

Lockheed Martin Reports 2002 Earnings

PRNewswire

- * Lockheed Martin Reports 2002 Net Sales of \$26.6 Billion, An 11% Increase Over 2001
- * Reports 2002 Earnings Per Share From Continuing Operations of \$1.18 After \$1.40 Of Unusual Items
- * Adjusted Earnings Per Share From Continuing Operations of \$2.58, Excluding Unusual Items, Exceeded Prior Guidance of \$2.50 - \$2.55 Per Share
- * Generated \$1.7 Billion in Free Cash Flow; Exceeded Prior Guidance of at Least \$1.5 Billion
- * Projects 2003 Sales Growth of 8% - 12%; Projects 2004 Sales Growth of About 5%
- * Projects Outlook for 2003 Earnings Per Share From Continuing Operations Of \$2.15 - \$2.20 After Negative Impact of Approximately \$0.75 Per Share From Revised Incremental Pension Expense and Other Non-Operational Income
- * Increases Free Cash Flow Guidance to at Least \$800 Million for 2003 And at Least \$1.8 Billion for 2003 and 2004 Combined

BETHESDA, Md., Jan. 24 /[PRNewswire-FirstCall](#)/ -- Lockheed Martin Corporation today reported 2002 earnings from continuing operations of \$533 million, or \$1.18 per diluted share, compared to \$43 million, or \$0.10 per diluted share in 2001. Adjusting for goodwill amortization, earnings from continuing operations in 2001 would have been \$279 million, or \$0.65 per share.

The 2002 results included the impact of several unusual items, which decreased earnings by \$632 million, or \$1.40 per share. The 2001 earnings from continuing operations also included the impact of several unusual items that decreased earnings by \$651 million, or \$1.50 per share.

Excluding unusual items, 2002 earnings from continuing operations would have been \$1.2 billion, or \$2.58 per share. After adjusting for the impact of goodwill amortization and excluding unusual items, 2001 earnings from continuing operations would have been \$930 million, or \$2.15 per share.

Including discontinued operations, net earnings for 2002 were \$500 million, or \$1.11 per share, as compared to a net loss of \$1.0 billion, or \$2.42 per share for 2001.

CONSOLIDATED RESULTS

| | 4th Quarter | | Year-to-Date | | |
|----------------------------------------------|-------------|----------|--------------|--------|----------|
| | 2002 | 2001 | 2002 | 2001 | |
| GAAP Earnings (Loss) Per Share | | | | | |
| Continuing Operations | | (\$0.76) | (\$0.34) | \$1.18 | \$0.10 |
| Discontinued Operations | | (0.01) | (3.15) | (0.07) | (2.52) |
| Net Earnings Per Share | | (\$0.77) | (\$3.49) | \$1.11 | (\$2.42) |
| Adjusted Earnings Per Share | | | | | |
| Continuing Operations -- GAAP | | (\$0.76) | (\$0.34) | \$1.18 | \$0.10 |
| Add: Unusual Items, net | | 1.61 | 0.89 | 1.40 | 1.50 |
| Goodwill amortization | | N/A | 0.12 | N/A | 0.55 |
| Adjusted Earnings from Continuing Operations | | \$0.85 | \$0.67 | \$2.58 | \$2.15 |

Net sales for 2002 were \$26.6 billion, an 11% increase over 2001 sales of \$24.0 billion. Backlog at year-end was \$70.4 billion compared to the year-end 2001 backlog of \$71.3 billion.

Free cash flow generation was \$1.7 billion in 2002 as compared to the \$2.0 billion generated in 2001. Free cash flow is defined as cash provided by operating activities less capital expenditures (net of proceeds on disposals) and excludes any proceeds from, or income tax payments on, divestitures. A reconciliation of cash provided by operating activities as determined by Generally Accepted Accounting Principles (GAAP) to free cash flow is included in the attachments to this release.

"Our fourth quarter, like the entire year, was a solid one for the corporation. Our performance delivered higher sales, operating profit and cash," said Vance Coffman, chairman and CEO. "Looking ahead to 2003, we have a healthy backlog of over \$70 billion, and we are increasing our sales, operating profit and cash projections. We are committed to meeting customer requirements, continued mission success and achieving strong financial performance."

The balance sheet was adjusted at December 31, 2002 in accordance with Statement of Financial Accounting Standards (FAS) No. 87 "Employers' Accounting for Pensions" to record an additional minimum pension liability. This adjustment was a non-cash \$1.6 billion after-tax reduction of equity, did not impact earnings and is potentially reversible should financial markets improve and interest rates increase at the end of 2003.

At December 31, 2002, the ratio of debt to capitalization was approximately 57% as compared to approximately 54% at December 31, 2001. Net debt to total capitalization, a commonly used alternative measure of leverage, deducts a corporation's cash balance from debt and total capitalization. As measured on this basis, our leverage ratio at December 31, 2002, was approximately 45% as compared to approximately 51% at December 31, 2001.

As described in the Form 8-K filed with the SEC on January 16, 2003, segment operating results will now only include pension expense as determined under Cost Accounting Standards (CAS) and the resulting net sales effect. The FAS/CAS income adjustment will now be included in a reconciling line item called "Unallocated corporate income (expense), net" to determine the total consolidated results under GAAP. An attachment to this release presents the impact of this change on segment results.

FOURTH QUARTER AND YEAR-TO-DATE DETAILED REVIEW

Continuing Operations

Net sales for the fourth quarter of 2002 were \$7.8 billion, a 6% increase over fourth quarter 2001 sales of \$7.3 billion. The loss from continuing operations for the fourth quarter of 2002 was \$342 million, or \$0.76 per share, compared to a loss of \$146 million, or \$0.34 per share, reported in the fourth quarter of 2001. Adjusting for goodwill amortization, the loss from continuing operations in the fourth quarter of 2001 would have been \$93 million, or \$0.22 per share.

