Risk Factors Comparison 2024-01-23 to 2023-01-26 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

An investment in our common stock or debt securities involves risks and uncertainties. ~~We~~ **While we** seek to identify, manage and mitigate risks to our business, ~~but~~ 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 ~~2022~~ **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 ~~were to~~ 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. Shifting funding priorities or federal budget....... S. Government authorization and funding. 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~~ **contractaward** ~~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 ~~program will affect our business on a long- term basis~~. ~~However,~~ **Failure to fund or the** termination of significant programs or contracts **by the U.S.Government** could adversely affect our business and ~~future~~ 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 ~~also~~ 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 ~~the development, production, sustainment,~~ 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 ~~27~~ **26** % of our total consolidated net sales in ~~2022~~ **2023**. A decision by the U. S. Government ~~or~~ **,** international ~~partner~~ **partners** ~~and~~ **, 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. ~~Current~~ **Challenges and risks associated with this** program ~~challenges~~ include ~~our and our suppliers~~ - **supplier** ~~'~~ performance ~~(including COVID- 19 performance- related challenges)~~, 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 ~~and~~ **,** sustainment **and potential contractual obligations**, inflation- related cost pressures and the ability to ~~continue to~~ improve affordability. **See also** ~~Our planned production rates and deliveries have been adversely affected and could continue to be adversely affected by COVID- 19 or supplier performance challenges, which affect our results of operations. For example, during 2022, we experienced a temporary halt of F- 35 deliveries due to non- compliant materials in a component provided by a supplier, which affected timing of deliveries. Additionally, as described in~~ the " Status of the F- 35 Program " in Management Discussion and Analysis of Financial Condition and Results of Operations **for** ~~, we are experiencing~~ a ~~pause in aircraft~~ **discussion of the current program status and specific challenges and risks, including with respect to Technology Refresh 3 (TR- 3) configuration development and** deliveries ~~due to the suspension of Government Furnished Equipment (GFE) engine deliveries and corresponding flight restrictions that were issued by the U~~. **We also may** ~~S. Government. If~~ not ~~resolved~~ **be successful in making hardware upgrades and other modernization capabilities** in a timely manner, ~~this~~ **including as a result of dependencies on suppliers, which** could **increase costs** ~~impact our results of operations~~ and ~~cash flows~~ **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 ~~a~~ **further** discussion ~~of the risk of non- compliant parts and the supply chain. 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~~ . 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** ~~or adapt to existing or new procurement~~ laws and regulations ~~, which are regularly evolving~~ . We ~~and others with which we do business~~ 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** ~~contract laws and regulations can impose~~ **imposes security requirements** ~~terms or obligations~~ that ~~are different than~~ **limit our ability to discuss our performance on** ~~those~~ **these** ~~typically found in commercial transactions~~ **contracts, including any specific risks, disputes and claims** . **Contract Termination. The** ~~One of the significant differences is that the~~ U. S. Government may terminate any of our government contracts ~~, not only~~ **at its convenience or** for default based on our performance, ~~but also at its convenience~~ **either of which could adversely affect our business and financial performance** . Generally, prime contractors have ~~a~~ similar **termination** ~~right~~ **rights** under subcontracts related to government contracts. If a contract is terminated for convenience, we ~~typically would be entitled to receive payments~~ **generally are protected by provisions covering reimbursement** for ~~our allowable~~ costs incurred **on the contract** and **profit on** ~~the~~ **those costs** ~~proportionate share of fees or earnings for the work performed~~ . However, to the extent insufficient funds have been appropriated by the U. S. Government ~~to the program~~ 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 ~~the contract value or~~ **our** ~~recover~~ **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 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. ~~Similarly, the U~~ **Undefinitized Contract Action (UCA)** . **When operating under** ~~S. Government could indirectly terminate~~ a ~~program or contract by not appropriating funding. The decision to terminate programs or contracts for convenience or default could adversely affect our business and future financial performance. Another significant difference from commercial contracting is the existence in government contracting of the concept of an~~ undefinitized contract action (UCA), which is when we begin performing our obligations before the terms, specifications or price are finally agreed to between the parties ~~. When operating under a UCA~~ , the U. S. Government has the ~~ability~~ **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. ~~In addition~~ **Bid Protests. U. S Government procurement laws permit legal challenges, referred** to **as bid protests, to** the ~~unique risks associated~~ **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 ~~government~~ **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 ~~, the U~~ **that were not awarded to us also may be unsuccessful** . **Competition and changing** ~~S. Government utilizes~~ 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 ~~negatively impact~~ **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** ~~To remain competitive,we must maintain consistently strong customer relationships,seek to understand customer priorities and provide superior performance,advanced technology solutions and~~

