion. The following discussion of material changes in our consolidated net sales should be read in tandem with the subsequent discussion of changes in our consolidated cost of sales and our business segment results of operations because changes in our sales are typically accompanied by a corresponding change in our cost of sales due to the nature of the percentage-of-completion cost-to-cost method.

#### Product Sales

Product sales increased \$799 million, or 1%, in 2023 as compared to 2022. The increase was primarily attributable to higher product sales of approximately \$940 million at Space mostly due to ramp up in the Next Generation Interceptor (NGI) development program and higher volume in the Fleet Ballistic Missile (FBM) program.

#### Service Sales

Service sales increased \$788 million, or 7%, in 2023 as compared to 2022. The increase in service sales was primarily due to higher sales of approximately \$600 million at Aeronautics due to higher volume on F-35 sustainment contracts.

## Cost of Sales

Cost of sales, for both products and services, consist of materials, labor, subcontracting costs and an allocation of indirect costs (overhead and general and administrative), as well as the costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers. For each of our contracts, we monitor the nature and amount of costs at the contract level, which form the basis for estimating our total costs to complete the contract. Our consolidated cost of sales were as follows (in millions):

	2023	2022 <sup>a</sup>	2021 <sup>a</sup>
Cost of sales – products	<b>\$(50,206)</b>	\$(49,357)	\$(50,017)
% of product sales	<b>89.2 %</b>	89.0 %	88.6 %
Cost of sales – services	<b>(10,027)</b>	(9,252)	(9,434)
% of service sales	<b>88.7 %</b>	88.0 %	88.9 %
Severance and other charges	<b>(92)</b>	(100)	(36)
Other unallocated, net	<b>1,233</b>	1,012	1,504
Total cost of sales	<b>\$(59,092)</b>	\$(57,697)	\$(57,983)

(a) Effective January 1, 2023, we reclassified intangible asset amortization expense out of the business segment operating profit and into the unallocated items line item to better align with how management views and manages the business. See “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements for further information regarding the impact of this change on our current and prior period segment operating profit.

The following discussion of material changes in our consolidated cost of sales for products and services should be read in tandem with the preceding discussion of changes in our consolidated net sales and our business segment results of operations. Except for potential impacts to our programs resulting from supply chain disruptions and inflation, we have not identified any additional developing trends in cost of sales for products and services that would have a material impact on our future operations.

### Product Costs

Product costs increased approximately \$849 million, or 2%, in 2023 as compared to 2022. The increase was primarily attributable to higher product costs of \$815 million at Space due to ramp up in the Next Generation Interceptor (NGI) development program and higher volume in the Fleet Ballistic Missile (FBM) program.

### Service Costs

Service costs increased approximately \$775 million, or 8%, in 2023 compared to 2022. The increase was primarily attributable to higher service costs of approximately \$570 million at Aeronautics due to higher volume on F-35 sustainment contracts.

### Severance and other charges

During the fourth quarter of 2023, we recorded severance and other charges of \$92 million (\$73 million, or \$0.30 per share, after-tax) associated with severance costs for the planned reduction of certain positions across the corporation and asset impairment charges. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid over the next several quarters. This action resulted from a review of our business segments and corporate functions and is intended to improve the efficiency of our operations.

During the fourth quarter of 2022, we recorded severance and other charges totaling \$100 million (\$79 million, or \$0.31 per share, after-tax) related to actions at our RMS business segment, which include severance costs for reduction of positions and asset impairment charges. After a strategic review of RMS, these actions improved the efficiency of our operations and better aligned the organization and cost structure with changing economic conditions and changes in program lifecycles.

We generally can recover a portion of severance costs through the pricing of our products and services to the U.S. Government and other customers in future periods, which will be included in our operating results.

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### Other Unallocated, Net

Other unallocated, net primarily includes the FAS/CAS pension operating adjustment (which represents the difference between total CAS pension cost recorded in our business segments' results of operations and the service cost component of Financial Accounting Standards (FAS) pension expense), stock-based compensation expense, changes in the fair value of assets and liabilities for deferred compensation plans, intangible asset amortization expense and other corporate costs. These items are not allocated to the business segments and, therefore, are not allocated to cost of sales for products or services. Other unallocated, net reduced cost of sales by \$1.2 billion in 2023, compared to \$1.0 billion in 2022. There were lower losses from the changes in the fair value of assets and liabilities related to deferred compensation plans in 2023 compared to in 2022.

### Other Income, Net

Other income, net primarily includes earnings generated by equity method investees. Other income, net in 2023 was \$28 million, compared to \$61 million in 2022. Other income, net in 2023 includes lower earnings generated by our equity method investment in United Launch Alliance (ULA) due to lower launch volume and an increase in new product development costs.

### Interest Expense

Interest expense in 2023 was \$916 million, compared to \$623 million in 2022. The increase in interest expense in 2023 resulted primarily from the issuance of senior unsecured notes in May 2023 and October 2022. See "Capital Structure, Resources and Other" included within the "Liquidity and Cash Flows" discussion below and "Note 10 – Debt" included in our Notes to Consolidated Financial Statements for a discussion of our debt.

### Non-Service FAS Pension Income (Expense)

Non-service FAS pension income was \$443 million in 2023, compared to non-service FAS pension expense of \$971 million in 2022. Non-service FAS pension expense in 2022 includes a noncash, non-operating pension settlement charge of \$1.5 billion (\$1.2 billion, or \$4.33 per share, after-tax), related to the transfer of \$4.3 billion of our gross defined benefit pension obligations and related plan assets to an insurance company in the second quarter of 2022. See "Note 11 – Postretirement Benefit Plans" included in our Notes to Consolidated Financial Statements for additional information.

### Other Non-operating Income (Expense), Net

Other non-operating income (expense), net primarily includes gains or losses related to changes in the fair value of early-stage company investments or gains or losses upon sale of these investments. See "Note 1 – Organization and Significant Accounting Policies" included in our Notes to Consolidated Financial Statements for additional information. Other non-operating income, net in 2023 was \$64 million, compared to other non-operating expense, net of \$74 million in 2022. Other non-operating income (expense), net in 2023 includes higher interest income as a result of the higher rate environment we are seeing on a macro-economic scale and lower losses related to fair value adjustments of early-stage company investments.

## **Income Tax Expense**

Our effective income tax rate was 14.5% for 2023 and 14.2% for 2022. The rates for all periods benefited from research and development tax credits, tax deductions for foreign derived intangible income, dividends paid to our defined contribution plans with an employee stock ownership plan feature and employee equity awards.

Changes in U.S. (federal or state) or foreign tax laws and regulations, or their interpretation and application (including those with retroactive effect), such as the amortization for research or experimental expenditures, could significantly impact our provision for income taxes, the amount of taxes payable, our deferred tax asset and liability balances, and stockholders' equity. In addition to future changes in tax laws, the amount of net deferred tax assets will change periodically based on several factors, including the measurement of our postretirement benefit plan obligations, actual cash contributions to our postretirement benefit plans and the change in the amount or reevaluation of uncertain tax positions.

On September 8, 2023, the IRS released Notice 2023-63 providing interim guidance on research and development capitalization. Based on our analysis, the Notice confirms that certain expenditures incurred in the performance of cost-type contracts are not required to be capitalized. As a result, there has been a decrease to our uncertain tax position. IRS indicated in the Notice that it intends to issue proposed regulations consistent with the guidance set forth in the Notice.

For the 2023 tax year, research and development capitalization resulted in a cash tax liability of approximately \$560 million and our net deferred tax assets increased by a similar amount. While the largest impact of this provision was to the 2022

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cash tax liability, the impact will continue over the five-year amortization period, but will decrease over the period and be immaterial by 2027.

We are regularly under audit or examination by tax authorities, including foreign tax authorities (including in, amongst others, Australia, Canada, India, Italy, Japan, Poland, and the United Kingdom). The final determination of tax audits and any related litigation could similarly result in unanticipated increases in our tax expense and affect profitability and cash flows.

The Organization for Economic Co-operation and Development (OECD) has a framework to implement a global minimum corporate tax of 15% for companies with global revenues and profits above certain thresholds (referred to as Pillar 2), with certain aspects of Pillar 2 effective January 1, 2024 and other aspects effective January 1, 2025. While it is uncertain whether the U.S. will enact legislation to adopt Pillar 2, certain countries in which we operate have adopted legislation, and other countries are in the process of introducing legislation to implement Pillar 2. We do not expect Pillar 2 to have a material impact on our effective tax rate or our consolidated results of operation, financial position, and cash flows.

### **Net Earnings**

We reported net earnings of \$6.9 billion (\$27.55 per share) in 2023 and \$5.7 billion (\$21.66 per share) in 2022. Net earnings and earnings per share in 2023 were affected by the factors mentioned above. Earnings per share also benefited from a net decrease of approximately 13.4 million weighted average common shares outstanding in 2023, compared to 2022. The reduction in weighted average common shares was a result of share repurchases, partially offset by share issuance under our stock-based awards and certain defined contribution plans.

### **Business Segment Results of Operations**

We operate in four business segments: Aeronautics, MFC, RMS and Space. We organize our business segments based on the nature of products and services offered.

Net sales and operating profit of our business segments exclude intersegment sales, cost of sales and profit as these activities are eliminated in consolidation and thus are not included in management's evaluation of performance of each segment. Business segment operating profit includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments.

Business segment operating profit excludes the FAS/CAS pension operating adjustment described below, a portion of corporate costs not considered allowable or allocable to contracts with the U.S. Government under the applicable U.S. Government cost accounting standards (CAS) or federal acquisition regulations (FAR), and other items not considered part of management's evaluation of segment operating performance. See "Note 1 – Organization and Significant Accounting Policies" for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.



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Sales and operating profit for each of our business segments were as follows (in millions):

	2023	2022	2021
<b>Net sales</b>			
Aeronautics	<b>\$27,474</b>	\$ 26,987	\$ 26,748
Missiles and Fire Control	<b>11,253</b>	11,317	11,693
Rotary and Mission Systems	<b>16,239</b>	16,148	16,789
Space	<b>12,605</b>	11,532	11,814
Total net sales	<b>\$67,571</b>	\$ 65,984	\$ 67,044
<b>Operating profit</b>			
Aeronautics	<b>\$ 2,825</b>	\$ 2,867	\$ 2,800
Missiles and Fire Control	<b>1,541</b>	1,637	1,650
Rotary and Mission Systems	<b>1,865</b>	1,906	2,030
Space	<b>1,158</b>	1,057	1,184
Total business segment operating profit	<b>7,389</b>	7,467	7,664
<b>Unallocated items</b>			
FAS/CAS pension operating adjustment	<b>1,660</b>	1,709	1,960
Intangible asset amortization expense	<b>(247)</b>	(248)	(285)
Severance and other charges <sup>(a)</sup>	<b>(92)</b>	(100)	(36)
Other, net	<b>(203)</b>	(480)	(180)
Total unallocated, net	<b>1,118</b>	881	1,459
Total consolidated operating profit	<b>\$ 8,507</b>	\$ 8,348	\$ 9,123

<sup>(a)</sup> See “Consolidated Results of Operations – Severance and Other Charges” discussion above for information on charges related to certain severance and other actions across our organization.

Effective January 1, 2023, we no longer consider amortization expense related to purchased intangible assets when evaluating the operating performance of our business segments. This change has been applied to the accompanying amounts above, including the amounts for 2022 and 2021. See “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements for further information regarding the impact of this change on our current and prior period segment operating profit. We also included supplemental tables under the caption Pro Forma Business Segment Summary Operating Results in our earnings release included as exhibit 99.1 to our Current Report on Form 8-K filed January 24, 2023, which provide unaudited pro forma financial information reflecting the impact of the change in presentation as-if it had been applicable for the quarters and year to date periods in 2022 and 2021. The supplemental tables, the earnings release and the Current Report on Form 8-K are not, and shall not be deemed to be, incorporated by reference herein.

Our business segments’ results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension and other postretirement benefit plan cost through the pricing of our products and services on U.S. Government contracts and, therefore, recognize CAS pension cost in each of our business segment’s net sales and cost of sales. Our consolidated



financial statements must present pension and other postretirement benefit plan income calculated in accordance with Financial Accounting Standards (FAS) requirements under U.S. GAAP. The operating portion of the total FAS/CAS pension adjustment represents the difference between the service cost component of FAS pension income (expense) and total CAS pension cost. The non-service FAS pension income (expense) components are included in non-service FAS pension income (expense) in our consolidated statements of earnings. As a result, to the extent that CAS pension cost exceeds the service cost component of FAS pension income (expense) we have a favorable FAS/CAS pension operating adjustment.

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The total FAS/CAS pension adjustments, including the service and non-service cost components of FAS pension income (expense) for our qualified defined benefit pension plans, were as follows (in millions):

	2023	2022	2021
<b>Total FAS income (expense) and CAS cost</b>			
FAS pension income (expense)	\$ 378	\$(1,058)	\$(1,398)
Less: CAS pension cost	1,725	1,796	2,066
Total FAS/CAS pension adjustment	\$ 2,103	\$ 738	\$ 668
<b>Service and non-service cost reconciliation</b>			
FAS pension service cost	\$ (65)	\$ (87)	\$ (106)
Less: CAS pension cost	1,725	1,796	2,066
Total FAS/CAS pension operating adjustment	1,660	1,709	1,960
Non-service FAS pension income (expense)	443	(971)	(1,292)
Total FAS/CAS pension adjustment	\$ 2,103	\$ 738	\$ 668

The total FAS/CAS pension adjustment in 2022 reflects a noncash, non-operating pension settlement charge of \$1.5 billion (\$1.2 billion, or \$4.33 per share, after-tax) recognized in connection with the transfer of \$4.3 billion of our gross defined benefit pension obligations and related plan assets to an insurance company in the second quarter of 2022. The total FAS/CAS pension adjustment in 2021 reflects a noncash, non-operating pension settlement charge of \$1.7 billion (\$1.3 billion, or \$4.72 per share, after-tax) recognized in connection with the transfer of \$4.9 billion of our gross defined benefit pension obligations and related plan assets to an insurance company in the third quarter of 2021. See “Note 11 – Postretirement Benefit Plans” included in our Notes to Consolidated Financial Statements.

The following segment discussions also include information relating to backlog for each segment. Backlog was approximately \$160.6 billion and \$150.0 billion at December 31, 2023 and 2022. These amounts included both funded backlog (firm orders for which funding has been both authorized and appropriated by the customer) and unfunded backlog (firm orders for which funding has not yet been appropriated). Backlog does not include unexercised options or task orders to be issued under indefinite-delivery, indefinite-quantity contracts. Funded backlog was approximately \$107.4 billion at December 31, 2023, as compared to \$95.5 billion at December 31, 2022. If any of our contracts with firm orders were to be terminated, our backlog would be reduced by the expected value of the unfilled orders of such contracts.

Management evaluates performance on our contracts by focusing on net sales and operating profit and not by type or amount of operating expense. Consequently, our discussion of business segment performance focuses on net sales and operating profit, consistent with our approach for managing the business. This approach is consistent throughout the life cycle of our contracts, as management assesses the bidding of each contract by focusing on net sales and operating profit and monitors performance on our contracts in a similar manner through their completion.

We regularly provide customers with reports of our costs as the contract progresses. The cost information in the reports is accumulated in a manner specified by the requirements of each contract. For example, cost data provided to a customer for a product would typically align to the subcomponents of that product (such as a wing-box on an aircraft) and for services would align to the type of work being performed (such as aircraft sustainment). Our contracts generally allow for the recovery of costs in the pricing of our products and services. Most of our contracts are bid and negotiated with our customers under circumstances in which we are required to disclose our estimated total costs to provide the product or service. This approach for negotiating contracts with our U.S. Government customers generally allows for recovery of our actual costs plus a reasonable profit margin. We also may enter into long-term supply contracts for certain materials or components to coincide with the production schedule of certain products and to ensure their availability at known unit prices.

Many of our contracts span several years and include highly complex technical requirements. At the outset of a contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract and assess the effects of those risks on our estimates of total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract and variable considerations. Profit booking rates may increase during the performance of the contract if we successfully retire risks related to the technical,

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schedule and cost aspects of the contract, which decreases the estimated total costs to complete the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. For further discussion on fixed-price contracts, see “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements.

We have a number of programs that are designated as classified by the U.S. Government which cannot be specifically described. The operating results of these classified programs are included in our consolidated and business segment results and are subjected to the same oversight and internal controls as our other programs.

Our net sales are primarily derived from long-term contracts for products and services provided to the U.S. Government as well as FMS contracted through the U.S. Government. We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied.

Changes in net sales and operating profit generally are expressed in terms of volume. Changes in volume refer to increases or decreases in sales or operating profit resulting from varying production activity levels, deliveries or service levels on individual contracts. Volume changes in segment operating profit are typically based on the current profit booking rate for a particular contract.

Comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts. Increases in the profit booking rates, typically referred to as favorable profit adjustments, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate and are typically referred to as unfavorable profit adjustments. Increases or decreases in profit booking rates are recognized in the current period they are determined and reflect the inception-to-date effect of such changes. Segment operating profit and margin may also be impacted favorably or unfavorably by other items, which may or may not impact sales. Favorable items may include the positive resolution of contractual matters, cost recoveries on severance and restructuring, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; supply chain disruptions; restructuring charges (except for significant severance actions, which are excluded from segment operating results); reserves for disputes; certain asset impairments; and losses on sales of certain assets.

Our consolidated net profit booking rate adjustments increased segment operating profit by approximately \$1.6 billion in 2023 and \$1.8 billion in 2022.

We may periodically experience performance issues and could record losses for certain programs. For further discussions, see “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements for more information.

## Aeronautics

Our Aeronautics business segment is engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies. Aeronautics’ major programs include the F-35 Lightning II, C-130 Hercules, F-16 Fighting Falcon and F-22 Raptor. Aeronautics’ operating results included the following (in millions):

	2023	2022	2021
Net sales	<b>\$27,474</b>	\$26,987	\$26,748
Operating profit	<b>2,825</b>	2,867	2,800
Operating margin	<b>10.3 %</b>	10.6 %	10.5 %
Backlog at year-end	<b>\$60,156</b>	\$56,630	\$49,118

Aeronautics’ net sales in 2023 increased \$487 million, or 2%, compared to 2022. Net sales increased by approximately \$540 million for the ramp up on classified programs and \$230 million on the F-16 program related to the ramp up in

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production. These increases were partially offset by lower net sales of \$400 million on the F-35 program due to lower volume on production contracts partially offset by higher volume on sustainment and development contracts.

Aeronautics' operating profit in 2023 decreased \$42 million, or 1%, compared to 2022. The decrease was primarily attributable to lower operating profit of \$100 million on the F-22 program due to lower net favorable profit adjustments and \$95 million on the F-35 program due to lower net favorable profit adjustments on production contracts. These decreases were partially offset by higher operating profit of \$115 million on classified programs due to higher net favorable profit adjustments and the impact of the higher sales as discussed above. Total net profit booking rate adjustments were \$180 million lower in 2023 compared to 2022.

### Backlog

Backlog increased in 2023 compared to 2022 primarily due to higher orders on classified and C-130 programs.

### Missiles and Fire Control

Our MFC business segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions. MFC's major programs include PAC-3, Terminal High Altitude Area Defense (THAAD), Multiple Launch Rocket System (MLRS), Precision Strike Missile (PrSM), Joint Air-to-Surface Standoff Missile (JASSM), Long-Range Anti-Ship Missile (LRASM), Hellfire, Apache fire control system, Sniper Advanced Targeting Pod (SNIPER®), Infrared Search and Track (IRST21®), Special Operations Forces Global Logistics Support Services (SOF GLSS), hypersonics programs and Javelin. MFC's operating results included the following (in millions):

	2023	2022	2021
Net sales	<b>\$11,253</b>	\$11,317	\$11,693
Operating profit	<b>1,541</b>	1,637	1,650
Operating margin	<b>13.7 %</b>	14.5 %	14.1 %
Backlog at year-end	<b>\$32,229</b>	\$28,735	\$27,021

MFC's net sales in 2023 decreased \$64 million, or 1% compared to 2022. Net sales decreased \$165 million for integrated air and missile defense programs due primarily to supplier cost timing on PAC-3 and \$115 million for sensors and global sustainment programs due primarily to the absence in 2023 of the impact of a favorable profit adjustment on an international program in 2022. These decreases were partially offset by higher net sales of \$145 million for tactical and strike missile programs primarily due to production ramp up on JASSM, LRASM, and precision fires programs.

MFC's operating profit in 2023 decreased \$96 million, or 6%, compared to 2022. The decrease was primarily attributable to lower operating profit for tactical and strike missile programs due to \$45 million of losses recognized on a classified program. Total net profit booking rate adjustments were \$95 million lower in 2023 compared to 2022.

## Backlog

Backlog increased in 2023 compared to 2022 primarily due to higher orders on PAC-3, LRASM, JASSM and Guided Multiple Launch Rocket Systems (GMLRS) programs.

## Rotary and Mission Systems

RMS designs, manufactures, services and supports various military and commercial helicopters, surface ships, sea and land-based missile defense systems, radar systems, laser systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions. RMS' major programs include Aegis Combat System, Littoral Combat Ship (LCS), Multi-Mission Surface Combatant (MMSC), Black Hawk and Seahawk helicopters,

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CH-53K King Stallion heavy lift helicopter, Combat Rescue Helicopter (CRH), VH-92A helicopter, and the C2BMC program. RMS' operating results included the following (in millions):

	2023	2022	2021
Net sales	<b>\$16,239</b>	\$16,148	\$16,789
Operating profit	<b>1,865</b>	1,906	2,030
Operating margin	<b>11.5 %</b>	11.8 %	12.1 %
Backlog at year-end	<b>\$37,726</b>	\$34,949	\$33,700

RMS' net sales in 2023 increased \$91 million, or 1%, compared to 2022. Higher net sales of \$265 million on IWSS programs due to higher volume on the Aegis program and new program ramp ups within the radar and laser systems portfolios were partially offset by lower net sales of \$55 million for Sikorsky helicopter programs due to lower Black Hawk production volume.

RMS' operating profit in 2023 decreased \$41 million, or 2%, compared to 2022. The decrease was primarily attributable to lower operating profit for Sikorsky helicopter programs primarily due to an unfavorable profit adjustment of \$100 million in the second quarter of 2023 on the Canadian Maritime Helicopter Program (CMHP) and lower Black Hawk production volume. This decrease was partially offset by higher operating profit for IWSS programs primarily due to a favorable profit adjustment of \$65 million in the second quarter of 2023 on an international surveillance and control program, along with higher volume on the Aegis program. Total net profit booking rate adjustments were \$100 million lower in 2023 compared to 2022.

### Backlog

Backlog increased in 2023 compared to 2022 primarily due to higher orders on Sikorsky programs.

### Space

Our Space business segment is engaged in the research and design, development, engineering and production of satellites, space transportation systems, and strategic, advanced strike and defensive systems. Space provides network-enabled situational awareness and integrates complex space and ground global systems to help our customers gather, analyze, and securely distribute critical intelligence data. Space is also responsible for various classified systems and services in support of vital national security systems. Space's major programs include the Trident II D5 Fleet Ballistic Missile (FBM), Orion Multi-Purpose Crew Vehicle (Orion), Next Generation Overhead Persistent Infrared (Next Gen OPIR) system, Global Positioning System (GPS) III, hypersonics and transport layer programs and Next Generation Interceptor (NGI). Operating profit for our Space business segment includes our share of earnings for our investment in ULA, which provides expendable launch services to the U.S. Government and commercial customers. Space's operating results included the following (in millions):



	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net sales	<b>\$12,605</b>	\$11,532	\$11,814
Operating profit	<b>1,158</b>	1,057	1,184
Operating margin	<b>9.2 %</b>	9.2 %	10.0 %
Backlog at year-end	<b>\$30,456</b>	\$29,684	\$25,516

Space's net sales in 2023 increased \$1.1 billion, or 9%, compared to 2022. The increase was primarily attributable to higher net sales of \$620 million for strategic and missile defense programs due to ramp up in the NGI development program and higher volume in the FBM program; and higher net sales of \$225 million for national security space programs due to development ramp up on Transport Layer and classified programs.

Space's operating profit in 2023 increased \$101 million, or 10%, compared to 2022. The increase was primarily attributable to higher operating profit of \$140 million for national security space programs due to the absence of unfavorable profit adjustments in 2023 on a ground solutions program and higher net favorable profit adjustments in classified programs. This increase was partially offset by \$80 million of lower equity earnings resulting from lower launch volume and an increase in new product development costs at ULA. Total net profit booking rate adjustments were \$150 million higher in 2023 compared to 2022.