The fourth quarter 2002 results included the after-tax impact of several unusual items: a \$504 million (\$1.12 per share) charge related to the impairment of telecommunications equity investments; a charge of \$112 million (\$0.25 per share) related to advances to a Russian manufacturer for prepaid commercial launch services; and a \$106 million (\$0.24 per share) charge related to the impairment of our investment in Space Imaging, LLC and our guarantee of our share of Space Imaging's existing credit facility. Excluding these unusual items, fourth quarter 2002 earnings from continuing operations would have been \$380 million, or \$0.85 per share.

The fourth quarter 2001 results also included the after-tax impact of several unusual items that, on a combined basis, reduced earnings by \$384 million, or \$0.89 per share. After adjusting for goodwill amortization and excluding the unusual items, fourth quarter 2001 earnings from continuing operations would have been \$291 million, or \$0.67 per share.

For the year ended December 31, 2002, net sales were \$26.6 billion, an 11% increase over 2001 sales of \$24.0 billion. Earnings from continuing operations for 2002 were \$533 million, or \$1.18 per share, compared to \$43 million, or \$0.10 per share in 2001. Adjusting for goodwill amortization, earnings from continuing operations in 2001 would have been \$279 million, or \$0.65 per share.

In addition to the unusual items recorded in the fourth quarter, the 2002 results included the impact of a one-time benefit of an R&D tax credit claim settlement of \$90 million, or \$0.20 per share. Excluding these unusual items, 2002 earnings from continuing operations would have been \$1.2 billion, or \$2.58 per share.

The 2001 year-to-date earnings from continuing operations also included the after-tax impact of

several unusual items. On a combined basis, these unusual items decreased 2001 earnings from continuing operations by \$651 million, or \$1.50 per share. After adjusting results for goodwill amortization and excluding the unusual items, 2001 earnings from continuing operations would have been \$930 million, or \$2.15 per share.

Interest expense of \$141 million and \$581 million for the quarter and year ended December 31, 2002 was lower by \$10 million and \$119 million than the comparable periods in 2001 as a result of the reduction in debt and the benefit from interest rate swap agreements.

Discontinued Operations

During 2002, the results of operations of the telecommunications services businesses held for sale were reported in discontinued operations. During the year, Mobile Communications, World Systems, and an 81% equity interest in COMSAT International were sold. An agreement was reached in the fourth quarter to sell Lockheed Martin Intersputnik (LMI). The LMI sale is expected to close in 2003, subject to regulatory and other closing conditions. No gain or loss is expected on this transaction.

The losses from discontinued operations were \$5 million, or \$0.01 per share, and \$1.4 billion, or \$3.15 per share, for the fourth quarter of 2002 and 2001. For the year ended December 31, 2002, the loss from discontinued operations was \$33 million, or \$0.07 per share, and for 2001 was \$1.1 billion or \$2.52 per share.

Net Earnings (Loss)

For the fourth quarter of 2002, the net loss was \$347 million, or \$0.77 per share, as compared to a net loss of \$1.5 billion, or \$3.49 per share in 2001. For the year ended December 31, 2002, net earnings were \$500 million, or \$1.11 per share, as compared to a net loss of \$1.0 billion, or \$2.42 per share for 2001.

SEGMENT RESULTS

Consistent with the manner in which our segments' operating performance is evaluated, unusual items are excluded from segment earnings before interest and taxes (operating profit) and included in "Unallocated corporate income (expense), net." A table presenting the impact of these unusual items on our results for the quarters and years ended December 31, 2002 and 2001 is presented in the attachments to this release.

"Unallocated corporate income (expense), net" includes earnings and losses from equity investments (mainly telecommunications), interest income, corporate costs not allocated to the operating segments, the FAS/CAS income adjustment, costs for stock-based award programs, unusual items not considered part of segment operating performance, and other miscellaneous corporate activities.

The following table presents results of the four operating segments and reconciles these amounts to our consolidated net sales and operating profit as determined under GAAP.

| | 4th Quarter | | Year-to-Date | |
|------------------------------------|---------------|---------|--------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Net sales | | | | |
| Systems Integration | \$3,017 | \$2,732 | \$9,603 | \$9,014 |
| Space Systems | 1,888 | 1,813 | 7,384 | 6,836 |
| Aeronautics | 1,922 | 1,993 | 6,471 | 5,355 |
| Technology Services | 947 | 791 | 3,104 | 2,763 |
| Operating segments | 7,774 | 7,329 | 26,562 | 23,968 |
| Other | 6 | 5 | 16 | 22 |
| Total net sales | \$7,780 | \$7,334 | \$26,578 | \$23,990 |
| Operating profit | | | | |
| Systems Integration | \$290 | \$277 | \$952 | \$906 |
| Space Systems | 108 | 88 | 443 | 360 |
| Aeronautics | 139 | 104 | 448 | 329 |
| Technology Services | 55 | 25 | 177 | 114 |
| Segment operating profit | 592 | 494 | 2,020 | 1,709 |
| Unallocated corporate expense, net | (1,010) | (468) | (862) | (602) |

| | | | | |
|-------------------------------|---------|--------|---------|-------|
| Goodwill amortization | - | (69) | - | (274) |
| Reconciling items subtotal | (1,010) | (537) | (862) | (876) |
| Total operating profit (loss) | \$(418) | \$(43) | \$1,158 | \$833 |

Unallocated corporate income (expense), net is summarized below:

| | 4th Quarter | | Year-to-Date | |
|------------------------|---------------|---------|--------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Unusual items | \$(1,112) | \$(563) | \$(1,112) | \$(973) |
| FAS/CAS pension income | | 74 | 108 | 243 |
| Other | 28 | (13) | 7 | 11 |
| Total | \$(1,010) | \$(468) | \$(862) | \$(602) |

The following discussion compares the segment operating results for the quarter and year ended December 31, 2002 to the same periods in 2001.