~~services at an affordable cost with the agility that our customers require to satisfy their mission objectives in an increasingly price competitive environment.Our success in achieving these goals may depend,among other things,on accurately assessing our customers' needs and our competitors' capabilities,containing our total costs relative to competitors,successfully and efficiently investing in emerging technologies,adopting innovative business models and adaptive pricing methods,effectively collaborating across our business segments,and adopting and integrating new digital manufacturing and operating technologies and tools into our product lifecycles and processes.Additionally,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** ~~U. S. Government has procurement policies~~ that shift risk to **the** ~~contractors~~ - **contractor** , such as ~~using~~ fixed- price **development** contracts **and** ~~for development programs as described in the following risk factor. Other changes in procurement policy that could affect the predictability of our profit rates or make it more difficult to compete on certain types of programs include favoring more~~ incentive- based fee arrangements, **or the U. S Government** using different award fee criteria than historically used (such as the evaluation of environmental factors) ~~or making government contract negotiation offers based upon their view of what our costs should be (as compared to our actual costs). In addition, 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. 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 **profit rates** ~~business. Also, a portion of our~~ - **or make it more difficult to win new** contracts ~~are classified by the U~~ . **The** ~~S. Government, which imposes security requirements that limit our ability to discuss our performance on these contracts, including any specific risks, disputes and claims. Additionally, 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 protype project is funded by non-governmental sources. **Changes** ~~If we cannot successfully adapt to the DoD' s rapid acquisition processes, then we may lose strategic new business opportunities~~ in ~~high~~ **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** - ~~growth areas and our future~~ **price contracts, such as changes in** performance and ~~results~~ **progress payments policies,** could **significantly** ~~be adversely affected~~ -- **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. Contract types primarily include fixed- price and cost- reimbursable contracts . Under each type of contract,...... systems in the event of performance failure . 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 ~~we~~ therefore **we** carry the burden of any cost overruns. Under FPI contracts ~~, we generally share with~~ the U. S. Government ~~savings~~ **is responsible** for **our** ~~cost underruns less than target costs and expenses for cost overruns exceeding target~~ costs up to a negotiated ceiling price ~~. We carry~~ **and we generally share, based on a negotiated sharing formula, savings from cost underruns and expenses, up to** the ~~entire burden of~~ **negotiated ceiling price, from** cost overruns **. We bear the risk for all cost overruns that** ~~exceeding~~ --- **exceed** the **negotiated** ceiling price ~~amount under FPI contracts~~. 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** ~~a variety of~~ reasons,including technical and manufacturing challenges,schedule delays,workforce- related issues, ~~or~~ inaccurate initial contract cost estimates ~~.These could be caused by a variety of reasons,including labor shortages,the nature and complexity of the work performed~~ ,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 ~~or include~~ **. In addition, we have certain contracts where we bid upfront on** cost- **reimbursable** ~~type contracting for the~~ development ~~phase with~~ **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 ~~complex and often experimental~~ 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** ~~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. This~~ 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. ~~We also have contracts~~ **Contracts** for the transition from development to production (e. g., low rate initial production (LRIP) contracts) ~~, where~~ **also create performance and financial risks to our business because of** the challenge of starting and stabilizing a manufacturing production and test line while ~~the~~ **concurrently validating** final design ~~is being validated~~ and managing change in requirements or capabilities **requested by the customer** ~~create performance and financial risks to our business~~ . Many of our ~~U. S. Government~~ contracts include multiple option years ~~and our expected sales or profits~~ **exercisable at the customer' s discretion, which carries risk. The customer** may **decline** ~~be adversely affected if the U. S. Government decides not~~ to exercise ~~the~~ **an** ~~options~~ - **option, or** ~~. On the other~~ -- **the customer** ~~hand, the U. S. Government~~ may ~~decide to~~ exercise **an** ~~options~~ - **option on a contract** for ~~contracts under~~ which **we** ~~it is expected~~ -- **expect** ~~that~~ **to incur a loss** ~~our~~ - **or perform at a low margin** ~~costs may exceed the contract price or ceiling~~ , **either of** which could **adversely affect our financial** ~~result~~ **results** ~~in losses or unreimbursed costs~~ . 