#### Equity earnings

Total equity earnings (primarily ULA) represented approximately \$20 million and \$100 million, or 2% and 9%, of Space's operating profit during 2023 and 2022.

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### Backlog

Backlog increased in 2023 compared to 2022 primarily due higher orders for strategic and missile defense programs for NGI development, hypersonics, and Mk21A, partially offset by reductions in the National Security Space portfolio for classified and Next Gen OPIR programs.

### Liquidity and Cash Flows

As of December 31, 2023, we had cash and cash equivalents of \$1.4 billion. Our principal source of liquidity is our cash from operations. However, we also have access to credit markets, if needed, for liquidity or general corporate purposes, including share repurchases. This access includes our \$3.0 billion revolving credit facility or the ability to issue commercial paper and letters of credit to support customer advance payments and for other trade finance purposes such as guaranteeing our performance on particular contracts. We believe our cash and cash equivalents, our expected cash flow generated from operations and our access to credit markets will be sufficient to meet our cash requirements and cash deployment plans over the next twelve months and beyond based on our current business plans.

Cash received from customers, either from the payment of invoices for work performed or for advances from non-U.S. government customers in excess of costs incurred, is our primary source of cash from operations. We generally do not begin work on contracts until funding is appropriated by the customer. However, from time to time, we fund customer programs ourselves pending government appropriations. If we incur costs in excess of funds obligated on the contract or in advance of a contract award, this negatively affects our cash flows and we may be at risk for reimbursement of the excess costs.

Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. We generally bill and collect cash more frequently under cost-reimbursable contracts, which represented approximately 41% of the sales we recorded in 2023, as we are authorized to bill as the costs are incurred. A number of our fixed-price contracts may provide for performance-based payments, which allow us to bill and collect cash as we perform on the contract. The amount of performance-based payments and the related milestones are encompassed in the negotiation of each contract. The timing of such payments may differ from the timing of the costs incurred related to our contract performance, thereby affecting our cash flows.

The U.S. Government has indicated that it would consider progress payments as the baseline for negotiating payment terms on fixed-price contracts, rather than performance-based payments. In contrast to negotiated performance-based payment terms, progress payment provisions correspond to a percentage of the amount of costs incurred during the performance of the contract and are invoiced regularly as costs are incurred. Our cash flows may be affected if the U.S. Government changes its payment policies. The U.S. Government from time to time withholds payments on certain of our billings based on contract terms or regulatory provisions. Ultimately, the impact of policy changes or withholding payments may delay the receipt of cash, but the cumulative amount of cash collected during the life of the contract should not vary. Additionally, during the COVID-19 pandemic, we accelerated payments to the supply chain with a focus on small and at-risk businesses. We will continue to evaluate the use of accelerated payments on an as needed basis.

We have a balanced cash deployment strategy to invest in our business and key technologies to provide our customers with enhanced capabilities, enhance stockholder value, and position ourselves to take advantage of new business opportunities when they arise. Consistent with that strategy, we have continued to invest in our business and technologies through capital expenditures, independent research and development, and selective business acquisitions and investments.

We continue to return cash to stockholders through dividends and share repurchases. In October 2023, the Board of Directors authorized a fourth quarter dividend payment of \$3.15 per share, representing an increase of \$0.15 per share over the prior quarterly dividend payment. The Board of Directors also authorized an increase of \$6.0 billion to our share repurchase program. As of December 31, 2023, the total remaining authorization for future common share repurchases under our program was \$10.0 billion. We expect to fund these future repurchases through a combination of cash on hand and debt. The stock repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time. The amount of shares ultimately purchased and the timing of purchases are at the discretion of management and subject to compliance with applicable law and regulation.

We continue to actively manage our debt levels, including maturities and interest rates. We also actively manage our pension obligations and expect to continue to opportunistically manage our pension liabilities through the purchase of group annuity contracts or other actions for portions of our outstanding defined benefit pension obligations using assets from the pension trust. See “Note 11 – Postretirement Benefit Plans” included in our Notes to Consolidated Financial Statements for additional information. Future pension risk transfer transactions could be significant and result in us making additional

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contributions to the pension trust and/or require us to recognize noncash, non-operating pension settlement charges in earnings in the applicable reporting period.

The following table provides a summary of our cash flow information followed by a discussion of the key elements (in millions):

	2023	2022	2021
Cash and cash equivalents at beginning of year	\$ 2,547	\$ 3,604	\$ 3,160
Operating activities			
Net earnings	6,920	5,732	6,315
Noncash adjustments	1,289	2,455	3,109
Changes in working capital	317	(733)	9
Other, net	(606)	348	(212)
Net cash provided by operating activities	7,920	7,802	9,221
Net cash used for investing activities	(1,694)	(1,789)	(1,161)
Net cash used for financing activities	(7,331)	(7,070)	(7,616)
Net change in cash and cash equivalents	(1,105)	(1,057)	444
Cash and cash equivalents at end of year	\$ 1,442	\$ 2,547	\$ 3,604

## Operating Activities

Net cash provided by operating activities increased \$118 million in 2023 compared to 2022. The increase was primarily due to the timing of production and billing cycles impacting receivables (primarily the F-35 program at Aeronautics) and contract assets (primarily IWSS programs at RMS), partially offset by timing of cash payments for accounts payable across the company. Our federal and foreign income tax payments, net of refunds, were \$1.8 billion in 2023, compared to \$1.6 billion in 2022.

## Non-GAAP Financial Measure - Free Cash Flow

Free cash flow is a non-GAAP financial measure that we define as cash from operations less capital expenditures. Our capital expenditures are comprised of equipment and facilities infrastructure and information technology (inclusive of costs for the development or purchase of internal-use software that are capitalized). We use free cash flow to evaluate our business performance and overall liquidity, as well as a performance goal in our annual and long-term incentive plans. We believe free cash flow is a useful measure for investors because it represents the amount of cash generated from operations after reinvesting in the business and that may be available to return to stockholders and creditors (through dividends, stock repurchases and debt repayments) or available to fund acquisitions and other investments. The entire amount of free cash flow is not necessarily available for discretionary expenditures, however, because it does not account for certain mandatory expenditures, such as the repayment of maturing debt and pension contributions. While management believes that free cash flow as a non-GAAP financial measure may be useful in evaluating our financial performance, it should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP and may not be comparable to similarly titled measures used by other companies.

The following table reconciles net cash provided by operating activities to free cash flow (in millions):

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cash from operations	<b>\$ 7,920</b>	\$ 7,802	\$ 9,221
Capital expenditures	<b>(1,691)</b>	(1,670)	(1,522)
Free cash flow	<b>\$ 6,229</b>	\$ 6,132	\$ 7,699

### **Investing Activities**

Cash flows related to investing activities primarily include capital expenditures and payments for acquisitions and divestitures of businesses and investments. The majority of our capital expenditures are for equipment and facilities infrastructure that generally are incurred to support new and existing programs across all of our business segments. We also

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incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use software.

Net cash used for investing activities decreased \$95 million in 2023 compared to 2022.

### **Financing Activities**

Net cash used for financing activities increased \$261 million in 2023 compared to 2022, primarily due to lower proceeds from issuance of long-term debt, partially offset by lower repayments of long-term debt and decreased repurchases of common stock.

We paid dividends totaling \$3.1 billion (\$12.15 per share) in 2023 and \$3.0 billion (\$11.40 per share) in 2022. We paid quarterly dividends of \$3.00 per share during each of the first three quarters of 2023 and \$3.15 per share during the fourth quarter of 2023; \$2.80 per share during each of the first three quarters of 2022 and \$3.00 per share during the fourth quarter of 2022.

During 2023, we paid \$6.0 billion to repurchase 13.4 million shares of our common stock. See “Note 12 – Stockholders’ Equity” included in our Notes to Consolidated Financial Statements for additional information. During 2022, we paid \$7.9 billion to repurchase 18.3 million shares of our common stock.

During 2023, we received net proceeds of \$2.0 billion from issuance of senior unsecured notes. In May 2022, we received net proceeds of \$2.3 billion from issuance of senior unsecured notes and used the net proceeds from the offering to redeem all of the outstanding \$500 million Notes due 2023, \$750 million Notes due 2025 and used the remaining balance of the net proceeds to redeem \$1.0 billion of our outstanding \$2.0 billion Notes due 2026. In October 2022, we received net proceeds of \$3.9 billion from issuance of senior unsecured notes and used the net proceeds from the offering to enter into an accelerated share repurchase (ASR) agreement to repurchase \$4.0 billion of our common stock. See “Note 10 – Debt” included in our Notes to Consolidated Financial Statements for additional information.

During 2023, we repaid \$115 million of long-term notes with a fixed interest rate of 7.00% according to their scheduled maturities.

### **Capital Structure, Resources and Other**

At December 31, 2023, we held cash and cash equivalents of \$1.4 billion that were generally available to fund ordinary business operations without significant legal, regulatory, or other restrictions.

Our total outstanding short-term and long-term debt, net of unamortized discounts and issuance costs, was \$17.5 billion as of December 31, 2023 and is in the form of publicly-issued notes that bear interest at fixed rates. As of December 31, 2023, we were in compliance with all covenants contained in our debt and credit agreements. See “Note 10 – Debt” included in our Notes to Consolidated Financial Statements for more information on our long-term debt and revolving credit facilities.

We actively seek to finance our business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. We review changes in financial market and economic conditions to manage the types, amounts and maturities of our indebtedness. We may at times refinance existing indebtedness, vary our mix of variable-rate and fixed-rate debt or seek alternative financing sources for our cash and operational needs.

## Contractual Commitments

At December 31, 2023, we had contractual commitments to repay debt, make payments under operating leases, settle obligations related to agreements to purchase goods and services and settle tax and other liabilities. Financing lease obligations were not material. Payments due under these obligations and commitments are as follows (in millions):

	<b>Total</b>	<b>Due Within 1 Year</b>
Total debt	\$ 18,723	\$ 168
Interest payments	15,849	857
Other liabilities	2,372	233
Operating lease obligations	1,306	339
Purchase obligations:		
Operating activities	63,438	29,041
Capital expenditures	1,011	641
Total contractual cash obligations	\$ 102,699	\$ 31,279

The table above includes debt presented gross of any unamortized discounts and issuance costs, but excludes the net unfunded obligation and estimated minimum funding requirements related to our qualified defined benefit pension plans. For additional information about obligations and our future minimum contribution requirements for these plans, see “Note 11 – Postretirement Benefit Plans” included in our Notes to Consolidated Financial Statements. Amounts related to other liabilities represent the contractual obligations for certain long-term liabilities recorded as of December 31, 2023. Such amounts mainly include expected payments under non-qualified pension plans, environmental liabilities and deferred compensation plans.

Purchase obligations related to operating activities include agreements and contracts that give the supplier recourse to us for cancellation or nonperformance under the contract or contain terms that would subject us to liquidated damages. Such agreements and contracts may, for example, be related to direct materials, obligations to subcontractors and outsourcing arrangements. Total purchase obligations for operating activities in the preceding table include approximately \$57.3 billion related to contractual commitments entered into as a result of contracts we have with our U.S. Government customers. The U.S. Government generally would be required to pay us for any costs we incur relative to these commitments if they were to terminate the related contracts “for convenience” under the FAR, subject to available funding. This also would be true in cases where we perform subcontract work for a prime contractor under a U.S. Government contract. The termination for convenience language also may be included in contracts with foreign, state and local governments. We also have contracts with customers that do not include termination for convenience provisions, including contracts with commercial customers.

The majority of our capital expenditures for 2023 and those planned for 2024 are for equipment, facilities infrastructure and information technology. The amounts above in the table represent the portion of expected capital expenditures to be incurred in 2024 and



beyond that have been obligated under contracts as of December 31, 2023 and not necessarily total capital expenditures for future periods. Expenditures for equipment and facilities infrastructure are generally incurred to support new and existing programs across all of our business segments. For example, we have projects underway at Aeronautics to support classified development programs and at RMS to support our Sikorsky helicopter programs; and we have projects underway to modernize certain of our facilities. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use software.

We also may enter into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to obtaining orders for our products and services from certain customers in foreign countries. These agreements are designed to enhance the social and economic environment of the foreign country by requiring the contractor to promote investment in the country. Offset agreements may be satisfied through activities that do not require us to use cash, including transferring technology, providing manufacturing and other consulting support to in-country projects and the purchase by third parties (e.g., our vendors) of supplies from in-country vendors. These agreements also may be satisfied through our use of cash for such activities as purchasing supplies from in-country vendors, providing financial support for in-country projects, establishment of joint ventures with local companies and building or leasing facilities for in-country operations. We typically do not commit to offset agreements until orders for our products or services are definitive. The amounts ultimately applied against our offset agreements are based on negotiations with the customer and typically require cash outlays that represent only a fraction of the original amount in the offset agreement. Satisfaction of our offset obligations are included in the estimates of our total costs to complete the contract and may impact our sales, profitability and cash flows. Our ability to recover investments on our consolidated balance sheet that we make to satisfy offset obligations is generally dependent upon the successful operation of

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ventures that we do not control and may involve products and services that are dissimilar to our business activities. At December 31, 2023, the notional value of remaining obligations under our outstanding offset agreements totaled approximately \$21.3 billion, which primarily relate to our Aeronautics, MFC and RMS business segments, most of which extend through 2044. To the extent we have entered into purchase or other obligations at December 31, 2023 that also satisfy offset agreements, those amounts are included in the contractual commitments table above. Offset programs usually extend over several years and may provide for penalties, estimated at approximately \$2.3 billion at December 31, 2023, in the event we fail to perform in accordance with offset requirements. While historically we have not been required to pay material penalties, resolution of offset requirements are often the result of negotiations and subjective judgments.

We have entered into standby letters of credit and surety bonds issued on our behalf by financial institutions, and we have directly issued guarantees to third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. In some cases, we may guarantee the contractual performance of third parties such as joint venture partners. At December 31, 2023, we had the following outstanding letters of credit, surety bonds and third-party guarantees (in millions):

	<b>Total Commitment</b>	<b>Less Than 1 Year</b>
Standby letters of credit <sup>(a)</sup>	\$ 2,546	\$ 1,234
Surety bonds	354	354
Third-party Guarantees	1,000	229
Total commitments	\$ 3,900	\$ 1,817

<sup>(a)</sup> Approximately \$861 million of standby letters of credit in the “Less Than 1 Year” category are expected to renew for additional periods until completion of the contractual obligation.

At December 31, 2023, third-party guarantees totaled \$1.0 billion, of which approximately 75% related to guarantees of contractual performance of joint ventures to which we currently are or previously were a party. These amounts represent our estimate of the maximum amounts we would expect to incur upon the contractual non-performance of the joint venture, joint venture partners or divested businesses. Generally, we also have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner.

In determining our exposures, we evaluate the reputation, performance on contractual obligations, technical capabilities and credit quality of our current and former joint venture partners and the transferee under novation agreements, all of which include a guarantee as required by the FAR. At December 31, 2023 and 2022, there were no material amounts recorded in our financial statements related to third-party guarantees or novation agreements.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in conformity with U.S. GAAP, which requires us to make estimates and assumptions about future events that affect the amounts

reported in our consolidated financial statements. We employ judgment in making our estimates in consideration of historical experience, currently available information and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from our estimates and assumptions, and any such differences could be material to our consolidated financial statements. We believe the following accounting policies are critical to the understanding of our consolidated financial statements and require the use of significant management judgment in their application. For a summary of our significant accounting policies, see “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements for additional information.

### **Contract Accounting / Sales Recognition**

The majority of our net sales are generated from long-term contracts with the U.S. Government and international customers (including FMS contracted through the U.S. Government) for the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. Substantially all of our revenue is recognized over time as we perform under the contract because control of the work in process transfers continuously to the customer. For performance obligations to deliver products with continuous control to the customer, revenue is recognized based on the extent of progress towards completion of the performance obligation, generally using the percentage of completion cost-to-cost measure of progress.

Significant estimates and assumptions are made in estimating contract sales, costs, and profit. We estimate profit as the difference between estimated revenues and total estimated costs to complete the contract. We also estimate variable

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consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. All of the estimates require significant judgement and are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is evident, which we refer to as a reach-forward loss.

Comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts. Segment operating profit and margin may also be impacted favorably or unfavorably by other items, which may or may not impact sales. Favorable items may include the positive resolution of contractual matters, cost recoveries on severance and restructuring, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; supply chain disruptions; restructuring charges (except for significant severance actions, which are excluded from segment operating results); reserves for disputes; certain asset impairments; and losses on sales of certain assets.

For the impacts of changes in estimates and assumptions on our consolidated financial statements, see “Note 1 – Organization and Significant Accounting Policies” included in our Notes to Consolidated Financial Statements.

### **Other Contract Accounting Considerations**

The majority of our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government. Cost-based pricing is determined under the FAR. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, interest expense and certain advertising and public relations activities are unallowable and, therefore, not recoverable through sales. In addition, we may enter into advance agreements with the U.S. Government that address the subjects of allowability and allocability of costs to contracts for specific matters. For example, most of the environmental costs we incur for environmental remediation related to sites operated in prior years are allocated to our current operations as general and administrative costs under FAR provisions and supporting advance agreements reached with the U.S. Government.

We closely monitor compliance with and the consistent application of our critical accounting policies related to contract accounting. Costs incurred and allocated to contracts are reviewed for compliance with U.S. Government regulations by our personnel and are subject to audit by the Defense Contract Audit Agency.

### **Postretirement Benefit Plans**

#### **Overview**

Many of our employees and retirees participate in qualified and nonqualified defined benefit pension plans, retiree medical and life insurance plans and other postemployment plans (collectively, postretirement benefit plans - see “Note 11 – Postretirement Benefit Plans” included in our Notes to Consolidated Financial Statements). The majority of our

accrued benefit obligations relate to our qualified defined benefit pension and retiree medical and life insurance plans. We recognize on a plan-by-plan basis the net funded status of these postretirement benefit plans under GAAP as either an asset or a liability on our consolidated balance sheets. The GAAP funded status represents the difference between the fair value of each plan's assets and the benefit obligation of the plan. The GAAP benefit obligation represents the present value of the estimated future benefits we currently expect to pay to plan participants based on past service. The qualified defined benefit pension plans for salaried employees are fully frozen effective January 1, 2020 and our salaried employees participate in a defined contribution retirement savings plan.

Similar to recent years, we continue to take actions to mitigate the effect of our defined benefit pension plans on our financial results by reducing the size and volatility of our pension obligations. From December 2018 and inclusive of the transactions described in "Note 11 - Postretirement Benefit Plans" included in our Notes to Consolidated Financial Statements, we, through our master retirement trust, have transferred approximately \$15.9 billion related to our outstanding defined benefit pension obligations to third party insurance companies. This has eliminated pension plan volatility for approximately 109,000 retirees and beneficiaries and reduced our annually required Pension Benefit Guarantee Corporation (PBGC) premiums by approximately \$79 million per year.

We expect to continue to look for opportunities to manage our pension liabilities through additional pension risk transfer transactions in future years. Future transactions could result in a noncash settlement charge to earnings, which could be material to a reporting period.

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Notwithstanding these actions, the impact of our postretirement benefit plans on our earnings may be volatile in that the amount of expense we record and the funded status for our postretirement benefit plans may materially change from year to year because the calculations are sensitive to changes in several key economic assumptions, including interest rates, actual rates of return on plan assets and other actuarial assumptions including participant longevity, as well as the timing of cash funding.

### **Actuarial Assumptions**

The benefit obligations and assets of our postretirement benefit plans are measured at the end of each year, or more frequently, upon the occurrence of certain events such as a significant plan amendment (including in connection with a pension risk transfer transaction), settlement, or curtailment. The amounts we record are measured using actuarial valuations, which are dependent upon key assumptions such as discount rates, the expected long-term rate of return on plan assets, and participant longevity. The assumptions we make affect both the calculation of the benefit obligations as of the measurement date and the calculation of FAS expense in subsequent periods. When reassessing these assumptions, we consider past and current market conditions and make judgments about future market trends. We also consider factors such as the timing and amounts of expected contributions to the plans and benefit payments to plan participants.

We continue to use a single weighted average discount rate approach when calculating our consolidated benefit obligations related to our defined benefit pension plans resulting in 5.00% at December 31, 2023, compared to 5.25% at December 31, 2022. We utilized a single weighted average discount rate of 5.00% when calculating our benefit obligations related to our retiree medical and life insurance plans at December 31, 2023, compared to 5.25% at December 31, 2022. We evaluate several data points in order to arrive at an appropriate single weighted average discount rate, including results from cash flow models, quoted rates from long-term bond indices and changes in long-term bond rates over the past year. As part of our evaluation, we calculate the approximate average yields on corporate bonds rated AA or better selected to match our projected postretirement benefit plan cash flows. The decrease in the discount rate from December 31, 2022 to December 31, 2023 resulted in an increase in the projected benefit obligations of our qualified defined benefit pension plans of approximately \$765 million at December 31, 2023.

We utilized an expected long-term rate of return on plan assets of 6.50% at both December 31, 2023 and December 31, 2022. The long-term rate of return assumption represents the expected long-term rate of return on the funds invested or to be invested, to provide for the benefits included in the benefit obligations. This assumption is based on several factors including historical market index returns, the anticipated long-term allocation of plan assets, the historical return data for the trust funds, plan expenses and the potential to outperform market index returns. The difference between the long-term rate of return on plan assets assumption we select and the actual return on plan assets in any given year could be impacted by the timing of market returns, in addition to the timing of benefit payments and significant contributions. Additionally, the difference between the expected and actual return affects both the funded status of our benefit plans and the calculation of FAS pension expense in subsequent periods. Although the actual return in any specific year likely will differ from the assumption, the average expected return over a long-term future horizon should be approximately equal to the assumption. Any variance in a particular year

should not, by itself, suggest that the assumption should be changed. Patterns of variances are reviewed over time, and then combined with expectations for the future. As a result, changes in this assumption are less frequent than changes in the discount rate. The actual investment return for our qualified defined benefit plans during 2023 was approximately 7.00%.

Our stockholders' equity has been reduced cumulatively by \$8.7 billion from the annual year-end measurements of the funded status of postretirement benefit plans. The cumulative noncash, after-tax reduction primarily represents net actuarial losses resulting from changes in discount rates, investment experience, and updated longevity. A market-related value of our plan assets, determined using actual asset gains or losses over the prior three-year period, is used to calculate the amount of deferred asset gains or losses to be amortized. These cumulative actuarial losses will be amortized to expense using the corridor method, where gains and losses are recognized to the extent they exceed 10% of the greater of plan assets or benefit obligations, over an average period of approximately twenty years as of December 31, 2023. During 2023, \$149 million of these amounts, along with amortization of net prior service credit, were recognized as a component of postretirement benefit plan expense.

The discount rate and long-term rate of return on plan assets assumptions we select at the end of each year are based on our best estimates and judgment. A change of plus or minus 25 basis points in the 5.00% discount rate assumption at December 31, 2023, with all other assumptions held constant, would have decreased or increased the amount of the qualified pension benefit obligation we recorded at the end of 2023 by approximately \$765 million, which would result in an after-tax increase or decrease in stockholders' equity at the end of the year of approximately \$600 million. If the 5.00% discount rate at December 31, 2023 that was used to compute the expected 2024 FAS pension income for our qualified defined benefit pension plans had been 25 basis points higher or lower, with all other assumptions held constant, the amount of FAS pension income projected for 2024 would change approximately \$5 million. If the 6.50% expected long-term rate of return on plan assets assumption at December 31, 2023 that was used to compute the expected 2024 FAS pension income for our qualified defined benefit pension plans had been 25 basis points higher or lower, with all other assumptions held constant, the amount of FAS

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pension income projected for 2024 would be higher or lower by approximately \$60 million. Each year, differences between the actual and expected long-term rate of return on plan assets impacts the measurement of the following year's FAS pension income. Every 100 basis points increase (decrease) in return during 2023 between our actual rate of return of approximately 7.00% and our expected long-term rate of return increased (decreased) 2024 expected FAS pension income by approximately \$10 million.

