Lockheed Martin Reports Third Quarter 2000 Net Loss Of $1.74 Per Share; Net Earnings Per Share Of $0.28 Excluding Nonrecurring And Unusual Items

PRNewswire

Reaffirms 2000 and 2001 Earnings Per Share Outlook at About $1.05 and $1.25,

Respectively; Longer-Term Projected Annual Earnings Growth of 15 -25 Percent

Reaffirms Free Cash Flow Estimate of at Least $1.5 Billion in 2000; $2.3 Billion During the Two Years 2000 and 2001 Combined

Lowest Net Debt to Capitalization Ratio Since 1996

BETHESDA, Md., Oct. 26 /PRNewswire/ -- Lockheed Martin Corporation today reported a third quarter 2000 net loss per share of $1.74 on a diluted basis, compared to last year's third quarter net earnings per share of $0.57 on a diluted basis. Excluding the effects of nonrecurring and unusual items, which negatively impacted the third quarter 2000 by $2.02 per share, net earnings would have been $0.28 per diluted share. Nonrecurring and unusual items contributed $0.09 per diluted share to net earnings in the comparable 1999 period.

"In September 1999, we announced a strategy to focus on our core aerospace and defense customers, emphasize strong cash flow, divest certain noncore businesses, and improve our balance sheet. Over the last year, we have made substantial progress toward these goals," said Chairman and Chief Executive Officer Vance Coffman. "Our products and services are meeting or exceeding customer expectations, we achieved a record backlog and we increased our cash flow for the year. Additionally, we are receiving full and fair value for our divestitures."

During the third quarter, the Corporation completed the sale of its Control Systems business to BAE Systems, North America, Inc. for $510 million in cash, resulting in after-tax proceeds of approximately $365 million. Due to the timing of the receipt, taxes on this transaction will be paid in the fourth quarter. Additionally, the Corporation announced a definitive agreement for the divestiture of its Aerospace Electronics Systems businesses to BAE Systems, North America, for $1.67 billion.

Also during the quarter, the Corporation completed its merger with COMSAT Corporation via a one-for-one tax-free exchange of Lockheed Martin common stock for COMSAT common stock, resulting in the acquisition of the 51% of COMSAT stock which Lockheed Martin did not own.

Net debt, defined as total debt less invested cash, decreased by approximately $300 million during the quarter. This decrease reflects the receipt of approximately $510 million in gross proceeds from the completion of the sale of the Control Systems business, about $150 million in gross proceeds from the sale of approximately one third of Lockheed Martin's 22 percent stake in Inmarsat Ventures Ltd., and the generation of additional free cash flow during the quarter. Net debt also included the addition of approximately $410 million of COMSAT debt, offset by approximately $75 million of invested cash.

The net debt to capitalization ratio was 58.3% at the end of September 2000, the lowest point since the first quarter 1996. In addition to the previously mentioned items, the net debt to capitalization ratio was favorably impacted by an increase in equity of approximately $1.3 billion associated with the August 3 issuance of approximately 27.5 million shares of Lockheed Martin stock in the merger with COMSAT Corporation as well as an after-tax gain of approximately $180 million associated with the sale of the Control Systems business. These items were partially offset by the recording of an after-tax impairment loss of approximately $1 billion to adjust the book values of the assets of the Aerospace Electronics Systems businesses to their fair values as a result of the Corporation's decision in the third quarter to sell these businesses.

The Corporation reported it generated $100 million of positive free cash flow during the third quarter and $1.5 billion of positive free cash flow year-to-date, reflecting continued working capital improvements across all business areas, partially offset by net payments of approximately $400 million to subcontractors and suppliers as well as mobilization expenses associated with the contract with the United Arab Emirates (UAE) purchase of 80 "Block 60" F-16 aircraft and associated equipment.

On September 20, 2000, the Corporation increased its free cash flow outlook from at least $900 million to at least $1.5 billion for the year 2000 and from at least $1.7 billion to at least $2.3 billion in free cash over the two-year period 2000-2001. The projection was raised to reflect the continued focus on corporate-wide improvements in working capital, including an anticipated customer advance associated with the sale of 20 new production F-16 aircraft to Singapore.

The Corporation reaffirmed its 2000 earnings outlook of about $1.05 per diluted share, excluding the effects of any nonrecurring and unusual items. Lockheed Martin also reaffirmed that it expects earnings per diluted share to increase in the longer-term by 15-25 percent annually from the 2000 projected base number of about $1.05. Also on September 20, 2000, the Corporation announced projected 2001 earnings per diluted share are expected to increase approximately 20 percent to about $1.25.

The Corporation's backlog declined in the third quarter to $55.9 billion from the record backlog in the second quarter of $57.1 billion. Backlog at year-end 1999 was $45.9 billion. The backlog increase for the year includes the F-16 order from the UAE, worth approximately $6.4 billion. In addition, the Corporation recorded a total of approximately $8.5 billion in orders for the Theater High Altitude Area Defense (THAAD) program Engineering, Manufacturing and Development (EMD) contract; F-16 fighter aircraft for Greece, Israel and Korea; sixteen new launch services orders for the full complement of launch products including Proton, Atlas, and Athena; four commercial satellite orders; Integrated Weapons Systems for Norwegian Frigates; and two U.S. and two Italian C-130J airlift aircraft orders. The September 2000 backlog reflected a $300 million reduction associated with the divestiture of Control Systems.