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. 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. Increased competition and bid protests in a...... Future Long Range Assault Aircraft competition. 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 ~~upon~~ **on** which we rely (contracting parties) and, in many cases, our contracting parties in turn rely on lower- tier subcontractors. We ~~occasionally~~ **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 ~~by~~ 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 ~~failure of our supply chain to comply with regulatory requirements that we flow down from our U. S. government prime contracts also could adversely affect our operating results, financial condition, or cash flows. Furthermore, changes in the political or economic environment, may adversely affect the~~ financial stability and viability of our contracting parties or lower- tier subcontractors ~~or~~ **have and in the future could adversely affect** their ability to meet their performance ~~obligations~~ - **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 ~~prohibit~~ **impose restrictions in** the sourcing of **items** ~~certain rare earth minerals~~ from specified countries. We seek to manage ~~raw materials~~ supply risk through long- term contracts, identifying domestic or other U. S. allied alternative sources of **items** ~~materials that could be subject to embargo, efforts to increase visibility into our multi- tiered supply chain,~~ and maintaining an acceptable level of our key materials in inventories. ~~In addition, advanced~~ **Advanced** microelectronics, including semiconductors, underpin many of our current and future critical technologies and platforms, and global shortages of these products due to ~~COVID- 19,~~ increased demand or other supply chain challenges ~~, as were experienced in 2022,~~ could result in increased procurement lead times and increased costs and potential shortages, which could ~~impact~~ **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 ~~the F- 35 or~~ **our** ~~other~~ 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 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 ~~terms~~ - **term** ~~. Due to the complex and often experimental nature of the products and services we offer, we may experience (and have experienced in the past) technical difficulties during the development of new products or technologies. These technical difficulties could result in delays and higher costs~~ , which may **prevent** ~~negatively impact our~~ - **or lessen** ~~financial results, and could divert resources from other~~ -- **the benefit of collaboration** ~~projects, until such products or technologies are fully developed~~ . **We may** ~~See Note 1 – Organization and Significant Accounting Policies included in our Notes to Consolidated Financial Statements for further details about losses incurred on certain development programs. Additionally, there can be no~~ **not** ~~assurance that our development projects will~~ be successful **in identifying** ~~or meet the needs of our~~ - **or** ~~customers~~ **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. ~~Our competitors may also develop new technologies, or offerings, or more efficient ways to produce existing products that could cause our existing offerings to become obsolete or that could gain market acceptance before our own competitive offerings.~~ 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** ~~and this could adversely affect our future performance and financial results. We also may not be successful in our efforts to grow~~ in key areas such as hypersonics ~~,~~ **and** classified ~~programs~~ **work** , and ~~winning next generation franchise programs~~ **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 ~~sanctions,embargoes,export and import controls and other trade restrictions),political environments or security risks that may affect our ability to conduct~~ business ~~outside of the U~~ . ~~S.~~

Global conflicts ,including ~~those regarding investment,procurement,taxation and repatriation of earnings.~~ Russia' s invasion of Ukraine ~~has~~ **,have** significantly elevated global geopolitical tensions and security concerns. **The** ~~Although the~~ conflict has resulted in increased demand for some of our products **and services;however** , **if** ~~the conflict poses certain risks.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** ~~have the potential to~~ indirectly ~~disrupt~~ **disrupted** ~~our~~ **the global** supply chain and ~~access to~~ **increased pressures on** certain resources.The **Ukraine** conflict also has increased the threat of malicious cyber activity from nation states and other actors. ~~During 2020,~~ China **' s Ministry of Commerce** announced **in 2023 that** it ~~may~~ **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 ~~in response~~ **,including a fine equal** to ~~Congressional Notifications~~ **twice the value** of ~~potential Foreign Military Sales~~ **the arms that we had sold** to Taiwan **since September 2020.In addition** , ~~which included sales of~~ **China prohibited our CEO,COO and CFO from traveling** ~~our~~ - **or** ~~products~~ **working in China** .We will continue to follow official U.S.Government