Systems Integration (\$ millions)

| | 4th Quarter | | Year-to-Date | |
|------------------|-------------|---------|--------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Sales | \$3,017 | \$2,732 | \$9,603 | \$9,014 |
| Operating profit | \$290 | \$277 | \$952 | \$906 |
| Margin | 9.6% | 10.1% | 9.9% | 10.1% |

Net sales for Systems Integration increased by 10% and 7% for the quarter and the year 2002 as compared to the 2001 periods. For the quarter and year, the sales increase was the result of higher volume in the Command, Control, Communication, Computers and Intelligence (C4I), Naval Electronics & Surveillance Systems (NE&SS), and Missiles & Fire Control (M&FC) lines of business, which were partially offset by lower sales in the Systems Integration-Owego line of business.

Segment operating profit increased by 5% for both the quarter and year ended December 31, 2002 when compared to 2001. For the quarter, increased operating profit at C4I and NE&SS was partially offset by declines at Systems Integration-Owego. For the year, increased operating profit at M&FC, C4I and NE&SS more than offset lower operating profit at Systems Integration-Owego. Overall, a decline in volume on mature production programs (at Owego and M&FC) and higher volume on development programs (at NE&SS and M&FC) contributed to the slight decline in margins.

Space Systems (\$ millions)

| | 4th Quarter | | Year-to-Date | |
|------------------|-------------|---------|--------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Sales | \$1,888 | \$1,813 | \$7,384 | \$6,836 |
| Operating profit | \$108 | \$88 | \$443 | \$360 |
| Margin | 5.7% | 4.9% | 6.0% | 5.3% |

Net sales for Space Systems increased by 4% and 8% for the quarter and year in 2002 compared to the 2001 periods. For the quarter, increases in the government space line of business more than offset declines in the commercial space line of business. The increase in government space is mainly due to higher volume on government satellite programs and ground systems activities, partially offset by a decline in volume on government launch vehicles (Titan) and strategic missile programs. The decrease in commercial space is attributable to a decline in commercial satellite manufacturing activities, which was partially offset by increased sales from commercial launch activities in the fourth quarter of 2002 as compared to 2001.

The increase in net sales for 2002 resulted from higher volume in both government space and commercial space. In government space, increases in government satellite programs and ground systems activities more than offset decreases resulting from lower volume on government launch

vehicles and strategic missile programs. The increase in commercial space is primarily attributable to increased launch vehicle activities, with nine commercial launches during 2002 compared to six in 2001.

Segment operating profit increased 23% for both the quarter and year ended December 31, 2002 from the comparable 2001 periods. For the quarter, operating profit in government space declined due to lower volume on government launch vehicles and strategic missiles programs, which more than offset increases resulting from higher volume on government satellite programs and ground systems. Commercial space's operating profit increased due to improved performance on commercial satellite manufacturing contracts, which offset lower profitability on the two commercial launches this quarter as compared to one in the 2001 quarter. Operating profit also included the adverse effects of a \$35 million adjustment in the fourth quarter of 2002 for launch vehicle contract settlement costs and a \$61 million adjustment in the fourth quarter of 2001 recorded to reflect the continued industry-wide oversupply and deterioration of pricing in the commercial launch market.

For year ended December 31, 2002, reduced losses in commercial space resulted in increased operating profit when compared to 2001. Commercial satellite manufacturing losses declined in 2002 as operating performance improved. In the first quarter of 2001, a \$40 million loss provision was recorded on certain commercial satellite contracts. Due to the industry-wide oversupply and deterioration of pricing in the commercial launch market, financial results on commercial launch vehicles continue to be challenging. During 2002, this trend led to lower profitability on the three additional launches in the current year, additional charges of \$60 million (net of a favorable contract adjustment of \$20 million) for market and pricing pressures and the \$35 million adjustment for contract settlement costs previously mentioned. The 2001 results also included charges for market and pricing pressures, which reduced that year's operating profit by \$145 million. The slight decrease in government space for the year is primarily due to the reduced volume on government launch vehicles and strategic missile programs partially offset by increases on government satellite programs and ground systems activities.

Aeronautics
(\$ millions)

| | 4th Quarter | | Year-to-Date | |
|------------------|-------------|---------|--------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Sales | \$1,922 | \$1,993 | \$6,471 | \$5,355 |
| Operating profit | \$139 | \$104 | \$448 | \$329 |
| Margin | 7.2% | 5.2% | 6.9% | 6.1% |

Net sales for Aeronautics decreased by 4% for the quarter and increased by 21% for the year 2002 compared to the 2001 periods. The sales decrease in the quarter was primarily driven by eight fewer C-130J deliveries and lower volume of F/A-22 Engineering and Manufacturing Development (EMD) activities. Partially offsetting this decrease was greater volume on the F-35 Joint Strike Fighter program, higher volume on F/A-22 production contracts and higher development activities on the F-16 and C-5 programs. The sales increase for the year was driven by volume increases on the same programs as in the quarter, partially offset by seven fewer C-130J deliveries compared to 2001.

