
[Table of Contents](#)**ITEM 3. Legal Proceedings.**

We are a party to or have property subject 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, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome 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 in any particular interim reporting period. We cannot predict the outcome of legal or other proceedings with certainty. These matters include the proceedings summarized in “Note 14 – Legal Proceedings, Commitments and Contingencies” of our consolidated financial statements.

We are subject to federal, state, local and foreign requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. As a result, we are a party to or have property subject to various lawsuits or proceedings involving environmental protection matters. Due in part to their complexity and pervasiveness, such requirements have resulted in us being involved with related legal proceedings, claims and remediation obligations. The extent of our financial exposure cannot in all cases be reasonably estimated at this time. For information regarding these matters, 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” of our consolidated financial statements.

On October 26, 2015, the New Mexico Environmental Department (NMED) issued a Notice of Violation (NOV) related to a hazardous waste compliance evaluation that NMED conducted at Sandia National Laboratories in April 2015. Sandia Corporation manages Sandia National Laboratories on behalf of the Department of Energy. The NOV sets forth several violations of New Mexico’s Hazardous Waste Regulations generally related to alleged failures to: make hazardous waste determinations, determine if waste meets land disposal standards, prepare proper manifests, properly train personnel, complete inspection forms, maintain inspection records, properly label waste and comply with time-based waste storage limits. Unlawful disposal of waste as a result of the foregoing was also alleged. NMED proposed a civil penalty of approximately \$151,000 which Sandia Corporation paid. We do not currently believe that it is probable that we will incur a material loss related to this matter.

We have reached an agreement to settle with the U.S. Department of Justice (DOJ) and the qui tam relators two previously disclosed lawsuits in which the DOJ filed complaints in partial intervention on August 28, 2003. The lawsuits, United States ex rel. Natural Resources Defense Council, et al., v. Lockheed Martin Corporation, et al., and United States ex rel. John D. Tillson v. Lockheed Martin Energy Systems, Inc., et al., were filed by the relators in 1999 under the civil qui tam provisions of the False Claims Act in the U.S. District Court for the Western District of Kentucky and alleged that we committed violations of the Resource Conservation and Recovery Act (RCRA) at the Paducah Gaseous Diffusion Plant by not properly handling, storing and transporting hazardous waste and that we violated the False Claims Act by misleading Department of Energy officials and state regulators about the nature and extent of environmental noncompliance at the plant. The parties are finalizing the terms of the settlement agreement, which is considered a tentative agreement until it is formally approved by the United States Government. Under the terms of our agreement, we will pay \$5 million, of which \$4 million will be allocated to all Defendants, including the Corporation and its predecessor, Martin Marietta Corporation; wholly-owned subsidiary Lockheed Martin Energy Systems, Inc. and its predecessor, Martin Marietta Energy Systems, Inc.; and wholly-owned subsidiary Lockheed Martin Utility Services, Inc. and its predecessor Martin Marietta Utility Services, Inc. and the False Claims Act allegations; \$500,000 will be allocated to Lockheed Martin Energy Systems, Inc. and RCRA civil penalties; and \$500,000 will be allocated to Lockheed Martin Utility Services, Inc. and RCRA civil penalties. We believe that we have substantial defenses to all of the allegations and have agreed to settle the case to avoid the costs of further litigation of this matter which has been ongoing in excess of sixteen years. We will admit no liability or wrongdoing in resolving the matter.

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.