guidance as it relates to sales to Taiwan and do not ~~see~~ **currently expect** a material impact ~~on~~ **to** our ~~sales at this time~~ **business from these actions** . **In 2023,** China ~~has not specified~~ **also implemented broad- based export restrictions on certain minerals used in the production,among** ~~the~~ **other** ~~nature~~ **things,** of ~~any such~~ **semiconductors and missile systems.If China were to further restrict the export of certain materials,take further** ~~sanctions~~ -- **actions to enforce the existing sanctions on us or impose additional sanctions** , ~~but~~ **or impose sanctions on our suppliers,teammates or partners,our business** could ~~seek to restrict our commercial sales or supply chain,including the supply of rare earth or other raw materials,and also could impose sanctions on our suppliers,teammates or partners.The nature,timing and potential impact of any sanctions that may~~ be **adversely affected** ~~imposed by China or any other related actions that may be taken are uncertain~~ .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 ~~block~~ **restrict** sales of our products.For example,the U.S.Government has imposed certain sanctions on Türkish 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 Türkish Utility Helicopter Program (TUHP),our work with Türkish industry and our opportunity for sales in Türkiye generally.See ~~Management' s Discussion~~ **" Note 1 – Organization** and ~~Analysis of~~ **Significant Accounting Policies " included in our Notes to Consolidated** Financial **Statements** ~~Condition and Results of Operations~~ for more information on TUHP ~~.In addition,U.S.Government representatives have raised concerns regarding relationships with the Kingdom of Saudi Arabia,where we have existing business and relationships that could be jeopardized if sanctions were imposed~~ .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 claims and contract terminations by these customers~~ future ~~performance. Adverse macro- economic conditions~~ **result in our inability to recover our costs and reach forward losses** , ~~including inflation~~ **claims and contract terminations by these customers and suppliers** , **which** could **have an** ~~adversely~~ -- **adverse** ~~impact~~ **effect on** our operating results **. Macroeconomic** . Heightened levels of inflation and the potential worsening of macro- economic 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 ~~inflation remains at current levels for an extended period, or increases, and~~ we are unable to successfully mitigate the impact **of inflation** , ~~our costs are likely to increase, resulting in pressure on~~ our profits, margins and cash flows, particularly for existing fixed- price contracts ~~. For new contract proposals~~ , **may** ~~we are factoring into our pricing heightened levels of inflation based on accepted DoD escalation indices and other assumptions, and in some cases seeking the inclusion of economic price adjustment (EPA) clauses, which would permit, subject to the particular contractual terms, cost adjustments in fixed- price contracts for unexpected inflation. In addition, our business could~~ be adversely ~~impacted by reductions or delays in spending by non- U. S. government customers that are facing budget, inflationary or other pressures, such as increases in the cost of borrowing from rising interest rates. Rising interest rates increase the borrowing costs on new debt and could affect~~ **affected** ~~the fair value of our investments. While rising interest rates reduce the measure of our gross pension obligations, they also can lead to decline in pension plan assets with offsetting impacts on our net pension liability~~ . 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. ~~The~~ **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** ~~effects~~ - **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** ~~and other potential future public~~ health ~~crises, epidemics~~ - **epidemic** ~~, pandemics~~ or **outbreak were to occur, we could experience broad and varied impacts** similar **to the** ~~events on our business, operating results, financial condition and cash flows are uncertain. In 2022, our performance was affected by supply chain disruptions and delays, as well as labor challenges associated with employee absences, travel restrictions, site access, quarantine restrictions, remote work, and adjusted work schedules. The ongoing~~ impact of COVID- 19 ~~on~~ **, including adverse impacts to our workforce and supply chain, inflationary pressures and increased**

costs, schedule ~~our~~ - **or** ~~operational~~ **production delays, market volatility** and **other** financial ~~performance in future periods, including our ability to execute our programs in the expected timeframe, remains uncertain and will depend on future COVID- 19- related developments, including the impact of COVID- 19 infection or potential new variants or subvariants, the effectiveness and adoption of COVID- 19 vaccines and therapeutics, supplier~~ impacts **. If** ~~and related government actions to prevent and manage disease spread, including the implementation of~~ any ~~federal, state, local or foreign COVID- 19- related controls. The long- term impacts~~ of **these were to** ~~COVID- 19 on government budgets and other funding priorities, including international priorities, that impact demand for our~~ **occur ,** ~~products and services and our business also are difficult to predict but could negatively affect~~ 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 ~~2022~~ **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, ~~including the impact of a strong U. S. dollar on the affordability of