Segment operating profit increased by 34% and 36% for the quarter and year in 2002 compared to 2001. These increases were primarily due to the higher volume on the programs described above, partially offset by a \$15 million change in estimate adjustment related to cost growth on F/A-22 EMD activities. The year-to-date comparison also included the impact of a \$15 million charge related to performance issues on an aircraft modification contract recorded in the third quarter of 2002. Margins in 2002 were favorably affected by having eight and seven fewer C-130J deliveries in the fourth quarter and year as compared to 2001. The decline in C-130J deliveries did not impact operating profit due to the previously disclosed suspension of earnings recognition on the program.

Technology Services
(\$ millions)

| | 4th Quarter | | Year-to-Date | |
|------------------|-------------|-------|--------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Sales | \$947 | \$791 | \$3,104 | \$2,763 |
| Operating profit | \$55 | \$25 | \$177 | \$114 |
| Margin | 5.8% | 3.2% | 5.7% | 4.1% |

Net sales for Technology Services increased by 20% and 12% for the quarter and year in 2002 compared to 2001. For the quarter and year, the increase in sales was primarily attributable to growth in the government information technology and defense lines of business. This growth was partially offset by lower sales in the commercial information technology and NASA lines of business.

Segment operating profit increased by \$30 million and by \$63 million for the quarter and year in 2002 compared to 2001. In both periods, operating profit increased mainly due to improved performance in commercial information technology and the higher volume in government information technology, partially offset by lower operating profit on the military aircraft, NASA and energy lines of business.

BUSINESS OUTLOOK

The following forward-looking statements are based on our current expectations. Actual results may differ materially. See our Safe Harbor discussion below.

Earnings per share in 2003 from continuing operations are expected to be between \$2.15 - \$2.20. The 2003 earnings projections assume profit from operating segments of \$2.3 billion - \$2.4 billion, unallocated corporate net expense of \$325 - \$375 million, interest expense of approximately \$535 million, an effective tax rate between 31% - 32% and average shares of approximately 460 million. Forecasted sales for the year 2003 are expected to be between 8% - 12% above 2002 sales. The increase to our sales guidance positively impacts earnings per share by \$0.10 - \$0.15. The 2003 sales distribution is estimated to be 20% - 25% for each of the first two quarters and 50% - 60% for the second half of the year. Forecasted earnings per share are projected to be approximately 15% - 20% in the first quarter, 20% - 25% in the second quarter and 55% - 65% for the second half of the year.

As mentioned earlier, our segment operating results only include pension expense as determined under CAS (with the resulting net sales effect). The FAS/CAS adjustment is included in "Unallocated corporate income (expense), net." Based on the lower long-term interest rates, the 2002 financial market performance as well as the outlook on long-term returns available in the capital markets, the 2003 FAS pension plan assumptions have been revised. The revised assumptions include a discount rate of 6.75% and an expected long-term rate of return on plan assets of 8.5% compared to the prior assumptions of 7.25% and 9.5%, respectively.

Based on the revised assumptions, the 2003 FAS pension expense is expected to be approximately \$490 million compared to the previous 2003 guidance of at least \$50 million. CAS pension expense in 2003 is about \$160 million and is consistent with prior guidance. As a result, the FAS/CAS adjustment for 2003 is projected to be an expense of about \$330 million compared to the previous guidance of income of about \$110 million resulting in a change to the previous guidance of \$440 million or approximately \$0.65 per share. Excluding the FAS/CAS adjustment, other non-operating income is now projected to be lower by approximately \$70 million, or \$0.10 per share, when compared to the previous guidance primarily due to lower equity earnings and interest income. Together, the incremental unallocated corporate income (expense), net negatively affected our prior earnings guidance for 2003 by approximately \$0.75 per share.

Forecasted sales growth for the year 2004 is anticipated to be about 5%. The 2004 projections assume profit from operating segments of \$2.5 - \$2.6 billion, interest expense of approximately \$520 million, an effective tax rate of approximately 31% - 32% and average shares of approximately 470 million. Pension expense in 2004 is subject to change and will be finalized at the end of 2003 consistent with the Corporation's pension plan measurement date. Therefore, we have not provided earnings per share guidance for 2004.

Free cash flow is expected to be at least \$800 million in 2003 and at least \$1.8 billion over the two-year period 2003 - 2004. Capital expenditures for property, plant and equipment are expected to be at least \$700 million in both 2003 and 2004. Depreciation and amortization of property, plant and equipment is expected to be about \$475 million in 2003 and about \$525 million in 2004. Amortization of contract intangibles is expected to be \$125 million in both 2003 and 2004.

FOURTH QUARTER 2002 ACHIEVEMENTS

* Selected by Poland as winner of multi-role fighter competition. Program calls for 48 F-16's. The contract is expected to be finalized in 2003.

* Awarded \$390 million contract for work on Aegis Weapons System for six

destroyers -- two for the U.S. Navy, one for Japan and three for South Korea.

- * Awarded \$340 million contract by U.S. Army for continued production of PAC-3 missile.
- * Australia formally joined F-35 (JSF) System Development and Demonstration phase becoming eighth international partner on program.
- * Trained more than 54,000 screeners for Transportation Security Administration (TSA) under the Passenger Screening Training contract, surpassing the original goal of more than 30,000.
- * Atlas IIA launch vehicle successfully boosted a NASA satellite into orbit. Proton vehicle successfully launched Lockheed Martin built Nimiq-2 telecommunications satellite into orbit.
- * Department of Energy announced a five-year renewal of our management contract for Sandia Laboratories.

Web site: <http://www.lockheedmartin.com/>

Conference call: Lockheed Martin will webcast the earnings conference call (listen-only mode) at 11 a.m. E.S.T. on January 24, 2003. A live audio broadcast, including relevant charts, will be available on the Investor Relations page of the company's web site at: <http://www.lockheedmartin.com/investor> .