### **Funding Considerations**

We made no contributions in 2023 and 2022 to our qualified defined benefit pension plans. Funding of our qualified defined benefit pension plans is determined in a manner consistent with CAS and in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended, along with consideration of CAS and Internal Revenue Code rules. Our goal has been to fund each of our qualified defined benefit pension plans to a level of at least 80% as determined in accordance with ERISA; which may require the use of different assumptions, such as the discount rate and longevity, than used under GAAP. All of our qualified defined benefit pension plans had an ERISA funded status of at least 80% as of both December 31, 2023 and 2022.

Contributions to our defined benefit pension plans are recovered over time through the pricing of our products and services on U.S. Government contracts, including FMS, and are recognized in our cost of sales and net sales. CAS govern the extent to which our pension costs are allocable to and recoverable under contracts with the U.S. Government, including FMS. Pension cost recoveries under CAS occur in different periods from when pension contributions are made in accordance with ERISA.

We recovered \$1.7 billion in 2023 and \$1.8 billion in 2022 as CAS pension costs. Amounts contributed in excess of the CAS pension costs recovered under U.S. Government contracts are considered to be prepayment credits under the CAS rules. Our prepayment credits were approximately \$2.9 billion and \$4.3 billion at December 31, 2023 and 2022. The prepayment credit balance will increase or decrease based on our actual investment return on plan assets.

### **Environmental Matters**

We are a party to various agreements, proceedings and potential proceedings for environmental remediation issues, including matters at various sites where we have been designated a potentially responsible party (PRP). We also are involved in environmental remediation activities at sites where formal agreements either do not exist or do not quantify the extent and timing of our obligations. Environmental remediation activities usually span many years, which makes estimating the costs more judgmental due to, for example, changing remediation technologies. To determine the costs related to clean up sites, we have to assess the extent of contamination, effects on natural resources, the appropriate technology to be used to accomplish the remediation, and evolving environmental standards.

We perform quarterly reviews of environmental remediation sites and record liabilities and receivables in the period it becomes probable that the liabilities have been incurred and the amounts can be reasonably estimated (see the discussion under "Environmental Matters" in "Note 1 - Organization and Significant Accounting Policies" and "Note 14 - Legal Proceedings, Commitments and Contingencies" included in our Notes to Consolidated



Financial Statements). We consider the above factors in our quarterly estimates of the timing and amount of any future costs that may be required for environmental remediation activities, which result in the calculation of a range of estimates for each particular environmental remediation site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. Given the required level of judgment and estimation, it is likely that materially different amounts could be recorded if different assumptions were used or if circumstances were to change (e.g., a change in environmental standards or a change in our estimate of the extent of contamination).

Under agreements reached with the U.S. Government, most of the amounts we spend for environmental remediation are allocated to our operations as general and administrative costs. Under existing U.S. Government regulations, these and other environmental expenditures relating to our U.S. Government business, after deducting any recoveries received from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, most of the expenditures we incur are included in our net sales and cost of sales according to U.S. Government agreement or regulation, regardless of the contract form (e.g. cost-reimbursable, fixed-price). We continually evaluate the recoverability of our assets for the portion of environmental costs that are probable of future recovery by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, our history of receiving reimbursement of such costs, and efforts by some U.S. Government representatives to limit such reimbursement.

As disclosed above, we may record changes in the amount of environmental remediation liabilities as a result of our quarterly reviews of the status of our environmental remediation sites, which would result in a change to the corresponding amount that is probable of future recovery and a charge to earnings. For example, if we were to determine that the liabilities

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should be increased by \$100 million, the corresponding amount that is probable of future recovery would be increased by approximately \$89 million, with the remainder recorded as a charge to earnings. This allocation is determined annually, based upon our existing and projected business activities with the U.S. Government.

We cannot reasonably determine the extent of our financial exposure at all environmental remediation sites with which we are involved. There are a number of former operating facilities we are monitoring or investigating for potential future environmental remediation. In some cases, although a loss may be probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties (e.g., assessing the extent of the contamination). During any particular quarter, such uncertainties may be resolved, allowing us to estimate and recognize the initial liability to remediate a particular former operating site. The amount of the liability could be material. Upon recognition of the liability, a portion will be recognized as a receivable with the remainder charged to earnings, which may have a material effect in any particular interim reporting period.

If we are ultimately found to have liability at those sites where we have been designated a PRP, we expect that the actual costs of environmental remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site remediation and usually agree among themselves to share, on an allocated basis, the costs and expenses for environmental investigation and remediation. Under existing environmental laws, responsible parties are jointly and severally liable and, therefore, we are potentially liable for the full cost of funding such remediation. In the unlikely event that we were required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of cost recovery or contribution from the other PRPs. The amounts we record do not reflect the fact that we may recover some of the environmental costs we have incurred through insurance or from other PRPs, which we are required to pursue by agreement and U.S. Government regulation.

### **Goodwill and Intangible Assets**

The assets and liabilities of acquired businesses are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Intangible assets from acquired businesses are recognized at fair value on the acquisition date and consist of customer programs, trademarks, customer relationships, technology and other intangible assets. Customer programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology and trademarks underlying the associated program. Intangible assets are amortized over a period of expected cash flows used to measure fair value, which typically ranges from five to 20 years.

Our goodwill balance was \$10.8 billion at both December 31, 2023 and 2022. We perform an impairment test of our goodwill at least annually in the fourth quarter or more frequently whenever events or changes in circumstances indicate the carrying value of goodwill may be impaired. Such events or changes in circumstances may include a significant deterioration in overall economic conditions, changes in the business climate of our industry, a decline in our market capitalization, operating performance indicators, competition, reorganizations of our

business, U.S. Government budget restrictions or the disposal of all or a portion of a reporting unit. Our goodwill has been allocated to and is tested for impairment at a level referred to as the reporting unit, which is our business segment level or a level below the business segment. The level at which we test goodwill for impairment requires us to determine whether the operations below the business segment constitute a self-sustaining business for which discrete financial information is available and segment management regularly reviews the operating results.

We may use both qualitative and quantitative approaches when testing goodwill for impairment. For selected reporting units where we use the qualitative approach, we perform a qualitative evaluation of events and circumstances impacting the reporting unit to determine the likelihood of goodwill impairment. Based on that qualitative evaluation, if we determine it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, no further evaluation is necessary. Otherwise, we perform a quantitative impairment test. We perform quantitative tests for most reporting units at least once every three years. However, for certain reporting units we may perform a quantitative impairment test every year.

To perform the quantitative impairment test, we compare the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to that excess. We generally estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public company trading values and values observed in recent business acquisitions. Determining fair value requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates, discount rates and relevant comparable public company earnings multiples and relevant transaction multiples. The cash flows employed in the DCF analysis are based on our best estimate of future sales, earnings and cash flows after considering factors such as general market conditions, U.S. Government budgets, existing firm orders, expected future orders, contracts with suppliers, labor agreements, changes in

working capital, long term business plans and recent operating performance. The discount rates utilized in the DCF analysis are based on the respective reporting unit's weighted average cost of capital, which takes into account the relative weights of each component of capital structure (equity and debt) and represents the expected cost of new capital, adjusted as appropriate to consider the risk inherent in future cash flows of the respective reporting unit. The carrying value of each reporting unit includes the assets and liabilities employed in its operations, goodwill and allocations of amounts held at the business segment and corporate levels.

In the fourth quarter of 2023, we performed our annual goodwill impairment test for each of our reporting units. Impairment assessments inherently involve management judgments regarding a number of assumptions such as those described above. Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of our recorded goodwill, differences in assumptions could have a material effect on the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period. Additionally, acquired intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing or more frequently if events or change in circumstance indicate that it is more likely than not that the asset is impaired. This testing compares carrying value to fair value and, when appropriate, the carrying value of these assets is reduced to fair value. In the fourth quarter of 2023, we performed our annual impairment tests, and the results of those tests indicated no impairment existed.

Finite-lived intangibles are amortized to expense over their applicable useful lives, ranging from five to 20 years, based on the nature of the asset and the underlying pattern of economic benefit as reflected by future net cash inflows. We perform an impairment test of finite-lived intangibles whenever events or changes in circumstances indicate their carrying value may be impaired. If events or changes in circumstances indicate the carrying value of a finite-lived intangible may be impaired, the sum of the undiscounted future cash flows expected to result from the use of the asset group would be compared to the asset group's carrying value. If the asset group's carrying amount exceed the sum of the undiscounted future cash flows, we would determine the fair value of the asset group and record an impairment loss in net earnings.

### **Recent Accounting Pronouncements**

See "Note 1 – Organization and Significant Accounting Policies" included in our Notes to Consolidated Financial Statements (under the caption "Recent Accounting Pronouncements").

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

We maintain active relationships with a broad and diverse group of U.S. and international financial institutions. We believe that they provide us with sufficient access to the general and trade credit we require to conduct our business. We closely monitor the financial market environment and actively manage counterparty exposure to minimize the potential impact from adverse developments with any single credit provider while ensuring availability of, and access to, sufficient credit resources.

Our main exposure to market risk relates to interest rates, foreign currency exchange rates and market prices on certain equity securities. Our financial instruments that are subject to interest rate risk principally include fixed-rate long-term debt and commercial paper, if issued. The estimated fair value of our outstanding debt was \$18.5 billion at December 31, 2023 and the outstanding principal amount of debt, including short-term and long-term debt, was \$18.7 billion, excluding unamortized discounts and issuance costs of \$1.3 billion. A 10% change in the level of interest rates would not have a material impact on the fair value of our outstanding debt at December 31, 2023.

We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exchange rates and interest rates. We do not enter into or hold derivative instruments for speculative trading purposes. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. Our most significant foreign currency exposures relate to the British pound sterling, the euro, the Canadian dollar, the Australian dollar, the Norwegian kroner and the Polish zloty. These contracts hedge forecasted foreign currency transactions in order to minimize fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. We designate foreign currency hedges as cash flow hedges. We also are exposed to the impact of interest rate changes primarily through our borrowing activities. For fixed rate borrowings, we may use variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings in order to hedge changes in the fair value of the debt. These swaps are designated as fair value hedges. For variable rate borrowings, we may use fixed interest rate swaps, effectively converting variable rate borrowings to fixed rate borrowings in order to minimize the impact of interest rate changes on earnings. These swaps are designated as cash flow hedges. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to minimize certain economic exposures.

The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items or reflected net of income taxes in accumulated other comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are not highly effective, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding interest rate swaps was \$1.3 billion at both December 31, 2023 and 2022. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2023 and 2022 was \$6.5 billion and \$7.3 billion. At December 31, 2023 and 2022, the net fair value of our derivative instruments was not

material (see “Note 15 – Fair Value Measurements” included in our Notes to Consolidated Financial Statements). A 10% unfavorable exchange rate movement of our foreign currency contracts would not have a material impact on the aggregate net fair value of such contracts or our consolidated financial statements. Additionally, as we enter into foreign currency contracts to hedge foreign currency exposure on underlying transactions we believe that any movement on our foreign currency contracts would be offset by movement on the underlying transactions and, therefore, when taken together do not create material risk.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into agreements with those deemed to have acceptable credit risk at the time the agreements are executed. Our foreign currency exchange hedge portfolio is diversified across many banks. We regularly monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We maintain a separate trust that includes investments to fund certain of our non-qualified deferred compensation plans. As of December 31, 2023, investments in the trust totaled \$1.8 billion and are reflected at fair value on our consolidated balance sheet in other noncurrent assets. The trust holds investments in marketable equity securities and fixed-income securities that are exposed to price changes and changes in interest rates. A portion of the liabilities associated with the deferred compensation plans supported by the trust is also impacted by changes in the market price of our common stock and certain market indices. Changes in the value of the liabilities have the effect of partially offsetting the impact of changes in the value of the trust. Both the change in the fair value of the trust and the change in the value of the liabilities are recognized on our consolidated statements of earnings in other unallocated, net and were not material for the year ended December 31, 2023.

## **ITEM 8. Financial Statements and Supplementary Data**

### **Report of Independent Registered Public Accounting Firm on the Audited Consolidated Financial Statements**

Board of Directors and Stockholders  
Lockheed Martin Corporation

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Lockheed Martin Corporation (the Corporation) as of December 31, 2023 and 2022, the related consolidated statements of earnings, comprehensive income, cash flows and equity for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Corporation’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 23, 2024 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on the Corporation’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.



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## **Revenue recognition based on the percentage of completion method**

### **Description of the Matter**

For the year ended December 31, 2023, the Corporation recorded net sales of \$67.6 billion. As more fully described in Note 1 to the consolidated financial statements, the Corporation generates the majority of its net sales from long-term contracts with its customers whereby substantially all of the Corporation's revenue is recognized over time using the percentage-of-completion cost-to-cost measure of progress. Under the percentage-of-completion cost-to-cost measure of progress, the Corporation measures progress towards completion based on the ratio of costs incurred to date to the estimated total costs to complete the performance obligation(s) (referred to as the estimate-at-completion analysis). The Corporation estimates profit on these contracts as the difference between total estimated revenues and total estimated cost at completion.

The percentage-of-completion cost-to-cost method requires management to make significant estimates and assumptions to estimate contract sales and costs associated with its contracts with customers. At the outset of a long-term contract, the Corporation identifies risks to the achievement of the technical, schedule and cost aspects of the contract. Throughout the contract life cycle, the Corporation monitors and assesses the effects of those risks on its estimates of sales and total costs to complete the contract. Profit booking rates may increase during the performance of the contract if the Corporation successfully retires risks surrounding the technical, schedule and cost aspects of the contract, which would decrease the estimated total costs to complete the contract. Conversely, the profit booking rates may decrease if the estimated total costs to complete the contract increase. Changes to the profit booking rates resulting from changes in estimates could have a material effect on the Corporation's results of operations.

Auditing the Corporation's estimate-at-completion analyses used in its revenue recognition process was complex due to the judgment involved in evaluating the significant estimates and assumptions made by management in the initial development and subsequent updates to the Corporation's estimate-at-completion analyses. The estimate-at-completion analyses of each contract consider risks surrounding the Corporation's ability to achieve the technical, schedule and cost aspects of the contract.

### **How We Addressed the Matter in Our Audit**

We obtained an understanding, evaluated the design and tested the operating effectiveness of relevant internal controls over the Corporation's revenue recognition process. For example, we tested internal controls over management's review of the estimate-at-completion analyses and the significant assumptions underlying the estimated contract value and estimated total costs to complete. We also tested internal controls that management executes which are designed to validate the data used in the estimate-at-completion analyses was complete and accurate.

To test the accuracy of the Corporation's estimate-at-completion analyses, our audit procedures included, among others, comparing estimates of labor costs, subcontractor costs, and materials to historical results of similar contracts, and agreeing the key terms to contract documentation and management's estimates. We also performed sensitivity analyses over the significant assumptions to evaluate the change in the profit booking rates resulting from changes in the assumptions.

## **Defined Benefit Pension Plan Obligation**



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How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of relevant internal controls over management's measurement and valuation of the defined benefit pension obligation calculations. For example, we tested the internal controls over management's review of the defined benefit pension obligation calculations, the significant actuarial assumptions and the data inputs provided to the actuaries.
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To test the defined benefit pension obligation, our audit procedures included, among others, evaluating the methodology used, the significant actuarial assumptions described above and the underlying data used by the Corporation. We compared the actuarial assumptions used by management to historical trends and evaluated the change in the defined benefit pension obligation from prior year due to the change in service cost, interest cost, benefit payments, settlements, actuarial gains and losses, longevity assumptions and plan amendments. In addition, we involved our actuarial specialists to assist in evaluating management's methodology for determining the discount rate that considers the maturity and duration of the benefit payments and is used to measure the defined benefit pension obligation. As part of this assessment, we compared the projected cash flows to the prior year and compared the current year benefits paid to the prior year projected cash flows. Lastly, we also tested the completeness and accuracy of the underlying data, including the participant data provided to the Corporation's actuarial specialists.

/s/ Ernst & Young LLP

We have served as the Corporation's auditor since 1994.

Tysons, Virginia  
January 23, 2024

**Lockheed Martin Corporation**  
**Consolidated Statements of Earnings**  
(in millions, except per share data)

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Net sales</b>			
Products	<b>\$56,265</b>	\$ 55,466	\$ 56,435
Services	<b>11,306</b>	10,518	10,609
Total net sales	<b>67,571</b>	65,984	67,044
<b>Cost of sales</b>			
Products	<b>(50,206)</b>	(49,357)	(50,017)
Services	<b>(10,027)</b>	(9,252)	(9,434)
Severance and other charges	<b>(92)</b>	(100)	(36)
Other unallocated, net	<b>1,233</b>	1,012	1,504
Total cost of sales	<b>(59,092)</b>	(57,697)	(57,983)
Gross profit	<b>8,479</b>	8,287	9,061
Other income, net	<b>28</b>	61	62
<b>Operating profit</b>	<b>8,507</b>	8,348	9,123
Interest expense	<b>(916)</b>	(623)	(569)
Non-service FAS pension income (expense)	<b>443</b>	(971)	(1,292)
Other non-operating income (expense), net	<b>64</b>	(74)	288
Earnings before income taxes	<b>8,098</b>	6,680	7,550
Income tax expense	<b>(1,178)</b>	(948)	(1,235)
<b>Net earnings</b>	<b>\$ 6,920</b>	\$ 5,732	\$ 6,315
<b>Earnings per common share</b>			
Basic	<b>\$ 27.65</b>	\$ 21.74	\$ 22.85
Diluted	<b>\$ 27.55</b>	\$ 21.66	\$ 22.76

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

**Lockheed Martin Corporation**  
**Consolidated Statements of Comprehensive Income**  
(in millions)

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net earnings	<b>\$ 6,920</b>	\$ 5,732	\$ 6,315
Other comprehensive income, net of tax			
Postretirement benefit plans			
Net actuarial (loss) gain recognized due to plan remeasurements, net of tax of \$181 million in 2023, \$518 million in 2022 and \$925 million in 2021	<b>(689)</b>	1,873	3,404
Amortization of actuarial losses and prior service credits, net of tax of \$40 million in 2023, \$18 million in 2022 and \$130 million in 2021	<b>(149)</b>	69	477
Pension settlement charge, net of tax of \$314 million in 2022 and \$355 million in 2021	<b>—</b>	1,156	1,310
Other, net, net of tax of \$6 million in 2023, \$2 million in 2022 and \$11 million in 2021	<b>58</b>	(115)	(76)
Other comprehensive income, net of tax	<b>(780)</b>	2,983	5,115
Comprehensive income	<b>\$ 6,140</b>	\$ 8,715	\$ 11,430

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

**Lockheed Martin Corporation**  
**Consolidated Balance Sheets**  
(in millions, except par value)

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,442	\$ 2,547
Receivables, net	2,132	2,505
Contract assets	13,183	12,318
Inventories	3,132	3,088
Other current assets	632	533
Total current assets	20,521	20,991
Property, plant and equipment, net	8,370	7,975
Goodwill	10,799	10,780
Intangible assets, net	2,212	2,459
Deferred income taxes	2,953	3,744
Other noncurrent assets	7,601	6,931
Total assets	\$52,456	\$ 52,880
<b>Liabilities and equity</b>		
Current liabilities		
Accounts payable	\$ 2,312	\$ 2,117
Salaries, benefits and payroll taxes	3,133	3,075
Contract liabilities	9,190	8,488
Current maturities of long-term debt	168	118
Other current liabilities	2,134	2,089
Total current liabilities	16,937	15,887
Long-term debt, net	17,291	15,429
Accrued pension liabilities	6,162	5,472
Other noncurrent liabilities	5,231	6,826
Total liabilities	45,621	43,614
Stockholders' equity		
Common stock, \$1 par value per share	240	254
Additional paid-in capital	—	92
Retained earnings	15,398	16,943
Accumulated other comprehensive loss	(8,803)	(8,023)
Total stockholders' equity	6,835	9,266
Total liabilities and equity	\$52,456	\$ 52,880

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



**Lockheed Martin Corporation**  
**Consolidated Statements of Cash Flows**  
(in millions)

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>			
Net earnings	<b>\$ 6,920</b>	\$ 5,732	\$ 6,315
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	<b>1,430</b>	1,404	1,364
Stock-based compensation	<b>265</b>	238	227
Deferred income taxes	<b>(498)</b>	(757)	(183)
Pension settlement charge	<b>—</b>	1,470	1,665
Severance and other charges	<b>92</b>	100	36
Changes in:			
Receivables, net	<b>373</b>	(542)	15
Contract assets	<b>(865)</b>	(1,739)	(1,034)
Inventories	<b>(44)</b>	(107)	564
Accounts payable	<b>151</b>	1,274	(98)
Contract liabilities	<b>702</b>	381	562
Income taxes	<b>(133)</b>	148	45
Qualified defined benefit pension plans	<b>(378)</b>	(412)	(267)
Other, net	<b>(95)</b>	612	10
Net cash provided by operating activities	<b>7,920</b>	7,802	9,221
<b>Investing activities</b>			
Capital expenditures	<b>(1,691)</b>	(1,670)	(1,522)
Other, net	<b>(3)</b>	(119)	361
Net cash used for investing activities	<b>(1,694)</b>	(1,789)	(1,161)
<b>Financing activities</b>			
Issuance of long-term debt, net of related costs	<b>1,975</b>	6,211	—
Repayments of long-term debt	<b>(115)</b>	(2,250)	(500)
Repurchases of common stock	<b>(6,000)</b>	(7,900)	(4,087)
Dividends paid	<b>(3,056)</b>	(3,016)	(2,940)
Other, net	<b>(135)</b>	(115)	(89)
Net cash used for financing activities	<b>(7,331)</b>	(7,070)	(7,616)
Net change in cash and cash equivalents	<b>(1,105)</b>	(1,057)	444
Cash and cash equivalents at beginning of year	<b>2,547</b>	3,604	3,160
Cash and cash equivalents at end of year	<b>\$ 1,442</b>	\$ 2,547	\$ 3,604

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

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**Lockheed Martin Corporation**  
**Consolidated Statements of Equity**  
**(in millions, except per share data)**

	Common Stock	Additional In Capital	Paid- Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests in Subsidiary
Balance at December 31, 2020	\$ 279	\$ 221	\$ 21,636	\$ (16,121)	\$ 6,015	\$ 23
Net earnings	—	—	6,315	—	6,315	—
Other comprehensive loss, net of tax	—	—	—	5,115	5,115	—
Repurchases of common stock	(9)	(671)	(3,407)	—	(4,087)	—
Dividends declared (\$10.60 per share)	—	—	(2,944)	—	(2,944)	—
Stock-based awards, ESOP activity and other	1	544	—	—	545	—
Net decrease in noncontrolling interests in subsidiary	—	—	—	—	—	(23)
Balance at December 31, 2021	\$ 271	\$ 94	\$ 21,600	\$ (11,006)	\$ 10,959	\$ —
Net earnings	—	—	5,732	—	5,732	—
Other comprehensive income, net of tax	—	—	—	2,983	2,983	—
Repurchases of common stock	(18)	(503)	(7,379)	—	(7,900)	—
Dividends declared (\$11.40 per share)	—	—	(3,010)	—	(3,010)	—
Stock-based awards, ESOP activity and other	1	501	—	—	502	—
Balance at December 31, 2022	\$ 254	\$ 92	\$ 16,943	\$ (8,023)	\$ 9,266	\$ —
Net earnings	—	—	6,920	—	6,920	—
Other comprehensive income, net of tax	—	—	—	(780)	(780)	—
Repurchases of						

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

**Lockheed Martin Corporation**  
**Notes to Consolidated Financial Statements**

**Note 1 - Organization and Significant Accounting Policies**

**Organization** – We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration and cybersecurity services. We serve both U.S. and international customers with products and services that have defense, civil and commercial applications, with our principal customers being agencies of the U.S. Government. As described in “Note 3 – Information on Business Segments”, we operate in four business segments: Aeronautics, MFC, RMS and Space.

**Basis of presentation** – These consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. We classify certain assets and liabilities as current utilizing the duration of the related contract or program as our operating cycle, which is generally longer than one year. This primarily impacts receivables, contract assets, inventories, and contract liabilities. We classify all other assets and liabilities based on whether the asset will be realized or the liability will be paid within one year.

Effective January 1, 2023, we no longer consider amortization expense related to purchased intangible assets when evaluating the operating performance of our business segments. As a result, intangible asset amortization expense, which was previously included in segment operating profit, is now reported in unallocated corporate expense within total consolidated operating profit. This change has no impact on our consolidated operating results. Management believes this updated presentation better aligns with how the business is viewed and managed and will provide better insights into business segment performance. This change has been applied to the amounts in this Form 10-K, including amounts for 2022 and 2021. See “Note 3 – Information on Business Segments” for further information regarding the impact of this change on our current and prior period segment operating profit.