our products,~~ 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 ~~cooperation~~ **development (offset)** agreements ~~also~~ 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 ~~or~~ **(also known as offset** contracts **)** , as a condition to obtaining orders for our products and services. These offset agreements ~~or contracts~~ 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 ~~to prefer~~ **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, ~~certain~~ **some** of our existing **offset** ~~industrial development~~ 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** ~~that we fail to meet~~ our **obligations** ~~industrial cooperation agreements~~ , ~~expose~~ **exposing** us to compliance risks of the joint venture **,** and ~~impair~~ **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 (MD & A). Geopolitical...... an adverse effect on our operating results . 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 ~~greater than 50 % of the time~~ 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. ~~Our efforts to minimize the likelihood and impact of adverse cybersecurity incidents and to protect data and intellectual property may not be successful and our business could be negatively affected by cyber~~ **Cyber** ~~or~~ **- attacks and** other security threats **and disruptions could have a material adverse affect 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** ~~. Given the nature~~ of **which could adversely affect** our business **. The improper conduct of our employees** ~~, we routinely experience various cybersecurity threats to our~~ - **or** ~~information technology infrastructure, unauthorized attempts to gain~~ **others working on behalf of us who have** access to **export controlled, classified** ~~our~~ - **or other** ~~company, employee- and customer-~~ sensitive information ~~, insider threats~~ **could also adversely affect our business** and **reputation** ~~denial- of- service attacks~~. Our customers ~~,~~ **(** including sites that we operate and manage for our customers **)** , suppliers, subcontractors and joint venture partners, experience similar security threats ~~. In addition to cyber threats, we face threats to the security of our facilities and employees and threats from terrorist acts, which could materially disrupt our business if carried out. We could also be impacted by the improper conduct of our employees or others working on behalf of us who have access to export controlled or classified information, which could adversely affect our business and reputation. The threats we face vary from attacks common to most industries, such as ransomware, to more advanced and persistent, highly organized adversaries, including nation state actors, which target us and other defense contractors and other companies in industries that are part of U. S. critical infrastructure. These threats can cause disruptions to our business operations~~. If we are unable to protect sensitive information, including complying with evolving information security ~~and~~ **,** data protection ~~/~~ **and** privacy regulations, our customers or governmental authorities could ~~question~~ **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. ~~We have~~ **Given the persistence,**

sophistication, volume ~~an~~ **and novelty** ~~extensive global security organization whose mission is to protect our systems and data, including a Computer Incident Response Team (CIRT) to defend against cyber attacks, and conduct annual training~~ of ~~our employees on protection of sensitive information. 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. Additionally,~~ we **face** ~~partner with our defense industrial base peers, government agencies and cyber associations to share intelligence to further defend against cyber attacks. However, because of the persistence, sophistication and volume of cyber attacks~~ , we may not be successful in ~~defending against~~ **preventing or mitigating** an attack that could have a material adverse effect on us and ~~due to the evolving nature of these~~ -- **the costs related to cyber or other** security threats ~~and~~ **or disruptions may not be fully insured or indemnified by** ~~the~~ **other means. The** national security aspects of **our business and** much of the data we protect ~~,~~ **increase and create different risks relative to** ~~the~~ **other industries** ~~impact of any future incident cannot be predicted~~ . National security considerations may also preclude us from publicly disclosing a cybersecurity incident. **Our** ~~We also typically work cooperatively with our~~ customers, suppliers, subcontractors, joint venture partners and **acquired** entities **face** ~~we acquire, who or which are subject to~~ similar ~~threats, to seek to minimize the impact of cyber threats, other~~ security threats **and an incident at one of these entities could adversely impact** ~~or~~ **our** business ~~disruptions~~ . These entities ~~, which~~ are typically outside our control and may have access to our information **with** ~~, have~~ varying levels of **security and** cybersecurity **resources,** expertise ~~and~~ **,** safeguards ~~,~~ and **capabilities.