SAFE HARBOR

NOTE: Statements in this press release, including the statements relating to projected future financial performance, are considered forward-looking statements under the federal securities laws. Sometimes these statements will contain words such as "anticipates," "expects," "plans," "projects," "estimates," "outlook," "forecast," and other similar words. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other important factors that could cause our actual performance or achievements to be materially different from those we may project.

Our actual financial results will likely be different from those projected due to the inherent nature of projections and may be better or worse than projected. Given these uncertainties, you should not rely on forward-looking statements. Forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this press release to reflect the occurrence of subsequent events, changed circumstances or changes in our expectations.

In addition to the factors set forth in our 2001 Form 10-K and 2002 Form 10-Q and Form 8-K filings with the Securities and Exchange Commission (<http://www.sec.gov/>), the following factors could affect our forward-looking statements: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); difficulties in developing and producing operationally advanced technology systems; the level of returns on pension and retirement plan assets; the competitive environment; economic business and political conditions domestically and internationally; program performance and the timing of contract payments; the timing and customer acceptance of product deliveries and launches; our ability to achieve or realize savings for our customers or ourselves through our global cost-cutting program and other financial management programs; and the outcome of contingencies (including completion of any acquisitions and divestitures, litigation and environmental remediation efforts). Our ability to monetize assets or businesses placed in discontinued operations will depend upon market and economic conditions, and other factors, and may require receipt of regulatory or governmental approvals. Realization of the value of the Corporation's investments in equity securities, or related equity earnings for a given period, may be affected by the investee's ability to obtain adequate funding and execute its business plan, general market conditions, industry considerations specific to the investee's business, and/or other factors. These are only some of the numerous factors that may affect the forward-looking statements contained in this press release.

Consolidated Results (1)
Preliminary and Unaudited
(In millions, except per share data and percentages)

| | QUARTER ENDED DECEMBER 31, | | | YEAR ENDED DECEMBER 31, | | |
|--------------------------------------------------|-------------------------------|-----------|--------|----------------------------|-----------|--------|
| | | % | | | % | |
| | 2002 | 2001 | Change | 2002 | 2001 | Change |
| Net Sales | \$7,780 | \$7,334 | 6% | \$26,578 | \$23,990 | 11% |
| Operating Profit (Loss) (2) | (\$418) | (\$43) | N/M | \$1,158 | \$833 | 39% |
| Interest Expense | \$141 | \$151 | (7)% | \$581 | \$700 | (17)% |
| Pre-tax (Loss) Earnings | (\$559) | (\$194) | N/M | \$577 | \$133 | 334% |
| Income Tax (Benefit) Expense | (\$217) | (\$48) | N/M | \$44 | \$90 | (51)% |
| Effective Tax Rate | 39% | 25% | | 8% | 68% | |
| (Loss) Earnings from Continuing Operations | (\$342) | (\$146) | N/M | \$533 | \$43 | 1,140% |
| (Loss) from Discontinued Operations | (\$5) | (\$1,362) | N/M | (\$33) | (\$1,089) | N/M |
| Net (Loss) Earnings | (\$347) | (\$1,508) | N/M | \$500 | (\$1,046) | N/M |
| Basic (Loss) Earnings Per Share: | | | | | | |
| (Loss) Earnings from Continuing Operations | (\$0.76) | (\$0.34) | N/M | \$1.20 | \$0.10 | N/M |
| (Loss) from Discontinued Operations | (0.01) | (3.15) | N/M | (0.07) | (2.55) | N/M |
| (Loss) Earnings Per Share | (\$0.77) | (\$3.49) | N/M | \$1.13 | (\$2.45) | N/M |
| Average Basic Shares Outstanding | 449.8 | 432.4 | | 445.1 | 427.4 | |
| Diluted (Loss) Earnings Per Share: | | | | | | |
| (Loss) Earnings from Continuing Operations | (\$0.76) | (\$0.34) | N/M | \$1.18 | \$0.10 | N/M |
| (Loss) from Discontinued Operations | (0.01) | (3.15) | N/M | (0.07) | (2.52) | N/M |
| (Loss) Earnings Per Share | (\$0.77) | (\$3.49) | N/M | \$1.11 | (\$2.42) | N/M |
| Average Diluted Shares Outstanding | 449.8(3) | 432.4(3) | | 452.0 | 432.5 | |

(1) On January 1, 2002, the Corporation adopted FAS No. 142, "Accounting for Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill. As part of its adoption of FAS No. 142, the Corporation extended the estimated remaining useful life of Aeronautics' contract intangibles related to the F-16 program from 6 to 10 years. Consolidated results for 2001 are consistent with previous disclosures, however for comparative purposes, segment results which follow have been adjusted for the adoption of FAS No. 142.

(2) Operating profit (loss) or earnings before interest and taxes (EBIT) reflects the Corporation's adoption of FAS No. 145 in 2002, which

rescinded FAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." As a result the third quarter 2001 loss on early repayment of debt, which was previously reported, net of taxes, as an extraordinary item has been reclassified on a pre-tax basis to other income and expenses.

(3) Due to antidilution, basic shares are utilized as diluted shares.