**Use of estimates** – We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). In doing so, we are required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, accounting for sales and cost recognition; postretirement benefit plans; environmental liabilities and assets for the portion of environmental costs that are probable of future recovery; evaluation of goodwill, intangible assets, investments and other assets for impairment; income taxes including deferred income taxes; fair value measurements; and contingencies.

**Revenue Recognition** – The majority of our net sales are generated from long-term contracts with the U.S. Government and international customers (including foreign military sales (FMS) contracted through the U.S. Government) for the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For certain contracts that meet the foregoing requirements, primarily international direct commercial sale contracts, we are required to obtain certain regulatory approvals. In these cases, we recognize revenue when it is probable that we will receive regulatory approvals based upon all known facts and circumstances. We provide our products and services under fixed-price and cost-reimbursable contracts.

Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may earn incentive payments or incur financial penalties based on our performance.

Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract plus a fee up to a ceiling based on the amount that has been funded. Typically, we enter into three types of cost-reimbursable contracts: cost-plus-award-fee, cost-plus-incentive-fee, and cost-plus-fixed-fee. Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer's assessment of our performance against a predetermined set of criteria, such as targets based on cost, quality, technical and schedule criteria. Cost-plus-incentive-fee contracts provide for

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reimbursement of costs plus a fee, which is adjusted by a formula based on the relationship of total allowable costs to total target costs (i.e., incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (i.e., incentive based on performance). Cost-plus-fixed-fee contracts provide a fixed fee that is negotiated at the inception of the contract and does not vary with actual costs.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The products and services in our contracts are typically not distinct from one another due to their complex relationships and the significant contract management functions required to perform under the contract. Accordingly, our contracts are typically accounted for as one performance obligation. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not highly complex or interrelated or involve different product lifecycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period. We classify net sales as products or services on our consolidated statements of earnings based on the predominant attributes of the performance obligations.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract. For contracts where a portion of the price may vary (e.g. awards, incentive fees and claims), we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal and if necessary constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract. Therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation based on the estimated standalone selling price of the product or service underlying each performance obligation. The standalone selling price represents



the amount we would sell the product or service to a customer on a standalone basis (i.e., not bundled with any other products or services). Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations (FAR) and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the standalone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract.

For non-U.S. government contracts with multiple performance obligations, we evaluate whether the stated selling prices for the products or services represent their standalone selling prices. We primarily sell customized solutions unique to a customer's specifications. When it is necessary to allocate the transaction price to multiple performance obligations, we typically use the expected cost plus a reasonable profit margin to estimate the standalone selling price of each product or service. We occasionally sell standard products or services with observable standalone sales transactions. In these situations, the observable standalone sales transactions are used to determine the standalone selling price.

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms and whether there is an alternative future use of the product or service. Substantially all of our revenue is recognized over time as we perform under the contract because control of the work in process transfers continuously to the customer. For most contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work in process to the customer is supported by clauses in the contract that give the customer ownership of work in process and allow the customer to unilaterally terminate the contract for convenience and pay us for costs incurred plus a reasonable profit. For most non-U.S. government contracts, primarily international direct commercial contracts, continuous transfer of control to our customer is supported because we deliver products that do not have an alternative use to us and if our customer were to terminate the

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contract for reasons other than our non-performance we would have the right to recover damages which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized based on the extent of progress towards completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s). For performance obligations to provide services to the customer, revenue is recognized over time based on costs incurred or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits.

For performance obligations in which control does not continuously transfer to the customer, we recognize revenue at the point in time in which each performance obligation is fully satisfied. This coincides with the point in time the customer obtains control of the product or service, which typically occurs upon customer acceptance or receipt of the product or service, given that we maintain control of the product or service until that point.

Backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. It is converted into sales in future periods as work is performed or deliveries are made. For our cost-reimbursable and fixed-priced-incentive contracts, the estimated consideration we expect to receive pursuant to the terms of the contract may exceed the contractual award amount. The estimated consideration is determined at the outset of the contract and is continuously reviewed throughout the contract period. In determining the estimated consideration, we consider the risks related to the technical, schedule and cost impacts to complete the contract and an estimate of any variable consideration. Periodically, we review these risks and may increase or decrease backlog accordingly. As the risks on such contracts are successfully retired, the estimated consideration from customers may be reduced, resulting in a reduction of backlog without a corresponding recognition of sales. As of December 31, 2023, our ending backlog was \$160.6 billion. We expect to recognize approximately 36% of our backlog over the next 12 months and approximately 62% over the next 24 months as revenue, with the remainder recognized thereafter.

For arrangements with the U.S. Government and FMS contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments (PBPs) based on the achievement of contract milestones or progress payments based on a percentage of costs we incur. Typical payment terms under cost-reimbursable contracts with the U.S. Government provide for billing of allowable costs incurred plus applicable fee on a monthly or semi-monthly basis. For the majority of our international direct commercial contracts to deliver complex systems, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is

presented as a contract liability on the balance sheet. The portion of payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract.

For fixed-price and cost-reimbursable contracts, we present revenues recognized in excess of billings as contract assets on the balance sheet. Amounts billed and due from our customers under both contract types are classified as receivables on the balance sheet.

Significant estimates and assumptions are made in estimating contract sales, costs, and profit. We estimate profit as the difference between estimated revenues and total estimated costs to complete the contract. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule and cost aspects of the contract, as well as our ability to earn variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead, general and administrative and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset or localization agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks related to technical, schedule and cost aspects of the contract, which decreases the estimated total costs to complete the contract or may increase the variable consideration we expect to receive on the contract.

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Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is evident, which we refer to as a reach-forward loss.

Comparability of our segment sales, operating profit and operating margin may be impacted favorably or unfavorably by changes in profit booking rates on our contracts. Increases in the profit booking rates, typically referred to as favorable profit adjustments, usually relate to revisions in the estimated total costs to fulfill the performance obligations that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate, resulting in an increase in the estimated total costs to fulfill the performance obligations and a reduction in the profit booking rate and are typically referred to as unfavorable profit adjustments. Increases or decreases in profit booking rates are recognized in the current period they are determined and reflect the inception-to-date effect of such changes. Segment operating profit and margin may also be impacted favorably or unfavorably by other items, which may or may not impact sales. Favorable items may include the positive resolution of contractual matters, cost recoveries on severance and restructuring, insurance recoveries and gains on sales of assets. Unfavorable items may include the adverse resolution of contractual matters; supply chain disruptions; restructuring charges (except for significant severance actions, which are excluded from segment operating results); reserves for disputes; certain asset impairments; and losses on sales of certain assets.

Our consolidated net profit booking rate adjustments increased net sales by \$1.6 billion in 2023, \$2.0 billion in 2022, and \$2.2 billion in 2021. These adjustments increased segment operating profit by approximately \$1.6 billion (\$1.3 billion, or \$4.98 per share, after-tax) in 2023, \$1.8 billion (\$1.4 billion, or \$5.40 per share, after-tax) in 2022 and \$2.0 billion (\$1.6 billion, or \$5.81 per share, after-tax) in 2021.

We have various development programs for new and upgraded products, services, and related technologies which have complex design and technical challenges. This development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work by us and our suppliers. Many of these programs have cost-type contracting arrangements (e.g. cost-reimbursable or cost-plus-fee). In such cases, the associated financial risks are primarily in reduced fees, lower profit rates, or program cancellation if cost, schedule, or technical performance issues arise.

However, some of our existing development programs are contracted on a fixed-price basis or include cost-type contracting for the development phase with fixed-price production options and our customers are increasingly implementing procurement policies such as these that shift risk to contractors. Competitively bid programs with fixed-price development work or fixed-price production options increase the risk of a reach-forward loss upon contract

award and during the period of contract performance. Due to the complex and often experimental nature of development programs, we may experience (and have experienced in the past) technical and quality issues during the development of new products or technologies for a variety of reasons. Our development programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs and fixed-price contract structure creates financial risk as estimated completion costs may exceed the current contract value, which could trigger earnings charges, termination provisions, or other financially significant exposures. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues, and such losses could be significant to our financial results, cash flows, or financial condition. Any such losses are recorded in the period in which the loss is evident.

We have experienced performance issues on a classified fixed-price incentive fee contract that involves highly complex design and systems integration at our Aeronautics business segment and have periodically recognized reach-forward losses. As of December 31, 2023, cumulative losses remained at approximately \$270 million. We will continue to monitor the technical requirements and our performance, the remaining work and any future changes in scope or schedule, and estimated costs to complete the program and may have to record additional losses in future periods if we experience further performance issues, increases in scope, or cost growth, which could be material to our financial results. In addition, we and our industry team will continue to incur advanced procurement costs (also referred to as pre-contract costs) in order to enhance our ability to achieve the schedule and certain milestones. We will monitor the recoverability of pre-contract costs, which could be impacted by the customer's decision regarding future phases of the program.

We are responsible for a program to design, develop and construct a ground-based radar at our RMS business segment. The program has experienced performance issues for which we have periodically recognized reach-forward losses. As of December 31, 2023, cumulative losses remained at approximately \$280 million. We will continue to monitor our performance, any future changes in scope, and estimated costs to complete the program and may have to record additional losses in future periods if we experience further performance issues, increases in scope, or cost growth. However, based on the losses previously recorded, the near completion status of the program, and our current estimate of the sales and costs to complete the

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program, at this time we do not anticipate that additional losses, if any, would be material to our financial results or financial condition.

We have contracted with the Canadian Government for the Canadian Maritime Helicopter Program (CMHP) at our RMS business segment that provides for design, development, and production of CH-148 aircraft (the Original Equipment contract), which is a military variant of the S-92 helicopter, and for logistical support to the fleet (the In Service Support contract) over an extended time period. We are currently in discussions with the Canadian Government to potentially restructure certain contractual terms and conditions that may be beneficial to both parties. The program has experienced performance issues, including delays in the final aircraft deliveries from the original contract requirement, and the Royal Canadian Air Force's flight hours have been less than originally anticipated, which has impacted program revenues and the recovery of our costs under this program. We have incurred significant costs and recognized the related sales, a portion of which are currently included in contract assets on the balance sheet. Such assets are recovered based on flight hours. Future sales and recovery of costs under the program are highly dependent upon achieving a certain number of flight hours, which are uncertain and dependent on aircraft availability and performance, and the availability of Canadian government resources. During the second quarter of 2023, due to increases in estimated costs for the production and lower than planned revenues for the logistical support program considering discussions with the customer and subsequent analysis, we recognized a loss of \$100 million (\$75 million, or \$0.29 per share, after-tax) on the program. Future performance issues, lower than forecast flight hours, or changes in our estimates due to the outcome of any restructuring discussions, including revised contract scope or customer requirements may further affect our ability to recover our costs, including the contract assets recognized on the balance sheet, or our assessment of the likelihood of cost recovery and may result in additional losses that could be material to our operating results. As of December 31, 2023, cumulative losses remained unchanged.

We also have a number of contracts with Turkish industry for the Turkish Utility Helicopter Program (TUHP), which anticipates co-production with Turkish industry for production of T70 helicopters for use in Türkiye, as well as the related provision of Turkish goods and services under buy-back or offset obligations, to include the future sales of helicopters built in Türkiye for sale globally. In 2020, the U.S. Government imposed certain sanctions on Turkish entities and persons that have affected our ability to perform under the TUHP contracts and we have provided force majeure notices under the affected contracts. As of December 31, 2023, we have recorded insignificant losses related to development work for the program. The TUHP contracts may be negotiated to be restructured or terminated, either in whole or in part and as a result, we could be at risk of recording significant reach-forward losses in future periods. Additionally, we could elect to pursue other relief or remedies, which could result in a further reduction in sales, the imposition of penalties or assessment of damages, and increased unrecoverable costs, which could be material to our financial results.

Our MFC business segment was previously awarded a competitively bid classified contract, which includes multiple phases of the program. We are currently performing on a

phase which is primarily structured as cost-type. Additional phases are primarily fixed price and are not currently able to be awarded. If the additional phases are awarded at later dates, some of which could be within the next twelve months, we expect that those phases would be performed at a loss. As of December 31, 2023, cumulative losses recognized were approximately \$45 million. We will continue to monitor the circumstances on the program and we may be required to recognize a reach-forward loss related to any additional phases at such time that we determine it is probable that they will be awarded. Any such losses could be material to our financial results.

**Research and development and similar costs** – We conduct research and development (R&D) activities using our own funds (referred to as company-funded R&D or independent research and development (IR&D)) and under contractual arrangements with our customers (referred to as customer-funded R&D) to enhance existing products and services and to develop future technologies. R&D costs include basic research, applied research, concept formulation studies, design, development, and related test activities. Company-funded R&D costs are allocated to customer contracts as part of the general and administrative overhead costs and are generally recoverable to the extent allocable to our cost-reimbursable customer contracts with the U.S. Government. These costs also may be recoverable to the extent allocable to certain fixed-price incentive contracts with the U.S. Government. Customer-funded R&D costs are charged directly to the related customer contracts. Substantially all R&D costs are charged to cost of sales as incurred. Company-funded R&D costs charged to cost of sales totaled \$1.5 billion, \$1.7 billion and \$1.5 billion in 2023, 2022 and 2021.

**Stock-based compensation** – We issue stock-based compensation awards in the form of restricted stock units (RSUs) and performance stock units (PSUs) that generally vest three years from the grant date and are settled in shares. Compensation cost related to all stock-based awards is measured at the grant date based on the estimated fair value of the award. The grant date fair value of RSUs is equal to the closing market price of our common stock on the grant date less a discount to reflect the delay in payment of dividend-equivalent cash payments that are made only upon vesting. The grant date fair value of PSUs is measured in a manner similar to RSUs for awards that vest based on service and performance conditions or using a Monte Carlo model for awards that vest based on service and market conditions.

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For all RSUs, we recognize the grant date fair value, less estimated forfeitures, as compensation expense ratably over the requisite service period, which is shorter than the vesting period if the employee is retirement eligible on the date of grant or will become retirement eligible before the end of the vesting period. For PSUs that vest based on service and performance conditions, we recognize the grant date fair value, less estimated forfeitures, as compensation expense ratably over the vesting period based on the number of awards expected to ultimately vest. For PSUs that vest based on service and market conditions, we recognize the grant date fair value, less estimated forfeitures, as compensation expense ratably over the vesting period. At each reporting date, estimated forfeitures for all stock-based compensation awards and the number of PSUs expected to vest based on service and performance conditions is adjusted.

**Income taxes** – We calculate our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying amount of assets and liabilities and their respective tax bases, as well as from operating loss and tax credit carry-forwards. The provision for income taxes differs from the amounts currently receivable or payable because certain items of income and expense are recognized in different periods for financial reporting purposes than for income tax purposes. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

We periodically assess our tax exposures related to periods that are open to examination. Based on the latest available information, we evaluate our tax positions to determine whether the position will more likely than not be sustained upon examination by the Internal Revenue Service (IRS) or other taxing authorities. If we cannot reach a more-likely-than-not determination, no benefit is recorded. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. We record interest and penalties related to income taxes as a component of income tax expense on our consolidated statements of earnings.

In accordance with the regulations that govern cost accounting requirements for government contracts, current state and local income and franchise taxes are generally considered allowable and allocable costs and, consistent with industry practice, are recorded in operating costs and expenses. We generally recognize changes in deferred state taxes and unrecognized state tax benefits in unallocated corporate expenses.

**Cash and cash equivalents** – Cash equivalents include highly liquid instruments with original maturities of 90 days or less.

**Receivables** – Receivables, net represent our unconditional right to consideration under the contract and include amounts billed and currently due from customers. Receivables, net are recorded at the net amount expected to be collected. There were no significant impairment losses related to our receivables in 2023, 2022 or 2021.

**Contract assets** – Contract assets include unbilled amounts typically resulting from sales under contracts when the percentage-of-completion cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer.



Contract assets are recorded at the net amount expected to be billed and collected. Contract assets are classified as current based on our contract operating cycle, and include amounts that may be billed and collected beyond one year due to the long-cycle nature of our contracts.

**Contract liabilities** – Contract liabilities include advance payments and billings in excess of revenue recognized. Contract liabilities are classified as current based on our contract operating cycle and reported on a contract-by-contract basis, net of revenue recognized, at the end of each reporting period.

**Inventories** – We record inventories at the lower of cost or estimated net realizable value. The majority of our inventory represents work-in-process for contracts where control has not yet passed to the customer. Work-in-process primarily consists of labor, material, subcontractor, and overhead costs. In addition, costs incurred to fulfill a contract in advance of the contract being awarded are recorded in inventories as work-in-process if we determine that those costs relate directly to a contract or to an anticipated contract that we can specifically identify and contract award is probable, the costs generate or enhance resources that will be used in satisfying performance obligations, and the costs are recoverable (referred to as pre-contract costs). Pre-contract costs that are initially capitalized in inventory are generally recognized as cost of sales consistent with the transfer of products and services to the customer upon the receipt of the anticipated contract. All other pre-contract costs, including start-up costs, are expensed as incurred. We determine the costs of other inventories such as materials, spares and supplies by using the first-in first-out or average cost methods. If events or changes in circumstances indicate that pre-contract costs are no longer recoverable or the utility of our inventories have diminished through damage, deterioration, obsolescence, changes in price or other causes, a loss is recognized in the period in which it occurs.

**Property, plant and equipment** – Property, plant and equipment are initially recorded at cost. The cost of plant and equipment are depreciated generally using accelerated methods during the first half of the estimated useful lives of the assets

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and the straight-line method thereafter. The estimated useful lives of our plant and equipment generally range from 10 to 40 years for buildings and five to 15 years for machinery and equipment. No depreciation expense is recorded on construction in progress until such assets are placed into operation.

We review the carrying amounts of long-lived assets for impairment if events or changes in the facts and circumstances indicate that their carrying amounts may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset grouping to its carrying amount. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying amount.

**Capitalized software** – We capitalize certain costs associated with the development or purchase of internal-use software. The amounts capitalized are included in other noncurrent assets on our consolidated balance sheets and are amortized on a straight-line basis over the estimated useful life of the resulting software, which ranges from two to 15 years. As of December 31, 2023 and 2022, capitalized software totaled \$1.4 billion and \$919 million, net of accumulated amortization of \$2.8 billion and \$2.6 billion. No amortization expense is recorded until the software is ready for its intended use. Amortization expense related to capitalized software was \$263 million in 2023, \$253 million in 2022 and \$175 million in 2021.

**Fair value of financial instruments** – We measure the fair value of our financial instruments using observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. The following hierarchy classifies the inputs used to determine fair value into three levels:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs, other than quoted prices, observable by a marketplace participant either directly or indirectly.

Level 3 – unobservable inputs significant to the fair value measurement.

**Investments** – We hold a portfolio of marketable securities to fund our non-qualified employee benefit plans. A portion of these securities are held in common/collective trust funds and are measured at fair value using Net Asset Value (NAV) per share as a practical expedient. Marketable securities accounted for as trading are recorded at fair value on a recurring basis and are included in other noncurrent assets on our consolidated balance sheets. Gains and losses on these investments are included in other unallocated, net within cost of sales on our consolidated statements of earnings.

We make investments in companies that we believe are advancing or developing new technologies applicable to our business. These investments are primarily in early-stage companies and may be in the form of common or preferred stock, warrants, convertible debt securities, investments in funds or equity method investments. Most of these investments are in equity securities without readily determinable fair values (privately held securities), which are measured initially at cost and are then adjusted to fair value only if there is an observable price change or reduced for impairment, if applicable. The carrying amounts of the investments were \$581 million and \$589 million at December 31, 2023 and December 31, 2022 and are included on our consolidated balance sheets within other assets,

both current and noncurrent. Changes in fair value and/or sales of investments are reflected in the other non-operating income, net account on our consolidated statements of earnings. During 2023 and 2022, we recorded net losses of \$64 million (\$48 million, or \$0.19 per share, after-tax) and \$114 million (\$86 million, or \$0.33 per share, after-tax). During 2021, we recorded net gains of \$265 million (\$199 million, or \$0.72 per share, after-tax).

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**Equity method investments** – Investments where we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are included in other noncurrent assets on our consolidated balance sheets. Significant influence typically exists if we have a 20% to 50% ownership interest in the investee. Under this method of accounting, our share of the net earnings or losses of the investee is included in operating profit in other income, net on our consolidated statements of earnings since the activities of the investee are closely aligned with the operations of the business segment holding the investment. We evaluate our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period. As of December 31, 2023 and December 31, 2022, our equity method investments totaled \$701 million and \$685 million, which was primarily composed of our investment in the United Launch Alliance (ULA) joint venture. Our share of net earnings related to our equity method investees was \$40 million in 2023, \$114 million in 2022 and \$97 million in 2021, of which approximately \$20 million, \$100 million and \$65 million was included in our Space business segment operating profit.

**Goodwill and Intangible Assets** – We perform an impairment test of our goodwill at least annually in the fourth quarter or more frequently whenever events or changes in circumstances indicate the carrying value of goodwill may be impaired. We may use both a qualitative and quantitative approaches when testing goodwill for impairment. For selected reporting units where we use the qualitative approach, we perform a qualitative evaluation of events and circumstances impacting the reporting unit to determine the likelihood of goodwill impairment. Based on that qualitative evaluation, if we determine it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, no further evaluation is necessary. Otherwise we perform a quantitative impairment test. We perform quantitative tests for most reporting units at least once every three years. However, for certain reporting units we may perform a quantitative impairment test every year.

To perform the quantitative impairment test we compare the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to that excess. We generally estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public company trading values and values observed in recent business acquisitions.

Finite-lived intangibles are amortized to expense over their applicable useful lives, ranging from three to 20 years, based on the nature of the asset and the underlying pattern of economic benefit as reflected by future net cash inflows. Acquired intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing or more frequently if events or change in circumstance indicate that it is more likely than not that the asset is impaired. We perform an impairment test of finite-lived intangibles whenever events or changes in circumstances indicate their carrying value may be impaired.

**Leases** – We evaluate whether our contractual arrangements contain leases at the inception of such arrangements. Specifically, we consider whether we can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset. Substantially all of our leases are long-term operating leases with fixed payment terms. We do not have significant financing leases. Our right-of-use (ROU) operating lease assets represent our right to use an underlying asset for the lease term, and our operating lease liabilities represent our obligation to make lease payments. ROU operating lease assets are recorded in other noncurrent assets in our consolidated balance sheet. Operating lease liabilities are recorded in other current liabilities or other noncurrent liabilities in our consolidated balance sheet based on their contractual due dates.

Both the ROU operating lease asset and liability are recognized as of the lease commencement date at the present value of the lease payments over the lease term. Most of our leases do not provide an implicit rate that can readily be determined. Therefore, we use a discount rate based on our incremental borrowing rate, which is determined using our credit rating and information available as of the commencement date. ROU operating lease assets include lease payments made at or before the lease commencement date, net of any lease incentives.

Our operating lease agreements may include options to extend the lease term or terminate it early. We include options to extend or terminate leases in the ROU operating lease asset and liability when it is reasonably certain we will exercise these options. Operating lease expense is recognized on a straight-line basis over the lease term and is included in cost of sales on our consolidated statement of earnings.

We have operating lease arrangements with lease and non-lease components. The non-lease components in our arrangements are not significant when compared to the lease components. For all operating leases, we account for the lease and non-lease components as a single component. Additionally, for certain equipment leases, we apply a portfolio approach to recognize operating lease ROU assets and liabilities. We evaluate ROU assets for impairment consistent with our property, plant and equipment policy.

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**Postretirement benefit plans** – Many of our employees and retirees participate in defined benefit pension plans, retiree medical and life insurance plans, and other postemployment plans (collectively, postretirement benefit plans). Obligation amounts we record related to our postretirement benefit plans are computed based on service to date, using actuarial valuations that are based in part on certain key economic assumptions we make, including the discount rate, the expected long-term rate of return on plan assets and other actuarial assumptions including participant longevity (also known as mortality) and health care cost trend rates, each as appropriate based on the nature of the plans.

A market-related value of our plan assets, determined using actual asset gains or losses over the prior three year period, is used to calculate the amount of deferred asset gains or losses to be amortized. These asset gains or losses, along with those resulting from adjustments to our benefit obligation, will be amortized to expense using the corridor method, where gains and losses are recognized over a period of years to the extent they exceed 10% of the greater of plan assets or benefit obligations.