** ~~their~~ **Their** relationships with government contractors, including us, may increase the ~~likelihood~~ **risk** that they are targeted by the same ~~cyber~~ threats we face **, however, they may not be as prepared for such threats** . ~~We have thousands of direct suppliers and even more indirect suppliers with a wide variety of systems and cybersecurity capabilities and adversaries~~ **Adversaries** actively seek to exploit security and cybersecurity weaknesses in our supply chain. **Breaches** ~~A breach~~ in our multi- tiered supply chain **, which is comprised of thousands of direct and indirect suppliers, has and** could ~~impact~~ **in the future compromise** our data ~~or~~ **and adversely affect** customer deliverables. We **also** must rely on ~~this~~ **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** ~~Because of the ongoing supply chain cyber security- related threats, our customers continue to seek that large prime contractors, like us, take steps to assure the cyber capabilities of their supply chain. Consequently, cyber security events in our supply chain could have an adverse impact~~ on our ~~relationships with our customers. The costs related to cyber or other security~~ **cybersecurity** ~~threats or disruptions may not be fully insured or indemnified by other means. Additionally, some cyber technologies we develop under contract for our customers, particularly those related to homeland security, may raise potential liabilities related to intellectual property and civil liberties, including privacy concerns, which may not be fully insured or indemnified by other means or involve reputational risk. Our enterprise~~ risk management **, strategy** ~~program includes threat detection~~ and **governance, see Item 1C.-** ~~cybersecurity~~ **Cybersecurity** ~~mitigation plans, and our disclosure controls and procedures address cybersecurity and include elements intended to ensure that there is an analysis of potential disclosure obligations arising from security breaches. We also maintain compliance programs to address the potential applicability of restrictions on trading while in possession of material, nonpublic information generally and in connection with a cybersecurity breach~~ . 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 ~~, such as the termination of our proposed acquisition of Aerojet Rocketdyne in 2022~~ . 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 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 ~~certain~~ **early- stage** companies that we believe are advancing or developing new technologies applicable to our ~~core~~ businesses ~~and new initiatives important to us~~ . These investments ~~may be in the forms of common or preferred stock, warrants, convertible debt securities or investments in funds and~~ are generally illiquid at the time of investment ~~, which limits our ability to exit an~~ **and** ~~investment or realize an investment return absent a liquidity event. We generally seek to exit these investments following a liquidity event, such as a public offering and expiration of any applicable lock up or other restrictions, subject to market conditions, although we may not be successful in exiting in a timely manner. Typically~~ **typically** ~~,~~ we hold a non- controlling interest **. We** ~~and, therefore, are unable to influence strategic decisions by these companies and may~~ have ~~limited visibility into their activities, which may result in our not realizing the intended benefits of the investments. For fund investments, we have even less influence~~ and **expect to continue to** ~~visibility as a non- controlling investor in a fund that invests in other companies. We may~~ recognize ~~significant~~ gains or losses attributable to adjustments of the investments' fair value, including impairments up to and including the full value of the investment, which ~~can be affected by~~ **events are generally outside of our control such as** the success **or failure** of the ~~companies~~ **company** ~~,~~ **and** market volatility ~~and changes in valuations of our investment holdings. This is particularly the case for investments that involve companies that have become publicly traded since changes in the trading price of securities we hold for investment must be marked to market in each financial reporting period~~ . 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 ~~through~~ **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. 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** ~~a number of~~ 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, ~~2022~~ **2023** from previous acquisitions, which represents approximately ~~20~~ **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 ~~. The carrying value and fair value of our Sikorsky reporting unit are closely aligned. Therefore, any business deterioration, including the outcome of upcoming contract awards, contract cancellations or terminations, or market pressures could cause our sales, earnings and cash flows to decline below current projections and could cause goodwill and intangible assets to be impaired. Goodwill and trademarks associated with Sikorsky were approximately $ 3. 5 billion as of December 31, 2022. Additionally, Sikorsky may not perform as expected, or demand for its products may be adversely affected by global economic conditions, including oil and gas trends that are outside of our control~~ . 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 ~~is~~ **was** to cash tax liability for 2022, the tax year in which the provision took effect, the impact will **continue** ~~decline annually~~ 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 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 ~~costs and regulation~~ **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, ~~the regulation of new substances,~~ 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 ~~or new contaminants~~ . 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 ~~this~~ **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 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** ~~a number of~~ 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** ~~in light of~~ 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.