LOCKHEED MARTIN CORPORATION
Net Sales and Operating Profit (Loss)
Preliminary and Unaudited
(In millions)

| | QUARTER ENDED DECEMBER 31, | | | YEAR ENDED DECEMBER 31, | | |
|----------------------------------------|-------------------------------|-----------|--------|----------------------------|-----------|--------|
| | 2002 | % 2001 | Change | 2002 | % 2001 | Change |
| Net sales | | | | | | |
| Systems Integration | \$3,017 | \$2,732 | 10% | \$9,603 | \$9,014 | 7% |
| Space Systems | 1,888 | 1,813 | 4% | 7,384 | 6,836 | 8% |
| Aeronautics | 1,922 | 1,993 | (4%) | 6,471 | 5,355 | 21% |
| Technology Services | 947 | 791 | 20% | 3,104 | 2,763 | 12% |
| Operating Segments | 7,774 | 7,329 | 6% | 26,562 | 23,968 | 11% |
| Other | 6 | 5 | 16 | 22 | | |
| Total net sales | \$7,780 | \$7,334 | | \$26,578 | \$23,990 | |
| Operating profit | | | | | | |
| Systems Integration | \$290 | \$277 | 5% | \$952 | \$906 | 5% |
| Space Systems | 108 | 88 | 23% | 443 | 360 | 23% |
| Aeronautics | 139 | 104 | 34% | 448 | 329 | 36% |
| Technology Services | 55 | 25 | 120% | 177 | 114 | 55% |
| Segment operating profit | 592 | 494 | 20% | 2,020 | 1,709 | 18% |
| Unallocated corporate expense, net (1) | (1,010) | (468) | | (862) | (602) | |
| Goodwill amortization | - | (69) | | - | (274) | |
| Reconciling Items | | | | | | |
| Subtotal | (1,010) | (537) | | (862) | (876) | |
| Total operating (loss) profit | \$(418) | \$(43) | | \$1,158 | \$833 | |
| Segment Operating Margins | | | | | | |
| Systems Integration | 9.6% | 10.1% | | 9.9% | 10.1% | |
| Space Systems | 5.7% | 4.9% | | 6.0% | 5.3% | |
| Aeronautics | 7.2% | 5.2% | | 6.9% | 6.1% | |
| Technology Services | 5.8% | 3.2% | | 5.7% | 4.1% | |
| Total Operating Segments | 7.6% | 6.7% | | 7.6% | 7.1% | |

(1) Unallocated corporate income (expense), net includes earnings and losses from our equity investments (mainly telecommunications), interest income, corporate costs not allocated to the operating segments, the FAS/CAS income adjustment, costs for stock-based award programs, unusual items not considered part of segment operating performance, and other miscellaneous corporate activities.

LOCKHEED MARTIN CORPORATION
Selected Financial Data
Preliminary and Unaudited
(In millions)

QUARTER ENDED YEAR ENDED
DECEMBER 31, DECEMBER 31,

2002 2001 2002 2001

Summary of unallocated corporate

| | | | | |
|------------------------------------|-----------|---------|-----------|---------|
| expense, net | | | | |
| Unusual items | \$(1,112) | \$(563) | \$(1,112) | \$(973) |
| FAS/CAS income adjustment | | 74 | 108 | 243 |
| Other | 28 | (13) | 7 | 11 |
| Unallocated corporate expense, net | \$(1,010) | \$(468) | \$(862) | \$(602) |

FAS/CAS income adjustment

| | | | | |
|---------------------------|------|-------|-------|-------|
| FAS No. 87 income | \$48 | \$106 | \$156 | \$354 |
| CAS funding and (expense) | (26) | (2) | (87) | (6) |
| FAS/CAS income adjustment | \$74 | \$108 | \$243 | \$360 |

Depreciation and amortization of property, plant and equipment

| | | | | |
|---------------------|------|------|-------|-------|
| Systems Integration | \$46 | \$41 | \$159 | \$149 |
| Space Systems | 46 | 44 | 136 | 147 |
| Aeronautics | 14 | 23 | 74 | 84 |
| Technology Services | 11 | 8 | 36 | 22 |
| Operating Segments | 117 | 116 | 405 | 402 |

Unallocated corporate expense, net 7 6 28 23

Total depreciation and amortization \$124 \$122 \$433 \$425

Amortization of contract intangibles

| | | | | |
|---------------------|------|------|------|------|
| Systems Integration | \$12 | \$13 | \$49 | \$50 |
| Space Systems | 4 | 4 | 19 | 18 |
| Aeronautics | 13 | 14 | 50 | 51 |
| Technology Services | 2 | 1 | 7 | 5 |
| Operating Segments | 31 | 32 | 125 | 124 |

Unallocated corporate expense, net - 7 - 30

Total amortization of contract intangibles \$31 \$39 \$125 \$154

LOCKHEED MARTIN CORPORATION

Unusual Items, Goodwill Amortization and Adjusted Tax Rate

Preliminary and Unaudited

(In millions, except per share amounts)

| | Earnings | | |
|--|-----------|----------|-------------|
| | Operating | Net | (loss) |
| | profit | earnings | per diluted |
| | (loss) | (loss) | Share |

Unusual Items

Quarter ended December 31, 2002

| | | | |
|------------------------------------------------|-----------|---------|----------|
| Loss on telecommunications equity investments | \$(776) | \$(504) | \$(1.12) |
| Advance to a Russian manufacturer | | (173) | (112) |
| Loss on Space Imaging investment and guarantee | (163) | (106) | (0.24) |
| Total | \$(1,112) | \$(722) | \$(1.61) |

Quarter ended December 31, 2001

| | | | |
|---------------------------------------------------------------|---------|---------|----------|
| Write-off of investment in Astrolink and related costs | \$(387) | \$(267) | \$(0.62) |
| Loss from exiting Global Telecommunications services business | (176) | (117) | (0.27) |
| Total | \$(563) | \$(384) | \$(0.89) |