We recognize on a plan-by-plan basis the funded status of our postretirement benefit plans as either an asset recorded within other noncurrent assets or a liability recorded within noncurrent liabilities on our consolidated balance sheets. The GAAP funded status is measured as the difference between the fair value of the plan's assets and the benefit obligation of the plan. The funded status under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, is calculated on a different basis than under GAAP.

**Postemployment plans** – We record a liability for postemployment benefits, such as severance or job training, typically when payment is probable, the amount is reasonably estimable, and the obligation relates to rights that have vested or accumulated.

**Environmental matters** – We record a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation at a particular site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. Our environmental liabilities are recorded on our consolidated balance sheets within other liabilities, both current and noncurrent. We expect to include a substantial portion of environmental costs in our net sales and cost of sales in future periods pursuant to U.S. Government regulation. At the time a liability is recorded for future environmental costs, we record assets for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continually evaluate the recoverability of our assets for the portion of environmental costs that are probable of future recovery by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, our history of receiving reimbursement of such costs, and efforts by some U.S. Government representatives to limit such reimbursement. We include the portions of those environmental costs expected to be allocated to our non-U.S. government contracts, or determined not to be recoverable under U.S. Government contracts, in our cost of sales at the time the liability is established or adjusted. Our assets for the portion of environmental costs that are probable of future recovery are recorded on our consolidated balance sheets

within other assets, both current and noncurrent. We project costs and recovery of costs over approximately 20 years.

**Derivative financial instruments** – Derivatives are recorded at their fair value and included in other current and noncurrent assets and liabilities on our consolidated balance sheets. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items or reflected net of income taxes in accumulated other comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are not highly effective, if any, are immediately recognized in earnings.

## **Recent Accounting Pronouncements**

### **Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures**

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Additionally, it requires a public entity to disclose the title and position of the Chief Operating Decision Maker (CODM). The ASU does not change how a public entity identifies its operating segments, aggregates them, or applies the quantitative thresholds to determine its reportable segments. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. A public entity should apply the amendments in this ASU retrospectively to all prior periods presented in the financial statements. We expect this ASU to only impact our disclosures with no impacts to our results of operations, cash flows and financial condition.

### **Income Taxes (Topic 740): Improvements to Income Tax Disclosures**

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which focuses on the rate reconciliation and income taxes paid. ASU No. 2023-09 requires a public business entity (PBE) to disclose, on an annual basis, a tabular rate reconciliation using both percentages and currency amounts, broken out into specified categories with certain reconciling items further broken out by nature and jurisdiction to the extent those items exceed a specified threshold. In addition, all entities are required to disclose income taxes paid, net of refunds received disaggregated by federal, state/local, and foreign and by jurisdiction if the amount is at least 5% of total income tax payments, net of refunds received. For PBEs, the new standard is effective for annual periods beginning after December 15, 2024, with early adoption permitted. An entity may apply the amendments in this ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods, or may apply the amendments retrospectively by providing the revised disclosures for all period presented. We expect this ASU to only impact our disclosures with no impacts to our results of operations, cash flows, and financial condition.

## **Note 2 - Earnings Per Share**



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

	2023	2022	2021
Weighted average common shares outstanding for basic computations	250.3	263.7	276.4
Weighted average dilutive effect of equity awards	0.9	0.9	1.0
Weighted average common shares outstanding for diluted computations	251.2	264.6	277.4

We compute basic and diluted earnings per common share by dividing net earnings by the respective weighted average number of common shares outstanding for the periods presented. Our calculation of diluted earnings per common share also includes the dilutive effects for the assumed vesting of outstanding restricted stock units (RSUs) and performance stock units (PSUs) based on the treasury stock method. There were no significant anti-dilutive equity awards for the years ended December 31, 2023, 2022 and 2021. Basic and diluted weighted average common shares outstanding decreased in 2023 compared to 2022 due to share repurchases.

### Note 3 - Information on Business Segments

#### Overview

We operate in four business segments: Aeronautics, MFC, RMS and Space. We organize our business segments based on the nature of products and services offered. Following is a brief description of the activities of our business segments:

- **Aeronautics** – Engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies.
- **Missiles and Fire Control** – Provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions.

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- **Rotary and Mission Systems** – Designs, manufactures, services and supports various military and commercial helicopters, surface ships, sea and land-based missile defense systems, radar systems, laser systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions.
- **Space** – Engaged in the research and design, development, engineering and production of satellites, space transportation systems, and strategic, advanced strike, and defensive systems. Space provides network-enabled situational awareness and integrates complex space and ground global systems to help our customers gather, analyze and securely distribute critical intelligence data. Space is also responsible for various classified systems and services in support of vital national security systems. Operating profit for our Space business segment also includes our share of earnings for our 50% ownership interest in ULA, which provides expendable launch services to the U.S. Government and commercial customers. Our investment in ULA totaled \$567 million and \$571 million at December 31, 2023 and 2022.

### **Selected Financial Data by Business Segment**

Net sales and operating profit of our business segments exclude intersegment sales, cost of sales and profit as these activities are eliminated in consolidation and thus are not included in management's evaluation of performance of each segment. Business segment operating profit includes our share of earnings or losses from equity method investees as the operating activities of the equity method investees are closely aligned with the operations of our business segments.

### **Summary Operating Results**

As discussed in "Note 1 – Organization and Significant Accounting Policies", effective January 1, 2023, we no longer consider amortization expense related to purchased intangible assets when evaluating the operating performance of our business segments. As a result, intangible asset amortization expense, which was previously included in segment operating profit, is now reported in unallocated items within total consolidated operating profit.

This change has been applied to the amounts below, including the amounts for 2022 and 2021. Sales and operating profit for each of our business segments were as follows (in millions):

	2023	2022	2021
<b>Net sales</b>			
Aeronautics	<b>\$27,474</b>	\$26,987	\$26,748
Missiles and Fire Control	<b>11,253</b>	11,317	11,693
Rotary and Mission Systems	<b>16,239</b>	16,148	16,789
Space	<b>12,605</b>	11,532	11,814
Total net sales	<b>\$67,571</b>	\$65,984	\$67,044
<b>Operating profit</b>			
Aeronautics	<b>\$ 2,825</b>	\$ 2,867	\$ 2,800
Missiles and Fire Control	<b>1,541</b>	1,637	1,650
Rotary and Mission Systems	<b>1,865</b>	1,906	2,030
Space	<b>1,158</b>	1,057	1,184
Total business segment operating profit	<b>7,389</b>	7,467	7,664
<b>Unallocated items</b>			
FAS/CAS pension operating adjustment	<b>1,660</b>	1,709	1,960
Intangible asset amortization expense	<b>(247)</b>	(248)	(285)
Severance and other charges <sup>(a)</sup>	<b>(92)</b>	(100)	(36)
Other, net	<b>(203)</b>	(480)	(180)
Total unallocated, net	<b>1,118</b>	881	1,459
Total consolidated operating profit	<b>\$ 8,507</b>	\$ 8,348	\$ 9,123

- <sup>(a)</sup> Severance and other charges include severance and other charges totaling \$92 million (\$73 million, or \$0.30 per share, after-tax) associated with severance costs for the planned reduction of certain positions across the corporation and asset impairment charges in 2023; \$100 million (\$79 million, or \$0.31 per share, after-tax) charge related to actions at our RMS business segment, which include severance costs for reduction of positions and asset impairment charges in 2022; and \$36 million (\$28 million, or \$0.10 per share, after-tax) charge associated with plans to close and consolidate certain facilities and reduce total workforce within our RMS business segment in 2021.

## **Unallocated Items**

Business segment operating profit excludes the FAS/CAS pension operating adjustment, a portion of corporate costs not considered allowable or allocable to contracts with the U.S. Government under the applicable U.S. Government cost accounting standards (CAS) or federal acquisition regulations (FAR), and other items not considered part of management's evaluation of segment operating performance such as a portion of management and administration costs, legal fees and settlements, environmental costs, stock-based compensation expense, changes in the fair value of assets and liabilities for deferred compensation plans, retiree benefits, significant severance charges, significant asset impairments, gains or losses from divestitures, intangible asset amortization expense, and other miscellaneous corporate activities. Excluded items are included in the reconciling item "Unallocated items" between operating profit from our business segments and our consolidated operating profit. See "Note 1 – Organization and Significant Accounting Policies" (under the caption "Use of Estimates") for a discussion related to certain factors that may impact the comparability of net sales and operating profit of our business segments.

## **FAS/CAS Pension Operating Adjustment**

Our business segments' results of operations include pension expense only as calculated under U.S. Government Cost Accounting Standards (CAS), which we refer to as CAS pension cost. We recover CAS pension and other postretirement benefit plan cost through the pricing of our products and services on U.S. Government contracts and, therefore, recognize CAS pension cost in each of our business segment's net sales and cost of sales. Our consolidated financial statements must present pension and other postretirement benefit plan income calculated in accordance with Financial Accounting Standards (FAS) requirements under U.S. GAAP. The operating portion of the total FAS/CAS pension adjustment represents the difference between the service cost component of FAS pension income (expense) and total CAS pension cost. The non-service FAS pension income (expense) components are included in non-service FAS pension income (expense) in our consolidated statements of earnings. As a result, to the extent that CAS pension cost exceeds the service cost component of FAS pension income (expense) we have a favorable FAS/CAS pension operating adjustment.

## **Intersegment Sales**

Sales between our business segments are excluded from our consolidated and segment operating results as these activities are eliminated in consolidation. Intersegment sales for each of our business segments were as follows (in millions):

	2023	2022	2021
<b>Intersegment sales</b>			
Aeronautics	\$ 303	\$ 249	\$ 219
Missiles and Fire Control	688	627	618
Rotary and Mission Systems	2,125	1,930	1,895
Space	358	381	360
Total intersegment sales	\$3,474	\$ 3,187	\$ 3,092

## Disaggregation of Net Sales

Net sales by products and services, contract type, customer category and geographic region for each of our business segments were as follows (in millions):

	2023				
	Aeronautics	MFC	RMS	Space	Total
<b>Net sales</b>					
Products	\$ 22,758	\$ 9,919	\$ 12,913	\$ 10,675	\$ 56,265
Services	4,716	1,334	3,326	1,930	11,306
Total net sales	\$ 27,474	\$ 11,253	\$ 16,239	\$ 12,605	\$ 67,571
<b>Net sales by contract type</b>					
Fixed-price	\$ 18,664	\$ 7,661	\$ 10,403	\$ 3,276	\$ 40,004
Cost-reimbursable	8,810	3,592	5,836	9,329	27,567
Total net sales	\$ 27,474	\$ 11,253	\$ 16,239	\$ 12,605	\$ 67,571
<b>Net sales by customer</b>					
U.S. Government	\$ 18,311	\$ 7,769	\$ 10,961	\$ 12,382	\$ 49,423
International <sup>(a)</sup>	9,034	3,473	4,983	154	17,644
U.S. commercial and other	129	11	295	69	504
Total net sales	\$ 27,474	\$ 11,253	\$ 16,239	\$ 12,605	\$ 67,571
<b>Net sales by geographic region</b>					
United States	\$ 18,440	\$ 7,780	\$ 11,256	\$ 12,451	\$ 49,927
Europe	4,898	786	1,265	62	7,011
Asia Pacific	2,800	687	2,275	89	5,851
Middle East	987	1,844	721	2	3,554
Other	349	156	722	1	1,228
Total net sales	\$ 27,474	\$ 11,253	\$ 16,239	\$ 12,605	\$ 67,571

	2022									
	Aeronautics		MFC	RMS	Space	Total				
Net sales										
Products	\$	22,870	\$	10,048	\$	12,811	\$	9,737	\$	55,466
Services		4,117		1,269		3,337		1,795		10,518
Total net sales	\$	26,987	\$	11,317	\$	16,148	\$	11,532	\$	65,984
Net sales by contract type										
Fixed-price	\$	19,431	\$	8,014	\$	10,460	\$	3,064	\$	40,969
Cost-reimbursable		7,556		3,303		5,688		8,468		25,015
Total net sales	\$	26,987	\$	11,317	\$	16,148	\$	11,532	\$	65,984
Net sales by customer										
U.S. Government	\$	18,026	\$	7,814	\$	11,331	\$	11,344	\$	48,515
International <sup>(a)</sup>		8,811		3,496		4,470		154		16,931
U.S. commercial and other		150		7		347		34		538
Total net sales	\$	26,987	\$	11,317	\$	16,148	\$	11,532	\$	65,984
Net sales by geographic region										
United States	\$	18,176	\$	7,821	\$	11,678	\$	11,378	\$	49,053
Europe		4,303		1,020		857		87		6,267
Asia Pacific		2,970		461		1,994		54		5,479
Middle East		1,103		1,858		823		12		3,796
Other		435		157		796		1		1,389
Total net sales	\$	26,987	\$	11,317	\$	16,148	\$	11,532	\$	65,984

	2021				
	Aeronautics	MFC	RMS	Space	Total
<b>Net sales</b>					
Products	\$ 22,631	\$ 10,269	\$ 13,483	\$ 10,052	\$ 56,435
Services	4,117	1,424	3,306	1,762	10,609
Total net sales	\$ 26,748	\$ 11,693	\$ 16,789	\$ 11,814	\$ 67,044
<b>Net sales by contract type</b>					
Fixed-price	\$ 19,734	\$ 8,079	\$ 11,125	\$ 2,671	\$ 41,609
Cost-reimbursable	7,014	3,614	5,664	9,143	25,435
Total net sales	\$ 26,748	\$ 11,693	\$ 16,789	\$ 11,814	\$ 67,044
<b>Net sales by customer</b>					
U.S. Government	\$ 17,262	\$ 8,341	\$ 11,736	\$ 10,811	\$ 48,150
International <sup>(a)</sup>	9,403	3,346	4,719	971	18,439
U.S. commercial and other	83	6	334	32	455
Total net sales	\$ 26,748	\$ 11,693	\$ 16,789	\$ 11,814	\$ 67,044
<b>Net sales by geographic region</b>					
United States	\$ 17,345	\$ 8,347	\$ 12,070	\$ 10,843	\$ 48,605
Europe	3,973	910	909	968	6,760
Asia Pacific	3,644	292	2,178	(6)	6,108
Middle East	1,351	2,066	827	9	4,253
Other	435	78	805	—	1,318
Total net sales	\$ 26,748	\$ 11,693	\$ 16,789	\$ 11,814	\$ 67,044

<sup>(a)</sup> International sales include FMS contracted through the U.S. Government, direct commercial sales with international governments and commercial and other sales to international customers.

Our Aeronautics business segment includes our largest program, the F-35 Lightning II Joint Strike Fighter, an international multi-role, multi-variant, stealth fighter aircraft. Net sales for the F-35 program represented approximately 26% of our consolidated net sales during 2023 and 27% during both 2022 and 2021.

### Capital Expenditures and PP&E Depreciation and Software Amortization



	2023	2022	2021
<b>Capital expenditures</b>			
Aeronautics	\$ 535	\$ 461	\$ 477
Missiles and Fire Control	252	253	304
Rotary and Mission Systems	220	266	279
Space	455	391	305
Total business segment capital expenditures	1,462	1,371	1,365
Corporate activities	229	299	157
Total capital expenditures	\$ 1,691	\$ 1,670	\$ 1,522
<b>PP&amp;E depreciation and software amortization</b>			
Aeronautics	\$ 416	\$ 383	\$ 348
Missiles and Fire Control	175	160	153
Rotary and Mission Systems	220	245	250
Space	221	201	205
Total business segment depreciation and amortization	1,032	989	956
Corporate activities <sup>(a)</sup>	398	415	408
Total depreciation and amortization	\$ 1,430	\$ 1,404	\$ 1,364

<sup>(a)</sup> Includes amortization of purchased intangibles.

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## Assets

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

	2023	2022
<b>Assets</b>		
Aeronautics	<b>\$13,167</b>	\$12,055
Missiles and Fire Control	<b>5,703</b>	5,788
Rotary and Mission Systems	<b>17,521</b>	17,988
Space	<b>6,560</b>	6,351
Total business segment assets	<b>42,951</b>	42,182
Corporate assets <sup>(a)</sup>	<b>9,505</b>	10,698
Total assets	<b>\$52,456</b>	\$52,880

- (a) Corporate assets primarily include cash and cash equivalents, deferred income taxes, assets for the portion of environmental costs that are probable of future recovery, property, plant and equipment used in our corporate operations, assets held in a trust for deferred compensation plans, and other marketable investments.

## Note 4 - Receivables, net, Contract Assets and Contract Liabilities

Receivables, net, contract assets and contract liabilities were as follows (in millions):

	2023	2022
Receivables, net	<b>\$ 2,132</b>	\$ 2,505
Contract assets	<b>13,183</b>	12,318
Contract liabilities	<b>9,190</b>	8,488

Receivables, net consist of approximately \$1.4 billion from the U.S. Government and \$749 million from other governments and commercial customers as of December 31, 2023. Substantially all accounts receivable at December 31, 2023 are expected to be collected in 2024. We do not believe we have significant exposure to credit risk as the majority of our accounts receivable are due from the U.S. Government either as the ultimate customer or in connection with foreign military sales.

Contract assets are net of progress payments and performance based payments from our customers as well as advance payments from non-U.S. government customers totaling approximately \$50.5 billion and \$47.0 billion as of December 31, 2023 and 2022. Contract assets increased \$865 million during 2023, primarily due to the recognition of revenue related to the satisfaction or partial satisfaction of performance obligations during 2023 for which we have not yet billed our customers (primarily on the F-35 program at Aeronautics). There were no significant credit or impairment losses related to our contract assets during 2023 and 2022. We expect to bill our customers for the majority of the December 31, 2023 contract assets during 2024.

Contract liabilities increased \$702 million during 2023, primarily due to payments received in excess of revenue recognized on these performance obligations. During 2023, we recognized \$5.1 billion of our contract liabilities at December 31, 2022 as revenue. During 2022, we recognized \$4.8 billion of our contract liabilities at December 31, 2021 as revenue. During 2021, we recognized \$4.5 billion of our contract liabilities at December 31, 2020 as revenue.

## Note 5 - Inventories

Inventories consisted of the following (in millions):

	2023	2022
Materials, spares and supplies	\$ 606	\$ 599
Work-in-process	2,338	2,297
Finished goods	188	192
Total inventories	\$3,132	\$ 3,088

Costs incurred to fulfill a contract in advance of the contract being awarded are included in inventories as work-in-process if we determine that those costs relate directly to a contract or to an anticipated contract that we can specifically identify and determine that contract award is probable, the costs generate or enhance resources that will be used in satisfying performance obligations, and the costs are recoverable (referred to as pre-contract costs). These advanced procurement costs are generally incurred in order to enhance our ability to achieve schedule and certain customer milestones. Pre-contract costs that are initially

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capitalized in inventory are generally recognized as cost of sales consistent with the transfer of products and services to the customer upon the receipt of the anticipated contract. All other pre-contract costs, including start-up costs, are expensed as incurred. As of December 31, 2023 and 2022, \$989 million and \$791 million of pre-contract costs were included in inventories. The increase in pre-contract costs as of December 31, 2023 is primarily driven by our Aeronautics business segment (primarily classified contracts).

## Note 6 - Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following (in millions):

	2023	2022
Land	\$ 144	\$ 147
Buildings	9,049	8,555
Machinery and equipment	9,908	9,400
Construction in progress	2,081	2,036
Total property, plant and equipment	21,182	20,138
Less: accumulated depreciation	(12,812)	(12,163)
Total property, plant and equipment, net	\$ 8,370	\$ 7,975

Depreciation expense related to plant and equipment was \$920 million in 2023, \$903 million in 2022 and \$904 million in 2021.

## Note 7 - Goodwill and Acquired Intangibles

Changes in the carrying amount of goodwill by business segment were as follows (in millions):

	Aeronautics	MFC	RMS	Space	Total
Balance at December 31, 2021	\$ 187	\$ 2,090	\$ 6,759	\$ 1,777	\$ 10,813
Acquisitions	—	—	3	—	3
Other	9	(7)	(36)	(2)	(36)
Balance at December 31, 2022	196	2,083	6,726	1,775	10,780
Other	—	3	15	1	19
Balance at December 31, 2023	\$ 196	\$ 2,086	\$ 6,741	\$ 1,776	\$ 10,799

The gross carrying amounts and accumulated amortization of our acquired intangible assets consisted of the following (useful life in years, \$ in millions):

	Estimated Useful Lives	2023			2022		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-Lived:							
Customer programs	9 - 20	\$ 3,186	\$ (1,897)	\$ 1,289	\$ 3,186	\$ (1,664)	\$ 1,522
Customer relationships	4 - 10	94	(84)	10	94	(78)	16
Other	3 - 10	72	(46)	26	72	(38)	34
Total finite-lived intangibles							
		3,352	(2,027)	1,325	3,352	(1,780)	1,572
Indefinite-Lived:							
Trademark		887	—	887	887	—	887
Total acquired intangibles							
		\$ 4,239	\$ (2,027)	\$ 2,212	\$ 4,239	\$ (1,780)	\$ 2,459

Acquired finite-lived intangible assets are amortized to expense primarily on a straight-line basis over their estimated useful lives.

Amortization expense for acquired finite-lived intangible assets was \$247 million, \$248 million and \$285 million in 2023, 2022 and 2021. Estimated future amortization expense is as follows: \$244 million in 2024; \$221 million in 2025; \$154 million in 2026; \$153 million in 2027; and \$148 million in 2028.

## Note 8 - Leases

We generally enter into operating lease agreements for facilities, land and equipment. Our ROU operating lease assets were \$1.1 billion at December 31, 2023. Operating lease liabilities were \$1.2 billion, of which \$862 million were classified as noncurrent, at December 31, 2023. New ROU operating lease assets and liabilities entered into during 2023 were \$170 million. The weighted average remaining lease term and discount rate for our operating leases were approximately 7 years and 2.9% at December 31, 2023.

We recognized operating lease expense of \$273 million in 2023 and \$275 million in both 2022 and 2021. In addition, we made cash payments of \$267 million for operating leases during 2023, which are included in cash flows from operating activities in our consolidated statement of cash flows.

Future minimum lease commitments at December 31, 2023 were as follows (in millions):

	<b>Total</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Thereafter</b>
Operating leases	\$ 1,306	\$ 339	\$ 223	\$ 172	\$ 136	\$ 109	\$ 327
Less: imputed interest	129						
<b>Total</b>	<b>\$ 1,177</b>						

## Note 9 - Income Taxes

### Income Tax Provisions

Federal and foreign income tax expense for continuing operations consisted of the following (in millions):

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Federal income tax expense (benefit):			
Current	<b>\$ 1,574</b>	\$ 1,618	\$ 1,325
Deferred	<b>(503)</b>	(776)	(194)
Total federal income tax expense	<b>1,071</b>	842	1,131
Foreign income tax expense (benefit):			
Current	<b>102</b>	87	93
Deferred	<b>5</b>	19	11
Total foreign income tax expense	<b>107</b>	106	104
Total federal and foreign income tax expense	<b>\$ 1,178</b>	\$ 948	\$ 1,235

Our total net state income tax expense was \$115 million for 2023, \$124 million for 2022, and \$195 million for 2021. State income taxes are allowable costs in establishing prices for the products and services we sell to the U.S. Government. Therefore, state income tax

expenses are included in our cost of sales, as general and administrative costs. As a result, the impact of certain transactions on our operating profit and of other matters presented in these consolidated financial statements is disclosed net of state income taxes.

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A reconciliation of the U.S. federal statutory income tax expense to actual income tax expense for continuing operations is as follows (in millions):

	<b>2023</b>		<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>
Income tax expense at the U.S. federal statutory tax rate	<b>\$ 1,701</b>	<b>21.0 %</b>	\$ 1,403	21.0 %	\$ 1,585	21.0 %
Research and development tax credit	<b>(227)</b>	<b>(2.8)</b>	(178)	(2.7)	(118)	(1.6)
Foreign derived intangible income deduction	<b>(185)</b>	<b>(2.3)</b>	(176)	(2.6)	(170)	(2.3)
Tax deductible dividends	<b>(69)</b>	<b>(0.9)</b>	(67)	(1.0)	(65)	(0.9)
Excess tax benefits for stock-based payment awards	<b>(25)</b>	<b>(0.3)</b>	(42)	(0.6)	(28)	(0.4)
Other, net	<b>(17)</b>	<b>(0.2)</b>	8	0.1	31	0.6
Income tax expense	<b>\$ 1,178</b>	<b>14.5 %</b>	\$ 948	14.2 %	\$ 1,235	16.4 %

The rates for all periods benefited from research and development tax credits, tax deductions for foreign derived intangible income, dividends paid to our defined contribution plans with an employee stock ownership plan feature and employee equity awards.