Year ended December 31, 2002

| | | | |
|-----------------------------------------------|---------|---------|----------|
| Loss on telecommunications equity investments | \$(776) | \$(504) | \$(1.12) |
|-----------------------------------------------|---------|---------|----------|

| | | | |
|------------------------------------------------|-----------|---------|----------|
| Advance to a Russian manufacturer | (173) | (112) | (0.25) |
| Loss on Space Imaging investment and guarantee | (163) | (106) | (0.23) |
| Effect of R&D tax credit | - | 90 | 0.20 |
| Total | \$(1,112) | \$(632) | \$(1.40) |

Year ended December 31, 2001

| | | | |
|---------------------------------------------------------------|---------|---------|----------|
| Write-off of investment in Astrolink and related costs | \$(387) | \$(267) | \$(0.62) |
| Write-down of investment in Loral Space | (361) | (235) | (0.54) |
| Loss from exiting Global Telecommunications services business | (176) | (117) | (0.27) |
| Gain on sale of surplus real estate | 111 | 72 | 0.17 |
| Impairment charge related to Americom Asia-Pacific | (100) | (65) | (0.15) |
| Loss on early repayment of debt | (55) | (36) | (0.08) |
| Other portfolio shaping activities | (5) | (3) | (0.01) |
| Total | \$(973) | \$(651) | \$(1.50) |

Goodwill Amortization

| | | | |
|---------------------------------|---------|---------|----------|
| Quarter ended December 31, 2001 | \$(69) | \$(53) | \$(0.12) |
| Year ended December 31, 2001 | \$(274) | \$(236) | \$(0.55) |

| | QUARTER ENDED DECEMBER 31, | | YEAR ENDED DECEMBER 31, | |
|---------------------------------------------------|-------------------------------|------|----------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Adjusted Tax Rate | | | | |
| Excluding unusual items and Goodwill Amortization | | 31% | 34% | 31% 33% |

LOCKHEED MARTIN CORPORATION

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
Preliminary and Unaudited
(In millions)

| | QUARTER ENDED DECEMBER 31, | | YEAR ENDED DECEMBER 31, | |
|--------------------------------------|-------------------------------|-------|----------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Consolidated EBITDA | | | | |
| EBIT(1) | \$694 | \$589 | \$2,270 | \$2,080 |
| Amortization of Contract Intangibles | 31 | 39 | 125 | 154 |
| Depreciation and Amortization | 124 | 122 | 433 | 425 |
| EBITDA(2) | \$849 | \$750 | \$2,828 | \$2,659 |

| | QUARTER ENDED DECEMBER 31, | | YEAR ENDED DECEMBER 31, | |
|--------------------------------------|-------------------------------|-------|----------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Operating Segments EBITDA | | | | |
| Operating Segments EBIT | \$592 | \$494 | \$2,020 | \$1,709 |
| Amortization of Contract Intangibles | 31 | 32 | 125 | 124 |
| Depreciation and Amortization | 117 | 116 | 405 | 402 |
| EBITDA(2) | \$740 | \$642 | \$2,550 | \$2,235 |

(1) Excludes unusual items and adjusts for the adoption of FAS No. 142. Adjusted results exclude goodwill amortization expense and include the effect of extending the remaining useful life of Aeronautics' contract intangible related to the F-16 program.

(2) EBITDA is calculated by adding amortization of contract intangibles

and depreciation and amortization to EBIT (earnings before interest and taxes).

LOCKHEED MARTIN CORPORATION
Other Financial Information
Preliminary and Unaudited
(In millions, except percentages)

| | DECEMBER 31, 2002 | DECEMBER 31, 2001 |
|-----------------------------------------------------|----------------------|----------------------|
| Backlog | | |
| Systems Integration | \$17,671 | \$17,027 |
| Space Systems | 12,620 | 12,977 |
| Aeronautics | 35,477 | 36,149 |
| Technology Services | 4,617 | 5,116 |
| Total | \$70,385 | \$71,269 |
| Long-Term Debt | | |
| Current maturities(1) | \$915 | \$89 |
| Long-Term | 6,667 | 7,422 |
| Total | \$7,582 | \$7,511 |
| Cash and Cash Equivalents | \$2,738 | \$912 |
| Stockholders' Equity | \$5,831 | \$6,443 |
| Total Debt-to-Capital | 56.5% | 53.8% |
| Total Debt-to-Capital (net of invested cash) (2) | 45.4% | 50.6% |

(1) Includes \$150 million for our guarantee of our share of Space Imaging, LLC credit facility, due in the first quarter of 2003.

(2) Net debt to total capitalization, a commonly used alternative measure of leverage, deducts the Corporation's cash balance from total debt and total capitalization.

LOCKHEED MARTIN CORPORATION
Consolidated Condensed Balance Sheet
Preliminary and Unaudited
(In millions)

| | DECEMBER 31, 2002 | DECEMBER 31, 2001 |
|------------------------------------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$2,738 | \$912 |
| Accounts receivable | 3,655 | 4,049 |
| Inventories | 2,250 | 3,140 |
| Assets of businesses held for sale | 210 | 638 |
| Other current assets | 1,773 | 2,039 |
| Total current assets | 10,626 | 10,778 |
| Property, plant and equipment, net | 3,258 | 2,991 |
| Investments in equity securities | 1,009 | 1,884 |
| Goodwill | 7,380 | 7,371 |
| Intangible assets, related to contracts and programs acquired | 814 | 939 |
| Prepaid pension | - | 2,081 |
| Noncurrent deferred taxes | 578 | - |
| Other noncurrent assets | 2,124 | 1,610 |
| Total assets | \$25,789 | \$27,654 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$1,102 | \$1,419 |
| Customer advances and amounts in | | |

| | | |
|--------------------------------------------------|----------|----------|
| excess of costs incurred | 4,542 | 5,002 |
| Other accrued expenses | 2,690 | 2,792 |
| Liabilities of businesses held for sale | 122 | 387 |
| Current maturities of long-term debt | 915 | 89 |
| Total current liabilities | 9,371 | 9,689 |
| Long-term debt | 6,667 | 7,422 |
| Pension liability | 727 | - |
| Noncurrent deferred taxes | - | 992 |
| Post-retirement and other noncurrent liabilities | 3,193 | 3,108 |
| Stockholders' equity | 5,831 | 6,443 |
| Total liabilities and stockholders' equity | \$25,789 | \$27,654 |

LOCKHEED MARTIN CORPORATION
Consolidated Condensed Statement of Cash Flows
Preliminary and Unaudited
(In millions)

YEAR ENDED DECEMBER 31,

2002 2001

| | | |
|---------------------------------------------------------------------------------------------------------------|-------|---------|
| Operating Activities | | |
| Earnings from continuing operations | \$533 | \$43 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities: | | |
| (Loss) from discontinued operations | (33) | (1,089) |
| Depreciation and amortization of property, plant and equipment | 433 | 425 |
| Amortization of contract intangibles and goodwill | 125 | 398 |
| Charges related to telecommunication equity investments, Space Imaging and advances to a Russian manufacturer | 1,127 | |
| Net charges related to discontinued operations, write-off of Astrolink and other charges | | 1,511 |
| Write-down of other investments | | 476 |
| Changes in operating assets and liabilities: | | |
| Receivables | 394 | (34) |
| Inventories | 585 | 651 |
| Accounts payable | (317) | 192 |
| Customer advances and amounts in excess of costs incurred | (460) | 318 |
| Other | (99) | (1,066) |
| Net cash provided by operating activities | 2,288 | 1,825 |
| Investing Activities | | |
| Expenditures for property, plant and equipment | (662) | (619) |
| Acquisitions / investments in affiliated companies | (104) | (192) |
| Proceeds from divestitures of affiliated companies | 134 | 825 |
| Other | 93 | 125 |
| Net cash (used for) provided by investing activities | (539) | 139 |
| Financing Activities | | |
| Net decrease in short-term borrowings | - | (12) |

| | | |
|----------------------------------|-------|---------|
| Net repayments of long-term debt | (110) | (2,566) |
| Issuances of common stock | 436 | 213 |
| Repurchases of common stock | (50) | - |
| Common stock dividends | (199) | (192) |

| | | |
|------------------------------------------------------|----|---------|
| Net cash provided by (used for) financing activities | 77 | (2,557) |
|------------------------------------------------------|----|---------|

| | | |
|------------------------------------------------------|-------|-------|
| Net increase (decrease) in cash and cash equivalents | 1,826 | (593) |
|------------------------------------------------------|-------|-------|

| | | |
|--------------------------------------------------|-----|-------|
| Cash and cash equivalents at beginning of period | 912 | 1,505 |
|--------------------------------------------------|-----|-------|

| | | |
|--------------------------------------------|---------|-------|
| Cash and cash equivalents at end of period | \$2,738 | \$912 |
|--------------------------------------------|---------|-------|

LOCKHEED MARTIN CORPORATION
Reconciliation of Free Cash Flow (1)
Preliminary and Unaudited
(In millions)

YEAR ENDED DECEMBER 31,

| | 2002 | 2001 |
|----------------------------------------------------------|---------|---------|
| Net cash provided by operating activities - GAAP | \$2,288 | \$1,825 |
| Expenditures for property, plant and equipment | (662) | (619) |
| Proceeds from disposals of property, plant and equipment | 94 | 140 |
| Income taxes paid on divested businesses | 10 | 655 |
| Free Cash Flow (1) | \$1,730 | \$2,001 |

(1) Free cash flow is defined as cash provided by operating activities less capital expenditures and excludes any proceeds from, or income tax payments on, divestitures.

LOCKHEED MARTIN CORPORATION
Consolidated Condensed Statement of Stockholders' Equity
Preliminary and Unaudited
(In millions)

| | Additional Common Stock | Paid-In Capital | Accumulated Unearned Retained Earnings | Other ESOP Shares | Total Comprehensive Income | Stockholders' Equity |
|----------------------------------------------------|-------------------------------|--------------------|-------------------------------------------------|-------------------------|----------------------------------|-------------------------|
| Balance at January 1, 2002 | \$441 | \$2,142 | \$3,961 | \$(84) | \$(17) | \$6,443 |
| Net earnings | | | 500 | | | 500 |
| Common stock dividends declared (\$0.44 per share) | | | (199) | | (199) | |
| Repurchases of common stock | (1) | (49) | | | (50) | |

| | | | | | | |
|---------------------------------------------|-------|---------|---------|---------|-----------|---------|
| Stock awards and options, and ESOP activity | 15 | 703 | 34 | 752 | | |
| Other comprehensive income (loss): | | | | | | |
| Minimum pension liability | | | (1,570) | (1,570) | | |
| Other | | | (45) | (45) | | |
| Balance at December 31, 2002 | \$455 | \$2,796 | \$4,262 | \$(50) | \$(1,632) | \$5,831 |

SOURCE: Lockheed Martin Corporation

Web site: <http://www.lockheedmartin.com/>
<http://www.lockheedmartin.com/investor>
<http://www.sec.gov/>

Company News On-Call: <http://www.prnewswire.com/gh/cnoc/comp/534163.html>

<https://news.lockheedmartin.com/2003-01-24-Lockheed-Martin-Reports-2002-Earnings>