### Uncertain Tax Positions

The change in unrecognized tax benefits were as follows (in millions):

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Balance at January 1	<b>\$ 1,622</b>	\$ 69	\$ 50
Additions based on tax positions related to the current year	<b>50</b>	1,572	23
Additions for tax positions of prior years	<b>32</b>	5	30
Reductions for tax positions of prior years	<b>(1,526)</b>	(2)	(19)
Settlements with tax authorities	<b>(33)</b>	(23)	(14)
Other, net	<b>1</b>	1	(1)
Balance at December 31	<b>\$ 146</b>	\$ 1,622	\$ 69

As of December 31, 2022, our liabilities associated with uncertain tax positions were \$1.6 billion. For the year ended December 31, 2023, our liabilities associated with uncertain tax positions decreased to \$146 million with a corresponding decrease to net deferred tax assets primarily resulting from our analysis of IRS Notice 2023-63 released on September 8, 2023 confirming that certain expenditures incurred in the performance of cost-type contracts are not subject to capitalization. The reduction in uncertain tax positions had an immaterial impact to our effective tax rate. It is reasonably possible that within the next twelve months, our liabilities associated with uncertain tax positions may increase by an immaterial amount.

This uncertain tax position will have an immaterial impact to our effective tax rate if recognized.



We recognize accrued interest and penalties related to unrecognized tax benefits as part of our income tax expense. As of December 31, 2023 and 2022, our accrued interest and penalties related to unrecognized tax benefits were not material.

## Deferred Income Taxes

The primary components of our federal and foreign deferred income tax assets and liabilities at December 31 were as follows (in millions):

	2023	2022
Deferred tax assets related to:		
Pensions	\$ 1,485	\$ 1,340
Accrued compensation and benefits	731	718
Contract accounting methods	508	510
Research and development expenditures	1,251	2,268
Foreign company operating losses and credits	19	20
Other <sup>(a)</sup>	487	471
Valuation allowance	(32)	(31)
Deferred tax assets, net	4,449	5,296
Deferred tax liabilities related to:		
Goodwill and intangible assets	494	449
Property, plant and equipment	415	503
Other <sup>(a)</sup>	597	605
Deferred tax liabilities	1,506	1,557
Net deferred tax assets	\$ 2,943	\$ 3,739

<sup>(a)</sup> Includes deferred tax assets and liabilities related to lease liability and ROU asset.

We and our subsidiaries file federal income tax returns in the U.S. and income tax returns in various foreign jurisdictions. With few exceptions, the statute of limitations for these jurisdictions is no longer open for audit or examination for the years before 2016 with respect to various foreign jurisdictions and before 2018 for federal income taxes in the U.S.

We withdrew from the IRS Compliance Assurance Process (CAP) program in 2022 starting with our 2021 tax return. Examinations of the years 2018 to 2020 remain under IRS review. We are also subject to taxation in various states and foreign jurisdictions including Australia, Canada, India, Italy, Japan, Poland, and the United Kingdom. We are under, or may be subject to, audit or examination and additional assessments by the relevant authorities.

Our federal and foreign income tax payments, net of refunds, were \$1.8 billion in 2023, \$1.6 billion in 2022 and \$1.4 billion in 2021.

## Note 10 - Debt

Our total debt consisted of the following (in millions):

	2023	2022
Notes		
4.95% due 2025	\$ 500	\$ 500
3.55% due 2026	1,000	1,000
5.10% due 2027	750	750
4.45% due 2028	500	—
1.85% due 2030	400	400
3.90% due 2032	800	800
5.25% due 2033	1,000	1,000
4.75% due 2034	850	—
3.60% due 2035	500	500
4.50% and 6.15% due 2036	1,054	1,054
4.07% due 2042	1,336	1,336
3.80% due 2045	1,000	1,000
4.70% due 2046	1,326	1,326
2.80% due 2050	750	750
4.09% due 2052	1,578	1,578
4.15% due 2053	850	850
5.70% due 2054	1,000	1,000
5.20% due 2055	650	—
4.30% due 2062	650	650
5.90% due 2063	750	750
Other notes with rates from 4.85% to 8.50%, due 2024 to 2041	1,479	1,598
Total debt	18,723	16,842
Less: unamortized discounts and issuance costs	(1,264)	(1,295)
Total debt, net	17,459	15,547
Less: current portion	(168)	(118)
Long-term debt, net	\$17,291	\$15,429

## Revolving Credit Facility

On August 24, 2022, we entered into a new Revolving Credit Agreement (the “Revolving Credit Agreement”) with various banks. The Revolving Credit Agreement consists of a \$3.0 billion five-year unsecured revolving credit facility, with the option to increase the commitments under the credit facility by an additional amount of up to \$500 million (for an aggregate amount of up to \$3.5 billion), subject to the agreement of one or more new or existing lenders to provide such additional amounts and certain other customary conditions. Effective August 24, 2023, we extended the expiration date of the Revolving Credit

Agreement from August 24, 2027 to August 24, 2028. The Revolving Credit Agreement is available for any of our lawful corporate purposes, including supporting commercial paper borrowings. Borrowings under the Revolving Credit Agreement are unsecured and bear interest at rates set forth in the Revolving Credit Agreement. The Revolving Credit Agreement contains customary representations, warranties and covenants, including covenants restricting ours and certain of our subsidiaries' ability to encumber assets and our ability to merge or consolidate with another entity. The Revolving Credit Agreement replaces our revolving credit agreement (the "Former Credit Agreement"), which had been scheduled to mature on August 24, 2026. The Former Credit Agreement, which had a total capacity of \$3.0 billion and was undrawn, was terminated effective August 24, 2022. There were no borrowings under the Revolving Credit Agreement or the Former Credit Agreement at December 31, 2023 and 2022. As of December 31, 2023 and 2022, we were in compliance with all covenants contained in the Revolving Credit Agreement and Former Credit Agreement, as well as in our debt agreements.

### **Commercial Paper**

We have agreements in place with financial institutions to provide for the issuance of commercial paper. The outstanding balance of commercial paper can fluctuate daily and the amount outstanding during the period may be greater or less than the

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amount reported at the end of the period. There were no commercial paper borrowings outstanding as of December 31, 2023. We may, as conditions warrant, issue commercial paper backed by our revolving credit agreement to manage the timing of cash flows.

### **Long Term Debt**

On May 25, 2023, we issued a total of \$2.0 billion of senior unsecured notes, consisting of \$500 million aggregate principal amount of 4.45% Notes due May 15, 2028 (the “2028 Notes”), \$850 million aggregate principal amount of 4.75% Notes due February 15, 2034 (the “2034 Notes”) and \$650 million aggregate principal amount of 5.20% Notes due February 15, 2055 (the “2055 Notes” and, together with the 2028 Notes and 2034 Notes, the “Notes”) in a registered public offering. Net proceeds of \$1,975 million were received from the offering after deducting pricing discounts and debt issuance costs, which are being amortized and recorded as interest expense over the term of the Notes. We will pay interest on the 2028 Notes semi-annually in arrears on May 15 and November 15 with the first payment to be made on November 15, 2023. Additionally, we will pay interest on the 2034 Notes and 2055 Notes on February 15 and August 15 of each year with the first payment made on August 15, 2023. We may, at our option, redeem the Notes of any series in whole or in part at any time and from time to time at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed or an applicable make-whole amount, plus accrued and unpaid interest to the date of redemption. The Notes rank equally in right of payment with all of our existing unsecured and unsubordinated indebtedness.

On October 24, 2022, we issued a total of \$4.0 billion of senior unsecured notes, consisting of \$500 million aggregate principal amount of 4.95% Notes due 2025 (the “2025 Notes”), \$750 million aggregate principal amount of 5.10% Notes due 2027 (the “2027 Notes”), \$1.0 billion aggregate principal amount of 5.25% Notes due 2033 (the “2033 Notes”), \$1.0 billion aggregate principal amount of 5.70% Notes due 2054 (the “2054 Notes”) and \$750 million aggregate principal amount of 5.90% Notes due 2063 (the “2063 Notes” and, together with the 2025 Notes, the 2027 Notes, the 2033 Notes and the 2054 Notes, the “October 2022 Notes”) in a registered public offering. We will pay interest on the 2025 Notes semi-annually in arrears on April 15 and October 15 of each year with the first payment made on April 15, 2023. We will pay interest on the 2033 Notes semi-annually in arrears on January 15 and July 15 of each year with the first payment made on January 15, 2023. We will pay interest on each of 2027 Notes, 2054 Notes and 2063 Notes semi-annually in arrears on May 15 and November 15 of each year with the first payment made on May 15, 2023. We may, at our option, redeem the October 2022 Notes of any series, in whole or in part, at any time at the redemption prices equal to the greater of 100% of the principal amount of the October 2022 Notes to be redeemed or an applicable “make-whole” amount, plus accrued and unpaid interest to the date of redemption. We used the net proceeds from this offering to enter into an accelerated share repurchase (ASR) agreement to repurchase \$4.0 billion of our common stock.

On May 5, 2022, we issued a total of \$2.3 billion of senior unsecured notes, consisting of \$800 million aggregate principal amount of 3.90% Notes due June 15, 2032 (the “2032 Notes”), \$850 million aggregate principal amount of 4.15% Notes due June 15, 2053 (the “2053 Notes”) and \$650 million aggregate principal amount of 4.30% Notes due June 15, 2062 (the “2062 Notes” and, together with the 2032 Notes and 2053 Notes, the “May 2022

Notes”) in a registered public offering. Net proceeds received from the offering were after deducting pricing discounts and debt issuance costs, which are being amortized and recorded as interest expense over the term of the May 2022 Notes. We will pay interest on the May 2022 Notes semi-annually in arrears on June 15 and December 15 of each year with the first payment made on June 15, 2022. We may, at our option, redeem the May 2022 Notes of any series, in whole or in part, at any time and from time to time, at a redemption price equal to the greater of 100% of the principal amount of the May 2022 Notes to be redeemed or an applicable make-whole amount, plus accrued and unpaid interest to the date of redemption.

On May 11, 2022, we used the net proceeds from the May 2022 Notes to redeem all of the outstanding \$500 million in aggregate principal amount of our 3.10% Notes due 2023, \$750 million in aggregate principal amount of our 2.90% Notes due 2025, and the remaining balance of the net proceeds to redeem \$1.0 billion of our outstanding \$2.0 billion in aggregate principal amount of our 3.55% Notes due 2026 at their redemption price. We paid make-whole premiums of \$13.9 million in connection with the early extinguishments of debt. We incurred losses of \$34 million (\$26 million, or \$0.10 per share, after-tax) on these transactions related to early extinguishments of debt, additional interest expense and other related charges, which was recorded in other non-operating (expense) income, net in our consolidated statements of earnings.

We made interest payments of approximately \$832 million, \$573 million and \$543 million during the years ended December 31, 2023, 2022 and 2021.

## **Note 11 - Postretirement Benefit Plans**

### **Plan Descriptions**

Many of our employees and retirees participate in various postretirement benefit plans including defined benefit pension plans, retiree medical and life insurance plans, defined contribution retirement savings plans, and other postemployment plans. Substantially all of our postretirement benefit obligations relate to U.S. based defined benefit pension plans and retiree medical and life insurance plans. The majority of our U.S. defined benefit pension plans provide for benefits within limits imposed by federal tax law (referred to as qualified plans). However, certain of our U.S. defined benefit pension plans provide for benefits in excess of qualified plan limits imposed by federal tax law (referred to as nonqualified plans).

Salaried employees hired after December 31, 2005 are not eligible to participate in our qualified defined benefit pension plans, but are eligible to participate in a qualified defined contribution plan and other retirement savings plans for which they may qualify. They also have the ability to participate in our retiree medical plans, but we do not subsidize the cost of their participation in those plans as we do with employees hired before January 1, 2006. Over the last few years, we have negotiated similar changes with various labor organizations such that new union represented employees do not participate in our defined benefit pension plans. Our defined benefit pension plans for salaried employees were fully frozen effective January 1, 2020, at which time such employees no longer earn additional benefits under the defined benefit pension plans and were transitioned to a defined contribution retirement savings plan.

We continue to take actions to mitigate the effect of our defined benefit pension plans on our financial results by reducing the volatility and size of our net pension obligations. During the fourth quarter of 2023, a voluntary offering was made to certain former employees who had not yet commenced receiving their vested benefit payments. Total settlement payments of \$414 million for approximately 6,500 participants were made from the defined benefit pension trust with a similar corresponding reduction in benefit obligation. During the second quarter of 2022, we purchased group annuity contracts to transfer \$4.3 billion of gross defined benefit pension obligations and related plan assets to an insurance company for approximately 13,600 U.S. retirees and beneficiaries. In connection with this transaction, we recognized a noncash, non-operating pension settlement charge of \$1.5 billion for the affected plans in the quarter ended June 26, 2022, which represents the accelerated recognition of actuarial losses that were included in the accumulated other comprehensive loss (AOCL) account within stockholders' equity. Similarly, during the third quarter of 2021, we purchased group annuity contracts to transfer \$4.9 billion of gross defined benefit pension obligations and related plan assets to an insurance company for approximately 18,000 U.S. retirees and beneficiaries, and in connection recognized a noncash pension settlement charge of \$1.7 billion.

### **Qualified Defined Benefit Pension Plans and Retiree Medical and Life Insurance Plans**

#### **FAS Income (Expense)**

The pretax FAS income (expense) related to our qualified defined benefit pension plans and retiree medical and life insurance plans included the following (in millions):

	<b>Qualified Defined Benefit Pension Plans</b>			<b>Retiree Medical and Life Insurance Plans</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Operating:						
Service cost	\$ (65)	\$ (87)	\$ (106)	\$ (5)	\$ (9)	\$ (13)
Non-operating:						
Interest cost	(1,459)	(1,289)	(1,220)	(68)	(49)	(53)
Expected return on plan assets	1,722	1,854	2,146	103	136	141
Recognized net actuarial (losses) gains	(168)	(425)	(902)	31	46	—
Amortization of prior service credits (costs)	348	359	349	(10)	(27)	(37)
Settlement charge	—	(1,470)	(1,665)	—	—	—
Non-service FAS income (expense)	443	(971)	(1,292)	56	106	51
Total FAS income (expense)	\$ 378	\$ (1,058)	\$ (1,398)	\$ 51	\$ 97	\$ 38



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We record the service cost component of FAS income (expense) for our qualified defined benefit pension plans and retiree medical and life insurance plans in the cost of sales accounts; the non-service components of our FAS income (expense) for our qualified defined benefit pension plans in the non-service FAS pension income (expense) account; and the non-service components of our FAS income (expense) for our retiree medical and life insurance plans as part of the other non-operating income (expense), net account on our consolidated statements of earnings.

## Funded Status

The following table provides a reconciliation of benefit obligations, plan assets and net (unfunded) funded status of our qualified defined benefit pension plans and our retiree medical and life insurance plans (in millions):

	<b>Qualified Defined Benefit Pension Plans</b>		<b>Retiree Medical and Life Insurance Plans</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Change in benefit obligation</b>				
Beginning balance <sup>(a)</sup>	<b>\$28,698</b>	\$43,447	<b>\$ 1,359</b>	\$ 1,839
Service cost	<b>65</b>	87	<b>5</b>	9
Interest cost	<b>1,459</b>	1,289	<b>68</b>	49
Actuarial losses (gains) <sup>(b)</sup>	<b>731</b>	(10,270)	<b>27</b>	(396)
Settlements <sup>(c)</sup>	<b>(414)</b>	(4,309)	<b>—</b>	—
Plan amendments	<b>6</b>	186	<b>1</b>	1
Benefits paid	<b>(1,586)</b>	(1,732)	<b>(192)</b>	(207)
Medicare Part D subsidy	<b>—</b>	—	<b>1</b>	3
Participants' contributions	<b>—</b>	—	<b>59</b>	61
Ending balance <sup>(a)</sup>	<b>\$28,959</b>	\$28,698	<b>\$ 1,328</b>	\$ 1,359
<b>Change in plan assets</b>				
Beginning balance at fair value	<b>\$23,228</b>	\$35,192	<b>\$ 1,656</b>	\$ 2,169
Actual return on plan assets <sup>(d)</sup>	<b>1,572</b>	(5,923)	<b>190</b>	(381)
Settlements <sup>(c)</sup>	<b>(414)</b>	(4,309)	<b>—</b>	—
Benefits paid	<b>(1,586)</b>	(1,732)	<b>(192)</b>	(207)
Company contributions	<b>—</b>	—	<b>1</b>	11
Medicare Part D subsidy	<b>—</b>	—	<b>1</b>	3
Participants' contributions	<b>—</b>	—	<b>59</b>	61
Ending balance at fair value	<b>\$22,800</b>	\$23,228	<b>\$ 1,715</b>	\$ 1,656
(Unfunded) funded status of the plans	<b>\$ (6,159)</b>	\$ (5,470)	<b>\$ 387</b>	\$ 297

<sup>(a)</sup> Benefit obligation balances represent the projected benefit obligation for our qualified defined benefit pension plans, which is approximately equal to accumulated benefit obligation, and accumulated benefit obligation for our retiree medical and life insurance plans.

- (b) Actuarial losses for our qualified defined benefit pension plans in 2023 primarily reflect a decrease in the discount rate from 5.25% at December 31, 2022 to 5.00% at December 31, 2023, which increased benefit obligations by approximately \$765 million. Actuarial losses for our retiree medical and life insurance plans in 2023 reflect a decrease in the discount rate from 5.25% at December 31, 2022 to 5.00% at December 31, 2023. Actuarial gains for our qualified defined benefit pension plans in 2022 primarily reflect an increase in the discount rate from 2.875% at December 31, 2021 to 5.25% at December 31, 2022, which decreased benefit obligations by \$10.2 billion. Actuarial gains for our retiree medical and life insurance plans in 2022 reflect an increase in the discount rate from 2.750% at December 31, 2021 to 5.25% at December 31, 2022, which decreased benefit obligations by \$335 million.
- (c) Qualified defined benefit pension plans settlements in 2023 include \$414 million in the form of lump-sum settlement payments to former employees who had not commenced receiving their vested benefit payments. The settlement payments had no impact on year 2023 FAS pension income. Qualified defined benefit pension plan settlements in 2022 represent the transfer of gross defined benefit pension obligations and related plan assets to insurance companies pursuant to group annuity contracts purchased in the second quarter of 2022 as described above.
- (d) Actual return on plan assets for our qualified defined benefit pension plans was approximately 7% in 2023 and (18)% in 2022.

We are required to recognize the net funded status of each postretirement benefit plan on a standalone basis as either an asset or a liability on our consolidated balance sheet. The funded status is measured as the difference between the fair value of each plan's assets and the benefit obligation. Each year we measure the fair value of each plan's assets and benefit obligation on December 31, consistent with our fiscal year end. The fair value of each plan's benefit obligation reflects assumptions in effect

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as of the measurement date as described below. For certain of our qualified defined benefit pension plans and retiree medical and life insurance plans the plan assets may exceed the benefit obligation, for which we recognize the net amount as an asset on our consolidated balance sheet. Conversely, for most of our qualified defined benefit pension plans the benefit obligation exceeds plan assets, for which we recognize the net amount as a liability on our consolidated balance sheet.

The following table provides amounts recognized on our consolidated balance sheets related to our qualified defined benefit pension plans and our retiree medical and life insurance plans (in millions):

	<b>Qualified Defined Benefit Pension Plans</b>		<b>Retiree Medical and Life Insurance Plans</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Other noncurrent assets	\$ 3	\$ 2	\$ 387	\$ 297
Accrued pension liabilities	(6,162)	(5,472)	—	—
Net (unfunded) funded status of the plans	\$ (6,159)	\$ (5,470)	\$ 387	\$ 297

Differences between the actual return and expected return on plan assets during the year, and changes in the benefit obligation for our qualified defined benefit pension plans and retiree medical and life insurance plans due to changes in the annual valuation assumptions, generate actuarial gains or losses. Additionally, the benefit obligation for our qualified defined benefit pension plans and retiree medical and life insurance plans may increase or decrease as a result of plan amendments that affect the benefits to plan participants related to service for periods prior to the effective date of the amendment, which generates prior service costs or credits. Actuarial gains or losses, and prior service costs or credits, are initially deferred in accumulated other comprehensive loss and subsequently amortized for each plan into income or (expense) on a straight-line basis either over the average remaining life expectancy of plan participants or over the average remaining service period of plan participants, subject to certain thresholds.

The following table provides the amount of actuarial gains or losses, and prior service costs or credits, recognized in accumulated other comprehensive loss related to qualified defined benefit pension plans and retiree medical and life insurance plans at December 31

(in millions):

	Qualified Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
	2023	2022	2023	2022
Accumulated other comprehensive (loss) pre-tax related to:				
Net actuarial (losses) gains	<b>\$(10,999)</b>	\$(10,287)	<b>\$ 416</b>	\$ 387
Prior service (costs) credits	<b>(15)</b>	339	<b>(2)</b>	(10)
Total	<b>\$(11,014)</b>	\$ (9,948)	<b>\$ 414</b>	\$ 377
Estimated tax	<b>2,339</b>	2,117	<b>(87)</b>	(79)
Net amount recognized in accumulated other comprehensive (loss)	<b>\$ (8,675)</b>	\$ (7,831)	<b>\$ 327</b>	\$ 298

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The following table provides the changes recognized in accumulated other comprehensive loss, net of tax, for actuarial gains or losses and prior service costs or credits due to differences between the actual return and expected return on plan assets and changes in the fair value of the benefit obligation recognized in connection with our annual remeasurement and the amortization during the year for our qualified defined benefit pension plans, retiree medical and life insurance plans, and certain other plans (in millions):

	Incurred but Not Yet Recognized in FAS Expense			Recognition of Previously Deferred Amounts		
	2023	2022	2021	2023	2022	2021
<b>Actuarial gains and (losses)</b>						
Qualified defined benefit pension plans	\$ (698)	\$ 1,952	\$ 2,987	\$ (133)	\$(1,490)	\$(2,019)
Retiree medical and life insurance plans	47	(95)	342	25	36	—
Other plans	(33)	165	76	(8)	(39)	(24)
	(684)	2,022	3,405	(116)	(1,493)	(2,043)
<b>Net prior service credit and (cost)</b>						
Qualified defined benefit pension plans	(5)	(146)	(1)	274	283	274
Retiree medical and life insurance plans	(1)	(1)	—	(8)	(22)	(29)
Other plans	1	(2)	—	(1)	7	11
	(5)	(149)	(1)	265	268	256
<b>Total</b>	<b>\$ (689)</b>	<b>\$ 1,873</b>	<b>\$ 3,404</b>	<b>\$ 149</b>	<b>\$(1,225)</b>	<b>\$(1,787)</b>

**Assumptions Used to Determine Benefit Obligations and FAS (Expense) Income**

We measure the fair value of each plan's assets and benefit obligation on December 31, consistent with our fiscal year end. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Expense is based on assumptions in effect at the end of the preceding year or from the most recent interim remeasurement. The assumptions used to determine the benefit obligations at December 31 of each year and FAS expense for

each subsequent year were as follows:

	Qualified Defined Benefit Pension Plans			Retiree Medical and Life Insurance Plans		
	2023	2022	2021	2023	2022	2021
Weighted average discount rate <sup>(a)</sup>	<b>5.000 %</b>	5.250 %	2.875 %	<b>5.000 %</b>	5.250 %	2.750 %
Expected long-term rate of return on assets <sup>(a)</sup>	<b>6.50 %</b>	6.50 %	6.50 %	<b>6.50 %</b>	6.50 %	6.50 %
Health care trend rate assumed for next year				<b>8.00 %</b>	7.25 %	7.50 %
Ultimate health care trend rate				<b>4.50 %</b>	4.50 %	4.50 %
Year ultimate health care trend rate is reached				<b>2038</b>	2034	2034

<sup>(a)</sup> A pension discount rate of 4.75% was used for the applicable plans following the transaction and remeasurement recognized in the second quarter of 2022.

The long-term rate of return assumption represents the expected long-term rate of earnings on the funds invested, or to be invested, to provide for the benefits included in the benefit obligations. That assumption is based on several factors including historical market index returns, the anticipated long-term allocation of plan assets, the historical return data for the trust funds, plan expenses and the potential to outperform market index returns. The actual investment return for our qualified defined benefit plans during 2023 was approximately 7.00%.

## Plan Assets

Our wholly-owned subsidiary, Lockheed Martin Investment Management Company (LMIMCo), has the fiduciary responsibility for making investment decisions related to the assets of our postretirement benefit plans. LMIMCo's investment objectives for the assets of these plans are (1) to minimize the net present value of expected funding contributions; (2) to ensure there is a high probability that each plan meets or exceeds our actuarial long-term rate of return assumptions; and (3) to diversify assets to minimize the risk of large losses. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives. Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers; the maintenance of a portfolio diversified by asset class, investment approach and security holdings; and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

LMIMCo's investment policies require that asset allocations of postretirement benefit plans be maintained within the following approximate ranges:

<b>Asset Class</b>	<b>Asset Allocation Ranges</b>
Cash and cash equivalents	0-20%
Global Equity	15-65%
Fixed income	10-60%
Alternative investments:	
Private equity funds	5-25%
Real estate funds	5-15%
Hedge funds	0-20%
Commodities	0-10%

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The following table presents the fair value of the assets of our qualified defined benefit pension plans and retiree medical and life insurance plans by asset category and their level within the fair value hierarchy (see “Note 1 – Organization and Significant Accounting Policies - Investments” for definition of these levels), which we are required to disclose even though these assets are not separately recorded on our consolidated balance sheet. Certain investments are measured at their Net Asset Value (NAV) per share because such investments do not have readily determinable fair values and, therefore, are not required to be categorized in the fair value hierarchy. Assets measured at NAV have been included in the table below to permit reconciliation of the fair value hierarchy to amounts presented in the funded status table above.



(in millions)	December 31, 2023				December 31, 2022			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Investments measured at fair value</b>								
Cash and cash equivalents <sup>(a)</sup>	\$ 1,789	\$1,789	\$ —	\$ —	\$ 1,952	\$1,952	\$ —	\$ —
Equity <sup>(a)</sup> :								
U.S. equity securities	2,802	2,715	8	79	3,162	3,060	6	96
International equity securities	1,875	1,853	—	22	2,298	2,245	17	36
Commingled equity funds	423	163	260	—	459	183	276	—
Fixed income <sup>(a)</sup> :								
Corporate debt securities	4,510	—	4,495	15	4,491	—	4,272	219
U.S. Government securities	2,376	—	2,376	—	2,219	—	2,219	—
U.S. Government-sponsored enterprise securities	1,120	—	1,120	—	572	—	572	—
Interest rate swaps, net	(1,284)		(1,284)		(1,165)	—	(1,165)	—
Other fixed income investments <sup>(b)</sup>	1,949	63	725	1,161	1,980	81	680	1,219
<b>Total</b>	<b>\$15,560</b>	<b>\$6,583</b>	<b>\$7,700</b>	<b>\$1,277</b>	<b>\$15,968</b>	<b>\$7,521</b>	<b>\$6,877</b>	<b>\$1,570</b>
<b>Investments measured at NAV</b>								
Commingled equity funds	—				—			
Other fixed income investments	826				730			
Private equity funds	4,951				4,703			
Real estate funds	3,267				3,383			
Hedge funds	847				689			
<b>Total investments measured at NAV</b>	<b>9,891</b>				<b>9,505</b>			
<b>Loan, net <sup>(c)</sup></b>	<b>(497)</b>				<b>(497)</b>			

- (a) Cash and cash equivalents, equity securities and fixed income securities include derivative assets and liabilities with fair values that were not material as of December 31, 2023 and 2022. LMIMCo's investment policies restrict the use of derivatives to either establish long or short exposures for purposes consistent with applicable investment mandate guidelines or to hedge risks to the extent of a plan's current exposure to such risks. Most derivative transactions are settled on a daily basis.
- (b) Level 3 investments include \$1.1 billion at both December 31, 2023 and at December 31, 2022 related to buy-in contracts.
- (c) The Lockheed Martin Corporation Master Retirement Trust (MRT) obtained a loan from a third-party financial institution, collateralized by private equity investments, to invest in fixed income securities.

Changes in the fair value of plan assets categorized as Level 3 during 2023 and 2022 were not significant.

Cash equivalents are mostly comprised of short-term money-market instruments and are valued at cost, which approximates fair value.

U.S. equity securities and international equity securities categorized as Level 1 are traded on active national and international exchanges and are valued at their closing prices on the last trading day of the year. For U.S. equity securities and international equity securities not traded on an active exchange, or if the closing price is not available, the trustee obtains indicative quotes from a pricing vendor, broker or investment manager. These securities are categorized as Level 2 if the custodian obtains corroborated quotes from a pricing vendor or categorized as Level 3 if the custodian obtains uncorroborated quotes from a broker or investment manager.

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Commingled equity funds categorized as Level 1 are traded on active national and international exchanges and are valued at their closing prices on the last trading day of the year. For commingled equity funds not traded on an active exchange, or if the closing price is not available, the trustee obtains indicative quotes from a pricing vendor, broker or investment manager. These securities are categorized as Level 2 if the custodian obtains corroborated quotes from a pricing vendor.

Fixed income investments categorized as Level 1 are publicly exchange-traded. Fixed income investments, including interest rate swaps, categorized as Level 2 are valued by the trustee using pricing models that use verifiable observable market data (e.g., interest rates and yield curves observable at commonly quoted intervals and credit spreads), bids provided by brokers or dealers or quoted prices of securities with similar characteristics. Fixed income investments are categorized as Level 3 when valuations using observable inputs are unavailable. The trustee typically obtains pricing based on indicative quotes or bid evaluations from vendors, brokers or the investment manager. In addition, certain other fixed income investments categorized as Level 3 are valued using a discounted cash flow approach. Significant inputs include projected annuity payments and the discount rate applied to those payments.

Certain commingled equity and fixed income funds, consisting of underlying equity and fixed income securities, respectively, are valued using the NAV practical expedient. The NAV valuations are based on the underlying investments and typically redeemable within 90 days. The NAV is the total value of the fund divided by the number of the fund's shares outstanding.

Private equity funds consist of partnerships and similar vehicles. The NAV is based on valuation models of the underlying securities, which includes unobservable inputs that cannot be corroborated using verifiable observable market data. These funds typically have terms between eight and 12 years.

Real estate funds consist of partnerships and similar vehicles, for which the NAV is based on valuation models and periodic appraisals. These funds typically have terms between eight and 10 years.

Hedge funds generally consist of separate accounts and commingled funds, for which the NAV is generally based on the valuation of the underlying investments. Redemptions in hedge funds generally range from a minimum of one month to several months.

### **Contributions and Expected Benefit Payments**

The required funding of our qualified defined benefit pension plans is determined in accordance with ERISA, as amended, and in a manner consistent with CAS and Internal Revenue Code rules. We made no contributions to our qualified defined benefit pension plans in 2023 and do not plan to make contributions to our qualified defined benefit pension plans in 2024.

The following table presents estimated future benefit payments as of December 31, 2023 (in millions):

	2024	2025	2026	2027	2028	2029- 2033
Qualified defined benefit pension plans	\$ 1,790	\$ 1,860	\$ 1,920	\$ 1,970	\$ 2,000	\$ 10,020
Retiree medical and life insurance plans	130	130	120	120	110	500

We maintain various trusts to fund the obligations of our qualified defined benefit pension plans and retiree medical and life insurance plans. We expect the estimated future benefit payments will be paid using assets in the trusts established for the plans.

### **Nonqualified Defined Benefit Pension Plans and Other Postemployment Plans**

We sponsor nonqualified defined benefit pension plans to provide benefits in excess of qualified plan limits imposed by federal tax law. The gross benefit obligation for these plans was \$1.0 billion as of both December 31, 2023 and 2022, most of which was recorded in the other noncurrent liabilities account on our consolidated balance sheet. We have set aside certain assets totaling \$615 million and \$595 million as of December 31, 2023 and 2022 in a separate trust that we expect to use to pay the benefit obligations under our nonqualified defined benefit pension plans, most of which were recorded in the other noncurrent assets account on our consolidated balance sheet. We record the gross assets on our consolidated balance sheet, rather than netting such assets with the benefit obligation for our nonqualified defined benefit pension plans, because the assets held are diversified and legally the assets may be used to settle other obligations or claims (although that is not our intent). Actuarial losses and unrecognized prior service credits related to our nonqualified defined benefit pension plans that were recorded in accumulated other comprehensive loss, pretax, totaled \$347 million and \$331 million at December 31, 2023 and 2022. We recognized pretax pension expense of \$64 million in 2023, \$81 million in 2022 and \$56 million in 2021 related to our nonqualified defined benefit pension plans. The assumptions used to determine the benefit obligations and FAS expense for our

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nonqualified defined benefit pension plans are similar to the assumptions for our qualified defined benefit pension plans described above.

We also sponsor other postemployment and foreign benefit plans, which are accounted for similar to defined benefit pension plans. The benefit obligations, assets, expense, and amounts recorded in accumulated other comprehensive loss for other postemployment and foreign benefit plans were not material to our results of operations, financial position or cash flows.

### **Defined Contribution Retirement Savings Plans**

We maintain a number of defined contribution retirement savings plans, most with 401(k) features, that cover substantially all of our employees. Under the provisions of these plans, employees can make contributions on a before-tax and after-tax basis to investment funds to save for retirement. For most plans, we make employer contributions to the employee accounts that comprise of a company non-elective contribution and a matching contribution. Company matching contributions are automatically invested in an Employee Stock Ownership Plan (ESOP) fund, which primarily invests in shares of our common stock. Plan participants can transfer from the ESOP fund into any investment option provided by the respective plan. Our contributions to defined contribution retirement savings plans were \$1.2 billion in 2023 and \$1.1 billion in both 2022 and 2021. Our defined contribution retirement savings plans held 26.6 million and 27.4 million shares of our common stock at December 31, 2023 and 2022.

### **Note 12 - Stockholders' Equity**

At December 31, 2023 and 2022, our authorized capital was composed of 1.5 billion shares of common stock and 50 million shares of series preferred stock. Of the 242 million and 255 million shares of common stock issued and outstanding as of December 31, 2023 and December 31, 2022, 240 million and 254 million shares were considered outstanding for consolidated balance sheet presentation purposes; the remaining shares were held in a separate trust. No shares of preferred stock were issued and outstanding at December 31, 2023 or 2022.

### **Repurchases of Common Stock**

During 2023, we repurchased 13.4 million shares of our common stock for \$6.0 billion pursuant to accelerated share repurchase (ASR) agreements and open market purchases. We also retired an additional 1.5 million shares received for no additional consideration in the first quarter of 2023 upon final settlement of an ASR agreement executed in the fourth quarter of 2022. During 2022, we repurchased 18.3 million shares of our common stock for \$7.9 billion, including 13.9 million shares of our common stock repurchased pursuant to ASR agreements and the remainder in open market purchases.

The total remaining authorization for future common share repurchases under our share repurchase program was \$10.0 billion as of December 31, 2023, including a \$6.0 billion increase to the program authorized by our Board of Directors in October 2023. As we

repurchase our common shares, we reduce common stock for the \$1 of par value of the shares repurchased, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings.

### **Dividends**

We paid dividends totaling \$3.1 billion (\$12.15 per share) in 2023, \$3.0 billion (\$11.40 per share) in 2022 and \$2.9 billion (\$10.60 per share) in 2021. We paid quarterly dividends of \$3.00 per share during each of the first three quarters of 2023 and \$3.15 per share during the fourth quarter of 2023; \$2.80 per share during each of the first three quarters of 2022 and \$3.00 per share during the fourth quarter of 2022; and \$2.60 per share during each of the first three quarters of 2021 and \$2.80 per share during the fourth quarter of 2021.

## Accumulated Other Comprehensive Loss

Changes in the balance of AOCL, net of taxes, consisted of the following (in millions):

	Postretirement Benefit Plans (a)	Other, net	AOCL
Balance at December 31, 2020	\$ (16,155)	\$ 34	\$ (16,121)
Other comprehensive income (loss) before reclassifications	3,404	(85)	3,319
Amounts reclassified from AOCL			
Pension settlement charge <sup>(b)</sup>	1,310	—	1,310
Recognition of net actuarial losses	733	—	733
Amortization of net prior service credits	(256)	—	(256)
Other	—	9	9
Total reclassified from AOCL	1,787	9	1,796
Total other comprehensive income (loss)	5,191	(76)	5,115
Balance at December 31, 2021	(10,964)	(42)	(11,006)
Other comprehensive income (loss) before reclassifications	1,873	(159)	1,714
Amounts reclassified from AOCL			
Pension settlement charge <sup>(b)</sup>	1,156	—	1,156
Recognition of net actuarial losses	337	—	337
Amortization of net prior service credits	(268)	—	(268)
Other	—	44	44
Total reclassified from AOCL	1,225	44	1,269
Total other comprehensive income (loss)	3,098	(115)	2,983
Balance at December 31, 2022	(7,866)	(157)	(8,023)
Other comprehensive (loss) income before reclassifications	(689)	23	(666)
Amounts reclassified from AOCL			
Recognition of net actuarial losses	116	—	116
Amortization of net prior service credits	(265)	—	(265)
Other	—	35	35
Total reclassified from AOCL	(149)	35	(114)
Total other comprehensive (loss) income	(838)	58	(780)
Balance at December 31, 2023	\$ (8,704)	\$ (99)	\$ (8,803)

- (a) AOCL related to postretirement benefit plans is shown net of tax benefits of \$2.3 billion at December 31, 2023, \$2.1 billion at December 31, 2022 and \$3.0 billion at December 31, 2021. These tax benefits include amounts recognized on our income tax returns as current deductions and deferred income taxes, which will be recognized on our tax returns in future years. See “Note 9 – Income Taxes” and “Note 11 – Postretirement Benefit Plans” for more information on our income taxes and postretirement benefit plans.
- (b) During 2022 and 2021, we recognized a noncash, non-operating pension settlement charge of \$1.5 billion (\$1.2 billion, or \$4.33 per share, after-tax) and \$1.7 billion (\$1.3 billion, \$4.72 per share, after-tax) related to the accelerated recognition of actuarial losses included in AOCL for certain defined benefit pension plans that purchased a group annuity contract from an insurance company (see “Note 11 – Postretirement Benefit Plans”).



## Note 13 - Stock-Based Compensation

### Stock-Based Compensation Plans

Under plans approved by our stockholders, we are authorized to grant key employees stock-based incentive awards, including options to purchase common stock, stock appreciation rights, RSUs, PSUs or other stock units.

At December 31, 2023, inclusive of the shares reserved for outstanding RSUs and PSUs, we had approximately 8.4 million shares reserved for issuance under the plans. At December 31, 2023, we had no outstanding options to purchase common stock and have not issued stock options to employees since 2012. At December 31, 2023, approximately 6.1 million of the shares reserved for issuance remained available for grant under our stock-based compensation plans. We issue new shares when restrictions on RSUs and PSUs have been satisfied. The minimum vesting period under our equity compensation plan for employees generally is one year, although most RSUs granted annually to executives and other key employees vest over three years. Award agreements may provide for vesting periods between one and three years and in certain circumstances less than one year, pro-rated vesting periods or vesting following termination of employment in the case of death, disability, divestiture, retirement, change of control or layoff. The maximum term of any award is 10 years.

During 2023, 2022 and 2021, we recorded noncash stock-based compensation expense totaling \$265 million, \$238 million and \$227 million, which is included as a component of other unallocated, net on our consolidated statements of earnings. The net impact to earnings for the respective years was \$209 million, \$188 million and \$179 million.

As of December 31, 2023, we had \$223 million of unrecognized compensation cost related to nonvested awards, which is expected to be recognized over a weighted average period of 1.8 years. We received zero cash from the exercise of stock options during 2023, \$8 million and \$28 million during 2022 and 2021. In addition, our income tax liabilities for 2023, 2022 and 2021 were reduced by \$78 million, \$124 million and \$67 million due to recognized tax benefits on stock-based compensation arrangements.

### Restricted Stock Units

The following table summarizes activity related to nonvested RSUs:

	<b>Number of RSUs (In thousands)</b>	<b>Weighted Average Grant-Date Fair Value Per Share</b>
Nonvested at December 31, 2022	877	\$ 371.17
Granted	563	477.05
Vested	(472)	418.36
Forfeited	(46)	421.28
Nonvested at December 31, 2023	922	\$ 409.17

In 2023, we granted certain employees approximately 0.6 million RSUs with a weighted average grant-date fair value of \$477.05 per RSU. The grant-date fair value of these RSUs is

equal to the closing market price of our common stock on the grant date less a discount to reflect the delay in payment of dividend-equivalent cash payments that are made only upon vesting, which occurs at least one year from the grant date and most often occurs three years from the grant date.

### **Performance Stock Units**

In 2023, we granted certain employees PSUs with an aggregate target award of approximately 0.1 million shares of our common stock. The PSUs generally vest three years from the grant date based on continuous service, with the number of shares earned (0% to 200% of the target award) depending upon the extent to which we achieve certain financial and market performance targets measured over the period from January 1, 2023 through December 31, 2025. About half of the PSUs were valued at a weighted average grant-date fair value of \$477.45 per PSU in a manner similar to RSUs mentioned above as the financial targets are based on our operating results. The remaining PSUs were valued at a weighted-average grant-date fair value of \$509.11 per PSU using a Monte Carlo model as the performance target is related to our total shareholder return relative to our peer group. We recognize the grant-date fair value of these awards, less estimated forfeitures, as compensation expense ratably over the vesting period.

## **Note 14 - Legal Proceedings, Commitments and Contingencies**

### **Legal Proceedings**

We are a party to litigation and other proceedings that arise in the ordinary course of our business, including matters arising under provisions relating to the protection of the environment, and are subject to contingencies related to certain businesses we previously owned. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described below, will have a material adverse effect on the company as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings and cash flows in any particular interim reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress.

Although we cannot predict the outcome of legal or other proceedings with certainty, where there is at least a reasonable possibility that a loss may have been incurred, GAAP requires us to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made. We follow a thorough process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion of legal proceedings, a reasonably possible loss or range of loss associated with any individual legal proceeding cannot be estimated.

United States of America, ex rel. Patzer; Cimma v. Sikorsky Aircraft Corp., et al.

As a result of our acquisition of Sikorsky Aircraft Corporation (Sikorsky), we assumed the defense of and any potential liability for two civil False Claims Act lawsuits pending in the U.S. District Court for the Eastern District of Wisconsin. In October 2014, the U.S. Government filed a complaint in intervention in the first suit, which was brought by qui tam relator Mary Patzer, a former Derco Aerospace (Derco) employee. In May 2017, the U.S. Government filed a complaint in intervention in a second suit, which was brought by qui tam relator Peter Cimma, a former Sikorsky Support Services, Inc. (SSSI) employee. In November 2017, the Court consolidated the cases into a single action for discovery and trial.

The U.S. Government alleges that Sikorsky and two of its wholly-owned subsidiaries, Derco and SSSI, violated the civil False Claims Act and the Truth in Negotiations Act in connection with a contract the U.S. Navy awarded to SSSI in June 2006 to support the Navy's T-34 and T-44 fixed-wing turboprop training aircraft. SSSI subcontracted with Derco, primarily to procure and manage spare parts for the training aircraft. The U.S. Government contends that SSSI overbilled the Navy on the contract as the result of Derco's use of prohibited cost-plus-percentage-of-cost (CPPC) pricing to add profit and overhead costs as a percentage of

the price of the spare parts that Derco procured and then sold to SSSI. The U.S. Government also alleges that Derco's claims to SSSI, SSSI's claims to the Navy, and SSSI's yearly Certificates of Final Indirect Costs from 2006 through 2012 were false and that SSSI submitted inaccurate cost or pricing data in violation of the Truth in Negotiations Act for a sole-sourced, follow-on "bridge" contract. The U.S. Government's complaints assert common law claims for breach of contract and unjust enrichment. On November 29, 2021, the District Court granted the U.S. Government's motion for partial summary judgment, finding that the Derco-SSSI agreement was a CPPC contract. On October 17, 2023, the District Court ruled on the parties' cross motions for summary judgment, granting some motions and denying others. Trial on the U.S. Government's remaining claims is scheduled for May 6, 2024.

We believe that we have legal and factual defenses to the U.S. Government's remaining claims. The U.S. Government seeks damages of approximately \$52 million, subject to trebling, plus statutory penalties. Although we continue to evaluate our liability and exposure, we do not currently believe that it is probable that we will incur a material loss. If, contrary to our expectations, the U.S. Government prevails on the remaining issues in this matter and proves damages at or near \$52 million and is successful in having such damages trebled, the outcome could have an adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

#### Lockheed Martin v. Metropolitan Transportation Authority

On April 24, 2009, we filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA is in material breach of our agreement based on the MTA's failure to provide access to sites where work must be performed and the customer-furnished equipment necessary to complete the contract. The MTA filed an answer and counterclaim alleging that we breached the contract and subsequently terminated the contract for alleged default. The primary damages sought by the MTA are the costs to complete the contract and potential re-procurement costs. While we are

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unable to estimate the cost of another contractor to complete the contract and the costs of re-procurement, we note that our contract with the MTA had a total value of \$323 million, of which \$241 million was paid to us, and that the MTA is seeking damages of approximately \$190 million. We dispute the MTA's allegations and are defending against them. Additionally, following an investigation, our sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA's termination of the contract was improper. Finally, our declaratory judgment action was later amended to include claims for monetary damages against the MTA of approximately \$95 million. This matter was taken under submission by the District Court in December 2014, after a five-week bench trial and the filing of post-trial pleadings by the parties. We continue to await a decision from the District Court. Although this matter relates to our former Information Systems & Global Solutions (IS&GS) business, we retained responsibility for the litigation when we divested IS&GS in 2016.

### **Environmental Matters**

We are involved in proceedings and potential proceedings relating to soil, sediment, surface water, and groundwater contamination, disposal of hazardous substances, and other environmental matters at several of our current or former facilities, facilities for which we may have contractual responsibility, and at third-party sites where we have been designated as a potentially responsible party (PRP). A substantial portion of environmental costs will be included in our net sales and cost of sales in future periods pursuant to U.S. Government regulations. At the time a liability is recorded for future environmental costs, we record assets for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government, regardless of the contract form (e.g., cost-reimbursable, fixed-price). We continually evaluate the recoverability of our assets for the portion of environmental costs that are probable of future recovery by assessing, among other factors, U.S. Government regulations, our U.S. Government business base and contract mix, and our history of receiving reimbursement of such costs. We include the portions of those environmental costs expected to be allocated to our non-U.S. government contracts, or determined not to be recoverable under U.S. Government contracts, in our cost of sales at the time the liability is established or adjusted.

At December 31, 2023 and 2022, the aggregate amount of liabilities recorded relative to environmental matters was \$680 million and \$696 million, most of which are recorded in other noncurrent liabilities on our consolidated balance sheets. We have recorded assets for the portion of environmental costs that are probable of future recovery totaling \$613 million and \$618 million at December 31, 2023 and 2022, most of which are recorded in other noncurrent assets on our consolidated balance sheets. See "Note 1 - Organization and Significant Accounting Policies" for more information.

Environmental remediation activities usually span many years, which makes estimating liabilities a matter of judgment because of uncertainties with respect to assessing the extent of the contamination as well as such factors as changing remediation technologies and changing regulatory environmental standards. We are monitoring or investigating a number of former and present operating facilities for potential future remediation. We perform quarterly reviews of the status of our environmental remediation sites and the related

liabilities and receivables. Additionally, in our quarterly reviews, we consider these and other factors in estimating the timing and amount of any future costs that may be required for remediation activities, and we record a liability when it is probable that a loss has occurred or will occur for a particular site and the loss can be reasonably estimated. The amount of liability recorded is based on our estimate of the costs to be incurred for remediation for that site. We do not discount the recorded liabilities, as the amount and timing of future cash payments are not fixed or cannot be reliably determined. We cannot reasonably determine the extent of our financial exposure in all cases as, although a loss may be probable or reasonably possible, in some cases it is not possible at this time to estimate the reasonably possible loss or range of loss. We project costs and recovery of costs over approximately 20 years.

We also pursue claims for recovery of costs incurred or for contribution to site remediation costs against other PRPs, including the U.S. Government, and are conducting remediation activities under various consent decrees, orders, and agreements relating to soil, groundwater, sediment, or surface water contamination at certain sites of former or current operations. Under agreements related to certain sites in California, New York, United States Virgin Islands and Washington, the U.S. Government and/or a private party reimburses us an amount equal to a percentage, specific to each site, of expenditures for certain remediation activities in their capacity as PRPs under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

In addition to the proceedings and potential proceedings discussed above, potential new regulations of perchlorate and hexavalent chromium at the federal and state level could adversely affect us. In particular, the U.S. Environmental Protection Agency (EPA) is considering whether to regulate hexavalent chromium at the federal level, and as a result of a court decision, must regulate perchlorate at the federal level. The California State Water Resources Control Board (SWRCB) continues to reevaluate its existing drinking water standard of 6 parts per billion (ppb) for perchlorate. The California SWRCB has also proposed to regulate hexavalent chromium at 10 ppb, which we currently do not expect would materially increase our cleanup costs in California. If substantially lower standards are adopted for perchlorate or for hexavalent chromium, we expect a material increase in our estimates for environmental liabilities and the related assets for the portion of the increased costs that

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are probable of future recovery in the pricing of our products and services for the U.S. Government. The amount that would be allocable to our non-U.S. government contracts or that is determined not to be recoverable under U.S. Government contracts would be expensed, which may have a material effect on our earnings in any particular interim reporting period.

We also are evaluating the potential impact of existing and contemplated legal requirements addressing a class of chemicals known generally as per- and polyfluoroalkyl substances (PFAS). PFAS have been used ubiquitously, such as in fire-fighting foams, manufacturing processes, and stain- and stick-resistant products (e.g., Teflon, stain-resistant fabrics). Because we have used products and processes over the years containing some of those compounds, they likely exist as contaminants at many of our environmental remediation sites. Governmental authorities have announced plans, and in some instances have begun, to regulate certain of these compounds at extremely low concentrations in drinking water, which could lead to increased cleanup costs at many of our environmental remediation sites.

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

We have entered into standby letters of credit and surety bonds issued on our behalf by financial institutions, and we have directly issued guarantees to third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event we do not perform. We had total outstanding letters of credit and surety bonds aggregating \$2.9 billion at both December 31, 2023 and December 31, 2022. Third-party guarantees do not include guarantees issued on behalf of subsidiaries and other consolidated entities.

Additionally, we may guarantee the contractual performance of third parties such as joint venture partners. At December 31, 2023 and 2022, third-party guarantees totaled \$1.0 billion and \$904 million, of which approximately 75% and 71% related to guarantees of contractual performance of joint ventures to which we currently are or previously were a party. These amounts represent our estimate of the maximum amounts we would expect to incur upon the contractual non-performance of the joint venture, joint venture partners or divested businesses. Generally, we also have cross-indemnities in place that may enable us to recover amounts that may be paid on behalf of a joint venture partner. Third-party guarantees do not include guarantees issued on behalf of subsidiaries and other consolidated entities.

In determining our exposures, we evaluate the reputation, performance on contractual obligations, technical capabilities and credit quality of our current and former joint venture partners and the transferee under novation agreements all of which include a guarantee as required by the FAR. At December 31, 2023 and 2022, there were no material amounts recorded in our financial statements related to third-party guarantees or novation agreements.

### **Other Contingencies**

As a U.S. Government contractor, we are subject to various audits and investigations by the U.S. Government to determine whether our operations are being conducted in accordance with applicable regulatory requirements. U.S. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines or penalties being imposed upon us, suspension, proposed debarment, debarment from eligibility for future U.S. Government contracting, or suspension of export privileges. Suspension or debarment could have a material adverse effect on us because of our dependence on contracts with the U.S. Government. U.S. Government investigations often take years to complete and many result in no adverse action against us. We also provide products and services to customers outside of the U.S., which are subject to U.S. and foreign laws and regulations and foreign procurement policies and practices. Our compliance with local regulations or applicable U.S. Government regulations also may be audited or investigated.

In the normal course of business, we provide warranties to our customers associated with certain product sales. We record estimated warranty costs in the period in which the related products are delivered. The warranty liability is generally based on the number of months of warranty coverage remaining for the products delivered and the average historical monthly warranty payments. Warranty obligations incurred in connection with long-term production contracts are accounted for within the contract estimates at completion.



## Note 15 - Fair Value Measurements

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

	December 31, 2023				December 31, 2022			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Assets</b>								
Mutual funds	\$1,025	\$1,025	\$ —	\$ —	\$ 897	\$ 897	\$ —	\$ —
U.S. Government securities	119	—	119	—	118	—	118	—
Other securities	679	333	301	45	660	333	264	63
Derivatives	32	—	32	—	18	—	18	—
<b>Liabilities</b>								
Derivatives	200	—	200	—	196	—	196	—

Substantially all assets measured at fair value, other than derivatives, represent assets held in a trust to fund certain of our non-qualified deferred compensation plan and are recorded in other noncurrent assets on our consolidated balance sheets. As of December 31, 2023 and 2022, the fair value of our assets held in the trust totaled \$1.8 billion and \$1.6 billion. Net gains on these securities were \$240 million and \$205 million in 2023 and 2021 and net losses of \$323 million in 2022. Gains and losses on these investments are included in other unallocated, net within cost of sales on our consolidated statements of earnings in order to align the classification of changes in the market value of investments held for the plan with changes in the value of the corresponding plan liabilities.

The fair values of mutual funds and certain other securities are determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair values of U.S. Government and certain other securities are determined using pricing models that use observable inputs (e.g., interest rates and yield curves observable at commonly quoted intervals), bids provided by brokers or dealers or quoted prices of securities with similar characteristics. The fair values of derivative instruments, which consist of foreign currency forward contracts, including embedded derivatives, and interest rate swap contracts, are primarily determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates, credit spreads and foreign currency exchange rates.

We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exchange rates and interest rates. We do not enter into or hold derivative instruments for speculative trading purposes. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. Our most significant foreign currency exposures relate to the British pound sterling, the euro, the Canadian dollar, the Australian dollar, the Norwegian kroner and the Polish zloty. These contracts hedge forecasted foreign currency transactions

in order to minimize fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. We designate foreign currency hedges as cash flow hedges. We also are exposed to the impact of interest rate changes primarily through our borrowing activities. For fixed rate borrowings, we may use variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings in order to hedge changes in the fair value of the debt. These swaps are designated as fair value hedges. For variable rate borrowings, we may use fixed interest rate swaps, effectively converting variable rate borrowings to fixed rate borrowings in order to minimize the impact of interest rate changes on earnings. These swaps are designated as cash flow hedges. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to minimize certain economic exposures.

The aggregate notional amount of our outstanding interest rate swaps was \$1.3 billion at both December 31, 2023 and 2022. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2023 and 2022 was \$6.5 billion and \$7.3 billion. The fair values of our outstanding interest rate swaps and foreign currency hedges at December 31, 2023 and 2022 were not significant. Derivative instruments did not have a material impact on net earnings and comprehensive income during the years ended December 31, 2023 and 2022. The impact of derivative instruments on our consolidated statements of cash flows is included in net cash provided by operating activities. Substantially all of our derivatives are designated for hedge accounting. See “Note 1 – Organization and Significant Accounting Policies - Derivative financial instruments.”

We also make investments in early-stage companies that we believe are advancing or developing new technologies applicable to our business. Investments that have quoted market prices in active markets (Level 1) are recorded at fair value and reflected in other securities while certain investments are categorized as Level 3 when valuations using observable inputs are unavailable. See “Note 1 – Organization and Significant Accounting Policies - Investments.”

In addition to the financial instruments listed in the table above, we hold other financial instruments, including cash and cash equivalents, receivables, accounts payable and debt. The carrying amounts for cash and cash equivalents, receivables and accounts payable approximated their fair values. The estimated fair value of our outstanding debt was \$18.5 billion and \$16.0 billion at December 31, 2023 and 2022. The outstanding principal amount of debt, including short-term and long-term debt, was \$18.7 billion and \$16.8 billion at December 31, 2023 and 2022, excluding \$1.3 billion of unamortized discounts and issuance costs at both December 31, 2023 and 2022. The estimated fair values of our outstanding debt were determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates and credit spreads (Level 2).

#### **Note 16 - Severance and Other Charges**

During the fourth quarter of 2023, we recorded severance and other charges of \$92 million (\$73 million, or \$0.30 per share, after-tax) associated with severance costs for the planned reduction of certain positions across the corporation and asset impairment charges. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service, the majority of which are expected to be paid over the next several quarters. This action resulted from a review of our business segments and corporate functions and is intended to improve the efficiency of our operations.

During the fourth quarter of 2022, we recorded severance and other charges totaling \$100 million (\$79 million, or \$0.31 per share, after-tax) related to actions at our RMS business segment, which include severance costs for reduction of positions and asset impairment charges. After a strategic review of RMS, these actions improved the efficiency of our operations and better aligned the organization and cost structure with changing economic conditions and changes in program lifecycles.

During 2021, we recognized severance charges totaling \$36 million (\$28 million, or \$0.10 per share, after-tax) related to workforce reductions and facility exit costs within our RMS business segment. These actions were taken to consolidate certain operations in order to improve the efficiency of RMS' manufacturing operations and the affordability of its products and services. Employees terminated as part of these actions will receive lump-sum severance payments upon separation primarily based on years of service.

We generally can recover a portion of severance costs through the pricing of our products and services to the U.S. Government and other customers in future periods, which will be included in our operating results.

## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **ITEM 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2023. The evaluation was performed with the participation of senior management of each business segment and key corporate functions, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2023.

#### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2023. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013 framework). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2023.

Our independent registered public accounting firm has issued a report on the effectiveness of our internal control over financial reporting, which is below.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Report of Independent Registered Public Accounting Firm Regarding Internal Control Over Financial Reporting**

Board of Directors and Stockholders  
Lockheed Martin Corporation

### **Opinion on Internal Control over Financial Reporting**

We have audited Lockheed Martin Corporation's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Lockheed Martin Corporation (the Corporation) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Corporation as of December 31, 2023 and 2022, the related consolidated statements of earnings, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and our report dated January 23, 2024 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and

procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia  
January 23, 2024

## **ITEM 9B. Other Information**

None of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarter ended December 31, 2023.

## **ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

## **PART III**

## **ITEM 10. Directors, Executive Officers and Corporate Governance**

The information concerning directors required by Item 401 of Regulation S-K is included under the section titled “Director Nominees” in our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year to which this report relates (the 2024 Proxy Statement), and that information is incorporated by reference in this Annual Report on Form 10-K (Form 10-K). Information concerning executive officers required by Item 401 of Regulation S-K is located under Part I, Item 4(a) of this Form 10-K. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K is included in the sections titled “Corporate Governance” and “Audit Committee Report” in the 2024 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

We have had a written code of ethics in place since our formation in 1995. Setting the Standard, our Code of Ethics and Business Conduct, applies to all our employees, including our principal executive officer, principal financial officer, and principal accounting officer and controller, and to members of our Board of Directors. A copy of our Code of Ethics and Business Conduct is available on our investor relations website: [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor). Printed copies of our Code of Ethics and Business Conduct may be obtained, without charge, by contacting Investor Relations, Lockheed Martin Corporation, 6801 Rockledge Drive, Bethesda, Maryland 20817. We are required to disclose any change to, or waiver from, our Code of Ethics and Business Conduct for our Chief Executive Officer and senior financial officers. We use our website to disseminate this disclosure as permitted by applicable SEC rules.

## **ITEM 11. Executive Compensation**

The information required by Item 402 of Regulation S-K is included in the sections titled “Executive Compensation” and “Director Compensation” in the 2024 Proxy Statement and that information is incorporated by reference in this Form 10-K. The information required by Item 407(e)(5) of Regulation S-K is included under the caption “Compensation Committee Report” in the 2024 Proxy Statement, and that information is incorporated by reference in this Form 10-K.





## ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 related to the security ownership of management and certain beneficial owners is included in the section titled “Other Information” in the 2024 Proxy Statement, and that information is incorporated by reference in this Annual Report on Form 10-K.

### Equity Compensation Plan Information

The following table provides information about our equity compensation plans that authorize the issuance of shares of Lockheed Martin common stock to employees and directors. The information is provided as of December 31, 2023.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders <sup>(1)</sup>	2,333,795	\$ —	6,066,491
Equity compensation plans not approved by security holders <sup>(2)</sup>	483,204	—	2,503,225
<b>Total</b>	<b>2,816,999</b>	<b>\$ —</b>	<b>8,569,716</b>

<sup>(1)</sup> Column (a) includes, as of December 31, 2023: 1,596,538 shares that have been granted as restricted stock units (RSUs) and 653,580 shares that could be earned pursuant to grants of performance stock units (PSUs) (assuming the maximum number of PSUs are earned and payable at the end of the three-year performance period) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan (2020 IPA Plan) or predecessor plans and 83,677 stock units payable in stock or cash under the Lockheed Martin Corporation Amended and Restated Directors Equity Plan (Directors Plan) or predecessor plans for non-employee directors. Column (c) includes, as of December 31, 2023, 5,701,281 shares available for future issuance under the 2020 IPA Plan as options, stock appreciation rights, restricted stock awards, RSUs or PSUs and 365,210 shares available for future issuance under the Directors Plan as stock options and stock units. Vested stock units are payable to directors upon their termination of service from our Board, except that directors who have satisfied the stock ownership guidelines may elect to have payment of awards made after January 1, 2018 (together with any dividend equivalents thereon) made on the first business day of April following the one-year anniversary of the grant.

<sup>(2)</sup> The shares represent annual incentive bonuses and Long-Term Incentive Performance (LTIP) payments earned and voluntarily deferred by employees. The deferred amounts are payable under the

Deferred Management Incentive Compensation Plan (DMICP). Deferred amounts are credited as phantom stock units at the closing price of our stock on the date the deferral is effective. Amounts equal to our dividend are credited as stock units at the time we pay a dividend. Following termination of employment, a number of shares of stock equal to the number of stock units credited to the employee's DMICP account are distributed to the employee. There is no discount or value transfer on the stock distributed. Distributions may be made from newly issued shares or shares purchased on the open market. Historically, all distributions have come from shares held in a separate trust and, therefore, do not further dilute our common shares outstanding. Because the DMICP shares are outstanding, they should be included in the denominator (and not the numerator) of a dilution calculation.

### **ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 404 and 407(a) of Regulation S-K is included in the section titled "Corporate Governance" in the 2024 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

### **ITEM 14. Principal Accounting Fees and Services**

The information required by this Item 14 is included in the section titled "Audit Matters" in the 2024 Proxy Statement, and that information is incorporated by reference in this Form 10-K.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules

#### List of financial statements filed as part of this Form 10-K

The following financial statements of Lockheed Martin Corporation and consolidated subsidiaries are included in Item 8 of this Annual Report on Form 10-K (Form 10-K) at the page numbers referenced below:

	<b><u>Page</u></b>
<a href="#">Consolidated Statements of Earnings – Years ended December 31, 2023, 2022 and 2021</a>	56
<a href="#">Consolidated Statements of Comprehensive Income – Years ended December 31, 2023, 2022 and 2021</a>	57
<a href="#">Consolidated Balance Sheets – At December 31, 2023 and 2022</a>	58
<a href="#">Consolidated Statements of Cash Flows – Years ended December 31, 2023, 2022 and 2021</a>	59
<a href="#">Consolidated Statements of Equity – Years ended December 31, 2023, 2022 and 2021</a>	60
<a href="#">Notes to Consolidated Financial Statements</a>	61

The report of Lockheed Martin Corporation's independent registered public accounting firm (PCAOB ID:42) with respect to the above-referenced financial statements and their report on internal control over financial reporting are included in Item 8 and Item 9A of this Form 10-K at the page numbers referenced below. Their consent appears as Exhibit 23 of this Form 10-K.

	<b><u>Page</u></b>
<a href="#">Report of Independent Registered Public Accounting Firm on the Audited Consolidated Financial Statements</a>	53
<a href="#">Report of Independent Registered Public Accounting Firm Regarding Internal Control Over Financial Reporting</a>	98

#### List of financial statement schedules filed as part of this Form 10-K

All schedules have been omitted because they are not applicable, not required or the information has been otherwise supplied in the consolidated financial statements or notes to consolidated financial statements.

## Exhibits

- 3.1 [Charter of Lockheed Martin Corporation, as amended by Articles of Amendment dated April 23, 2009 \(incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2010\).](#)
- 3.2 [Bylaws of Lockheed Martin Corporation, as amended and restated effective February 22, 2023 \(incorporated by reference to Exhibit 3.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on February 23, 2023\).](#)
- 4.1 [Description of Lockheed Martin Corporation Common Stock \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 4.2 [Indenture, dated May 15, 1996, among Lockheed Martin Corporation, Lockheed Martin Tactical Systems, Inc. and First Trust of Illinois, National Association as Trustee \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2017\).](#)
- 4.3 [Indenture, dated as of August 30, 2006, between Lockheed Martin Corporation and The Bank of New York \(incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 31, 2006\).](#)
- 4.4 [Indenture, dated as of March 11, 2008, between Lockheed Martin Corporation and The Bank of New York \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on March 12, 2008\).](#)
- 4.5 [Indenture, dated as of May 25, 2010, between Lockheed Martin Corporation and U.S. Bank National Association \(incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on May 25, 2010\).](#)
- 4.6 [Indenture, dated as of September 6, 2011, between Lockheed Martin Corporation and U.S. Bank National Association \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Registration Statement on Form S-3 filed with the SEC on April 24, 2020\).](#)
- 4.7 [Supplemental Indenture, dated as of April 21, 2022, between Lockheed Martin Corporation and U.S. Bank Trust Company, National Association, to the Indenture dated September 6, 2011 \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on April 21, 2022\).](#)

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- 4.8 [Indenture, dated as of December 14, 2012, between Lockheed Martin Corporation and U.S. Bank National Association \(incorporated by reference to Exhibit 99.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on December 17, 2012\).](#)
- 4.9 [Indenture dated as of September 7, 2017, between Lockheed Martin Corporation and U.S. Bank National Association, as trustee \(incorporated by reference to Exhibit 99.1 of Lockheed Martin's Current Report on Form 8-K filed with the SEC on September 7, 2012\).](#)
- 4.10 [Indenture, dated as of April 18, 2023, between Lockheed Martin Corporation and U.S. Bank Trust Company, National Association, as trustee \(incorporated by reference to Exhibit 4.1 to Lockheed Martin Corporation's Registration Statement on Form S-3 filed with the SEC on April 18, 2023\).](#)

See also Exhibits 3.1 and 3.2.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Corporation will furnish copies thereof to the SEC upon request.

- 10.1 [Revolving Credit Agreement dated as of August 24, 2022, among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 24, 2022\).](#)
- 10.2 [Extension Agreement dated as of August 24, 2023, by and among Lockheed Martin Corporation, the lenders listed therein, and Bank of America, N.A., as administrative agent \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on August 24, 2023\).](#)
- 10.3 [Non-Employee Director Compensation Summary \(incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 25, 2022\).](#)
- 10.4 [Lockheed Martin Corporation Directors Deferred Compensation Plan, as amended \(incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 24, 2023\).](#)
- 10.5 [Lockheed Martin Corporation Directors Equity Plan, as amended \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on November 2, 2006\).](#)
- 10.6 [Lockheed Martin Corporation Amended and Restated Directors Equity Plan \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on April 26, 2018\).](#)
- 10.7 [Form of Indemnification Agreement \(incorporated by reference to Exhibit 10.34 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2009\).](#)
- 10.8 [Lockheed Martin Corporation Supplemental Savings Plan, as amended and restated effective January 1, 2015 \(incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015\).](#)
- 10.9 [Amendment to Lockheed Martin Corporation Supplemental Savings Plan and Lockheed Martin Corporation Nonqualified Capital Accumulation Program, dated December 18, 2019 \(incorporated by reference to Exhibit 10.31 to Lockheed Martin Corporation's Annual Report on Form 10-K for the year ended December 31, 2019\).](#)



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- 10.16 [Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Current Report on Form 8-K filed with the SEC on April 23, 2020\).](#)
- 10.17 [Form of 2021 Annual Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 28, 2021\).](#)
- 10.18 [Form of Performance Stock Unit Award Agreement \(2021 - 2023 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 28, 2021\).](#)
- 10.19 [Form of Long Term Incentive Performance Award Agreement \(2021 - 2023 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 28, 2021\).](#)
- 10.20 [Form of 2022 Annual Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 2022\).](#)
- 10.21 [Form of Performance Stock Unit Award Agreement \(2022 - 2024 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 2022\).](#)
- 10.22 [Form of Long Term Incentive Performance Award Agreement \(2022 - 2024 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 27, 2022\).](#)
- 10.23 [Form of 2023 Annual Restricted Stock Unit Award Agreement under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 26, 2023\).](#)
- 10.24 [Form of Performance Stock Unit Award Agreement \(2023 - 2025 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.2 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 26, 2023\).](#)
- 10.25 [Form of Long Term Incentive Performance Award Agreement \(2023 - 2025 Performance Period\) under the Lockheed Martin Corporation 2020 Incentive Performance Award Plan \(incorporated by reference to Exhibit 10.3 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 26, 2023\).](#)
- 10.26 [Amendment to Outstanding Long-Term Incentive Performance and Performance Stock Unit Award Agreements \(effective June 24, 2021\) \(incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended June 27, 2021\).](#)
- 10.27 [Amendment to Outstanding Long-Term Incentive Performance and Performance Stock Unit Award Agreements \(effective February 22, 2023\) \(incorporated by reference to Exhibit 10.4 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended March 26, 2023\).](#)
- 10.28 [Lockheed Martin Corporation Consolidated Supplemental Retirement Benefit Plan](#)



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10.34	<a href="#">Amendment No. 4 to Lockheed Martin Corporation Executive Severance Plan, as amended and restated effective December 1, 2016 (incorporated by reference to Exhibit 10.1 to Lockheed Martin Corporation's Quarterly Report on Form 10-Q for the quarter ended September 25, 2022).</a>
10.35	<a href="#">Amendment No. 5 to Lockheed Martin Corporation Executive Severance Plan, as amended and restated effective December 1, 2016 (incorporated by reference to Exhibit 10.40 to Lockheed Martin Corporation's Annual Report Form 10-K for the year ended December 31, 2022).</a>
21	<a href="#">Subsidiaries of Lockheed Martin Corporation.</a>
23	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>
24	<a href="#">Powers of Attorney.</a>
31.1	<a href="#">Certification of James D. Taiclet pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Jesus Malave pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32	<a href="#">Certification of James D. Taiclet and Jesus Malave pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
97	<a href="#">Recovery of Incentive-Based Compensation from Executive Officers in Event of Accounting Restatement.</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document contained in Exhibit 101

\* Exhibits 10.3 through 10.35 constitute management contracts or compensatory plans or arrangements.

## **ITEM 16. Form 10-K Summary**

None.



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## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lockheed Martin Corporation  
(Registrant)

Date: January 23,  
2024

By: /s/ H. Edward Paul III  
H. Edward Paul III  
Vice President and  
Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and

on the dates indicated.

Signatures	Titles	Date
<u>/s/ James D. Taiclet</u>  James D. Taiclet	Chairman, President and Chief Executive Officer (Principal Executive Officer)	January 23, 2024
<u>/s/ Jesus Malave</u>  Jesus Malave	Chief Financial Officer (Principal Financial Officer)	January 23, 2024
<u>/s/ H. Edward Paul III</u>  H. Edward Paul III	Vice President and Controller (Principal Accounting Officer)	January 23, 2024
<u>*</u> Daniel F. Akerson	Director	January 23, 2024
<u>*</u> David B. Burritt	Director	January 23, 2024
<u>*</u> Bruce A. Carlson	Director	January 23, 2024
<u>*</u> John M. Donovan	Director	January 23, 2024
<u>*</u> Joseph F. Dunford, Jr.	Director	January 23, 2024
<u>*</u> James O. Ellis, Jr.	Director	January 23, 2024
<u>*</u> Thomas J. Falk	Director	January 23, 2024
<u>*</u> Ilene S. Gordon	Director	January 23, 2024
<u>*</u> Vicki A. Hollub	Director	January 23, 2024
<u>*</u> Jeh C. Johnson	Director	January 23, 2024
<u>*</u> Debra L. Reed-Klages	Director	January 23, 2024

\*By Maryanne R. Lavan pursuant to a Power of Attorney executed by the Directors listed above, which has been filed with this Annual Report on Form 10-K.

Date: January 23,  
2024

By:

/s/ Maryanne R. Lavan

Maryanne R. Lavan

Attorney-in-fact