Citing new business wins, divestitures and program performance, Coffman added, "We are pleased with accomplishments in the third quarter including, among others, an increased cash flow for the year, further reduction in net debt, and the successful conclusion of the COMSAT and Control Systems transactions. Going forward, we will continue to emphasize customer satisfaction, improved performance, margin expansion and shareholder value creation as our top priorities."

Third Quarter and Year-to-Date Detailed Review

Sales for the third quarter of 2000 were approximately $6.0 billion, compared with third quarter 1999 sales of approximately $6.2 billion. Sales for the nine months ended September 30, 2000 were approximately $17.7 billion, down 4 percent when compared to the same period in 1999.

The net loss for the third quarter 2000 totaled $704 million, or $1.74 per diluted share, as compared to net earnings of $217 million, or $0.57 per diluted share, in the comparable 1999 period. The net loss for the third quarter 2000 included the after-tax impact of several nonrecurring and unusual items. These items included the $980 million impairment loss on the Aerospace Electronics Systems businesses mentioned earlier, a $180 million gain on the sale of Control Systems, a $22 million loss from portfolio shaping activities, and a $3 million gain on the sale of surplus real estate. The combination of these nonrecurring and unusual items reduced third quarter 2000 diluted earnings per share by $2.02. In the comparable 1999 period, after-tax earnings included a $19 million gain associated with portfolio shaping activities and a $15 million gain from the sale of surplus real estate. The combination of these nonrecurring and unusual items increased third quarter 1999 diluted earnings per share by $0.09.

The Corporation reported a year-to-date 2000 net loss of $608 million, or $1.54 per diluted share, compared to net earnings of $89 million, or $0.23 per diluted share, for the same period in 1999. In addition to the nonrecurring and unusual items recorded in the third quarter, after-tax earnings for year-to-date 2000 included a $91 million charge attributable to recording a reserve related to amounts due from Globalstar Telecommunications Ltd. (Globalstar), a $21 million favorable adjustment relating to a charge recorded in 1998 associated with the shutdown of CalComp Technology, Inc. operations, $10 million in net gains associated with sales of surplus real estate, as well as $4 million in net losses on other portfolio shaping activities. On a combined basis, these items reduced 2000 net earnings by $2.24 per diluted share. In addition to the nonrecurring and unusual items recorded in the third quarter of 1999, after-tax earnings for the nine months ended

September 30, 1999 included a $74 million gain associated with the disposition of a portion of the Corporation's interest in L-3 Communications Holdings, Inc. and $12 million in losses related to other portfolio shaping activities. On a combined basis, these items increased 1999 net earnings by $0.25 per diluted share. Additionally, in 1999 the Corporation adopted the new accounting standard for start-up costs which reduced net earnings by a cumulative effect adjustment of $355 million, or $0.93 per diluted share.

In connection with the consummation of the merger with COMSAT in August 2000, the Corporation will present a new segment beginning in the third quarter called Global Telecommunications. This new segment will include the operations of Lockheed Martin Global Telecommunications, Inc. (LMGT), COMSAT and Integrated Business Solutions (IBS). The operations of both LMGT, which included the Corporation's 49 percent investment in COMSAT prior to the merger, and IBS were previously included in the Corporate and Other business segment. The following segment results have been adjusted to reflect this new segment for the comparative periods.

Segment Results:

Systems Integration

$Millions	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999
Net sales	$2,325	$2,329	$6,730	$6,928
EBIT as reported	($215)	$271	$155	$644
Pre-tax impact of nonrecurring and unusual items	($455)	$0	($455)	$0
Pro forma EBIT	$240	$271	$610	$644
Pro forma margin	10.3%	11.6%	9.1%	9.3%

Net sales of the Systems Integration segment for the third quarter 2000 remained consistent with the comparable 1999 period. Net sales for the nine months ended September 30, 2000 decreased by 3 percent from the respective 1999 period. Over 95 percent of the year-to-date decrease was attributable to volume declines in Aerospace Electronics Systems activities.

Systems Integration earnings before interest and taxes (EBIT), excluding nonrecurring and unusual items, decreased by 11 percent and 5 percent for the quarter and nine months ended September 30, 2000, respectively, from the comparable 1999 periods. The majority of the third quarter decrease is due to a decline in EBIT on the segment's missiles and air defense product line. Approximately $20 million of this decline was due to the absence in 2000 of a favorable adjustment recorded in the third-quarter of 1999 related to performance on the THAAD program. The remainder of the third-quarter decrease is primarily due to the impact of volume declines on certain fire control and sensor programs. For the nine months ended September 30, 2000, volume declines in the segment's Aerospace Electronics Systems activities previously mentioned accounted for the majority of the decrease in pro forma EBIT from the comparable 1999 period. The remainder of the year-to-date decrease is attributable to a decline on the segment's missiles and air defense product line. Included in this decline is the absence in 2000 of a $35 million charge recorded in the second quarter of 1999 on the THAAD program, partially offset by the aforementioned $20 million adjustment on the same program. In 2000, nonrecurring and unusual items primarily related to the gain on the sale of the segment's Control Systems business and the impairment loss recorded due to the decision to sell the Aerospace Electronics Systems businesses.

Space Systems

$Millions	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999
Net sales	$1,640	$1,779	$5,092	$5,397
EBIT as reported	$113	$126	$326	$336
Pre-tax impact of nonrecurring and unusual items	$0	$19	$17	($1)
Pro forma EBIT	$113	$107	$309	$337
Pro forma margin	6.9%	6.0%	6.1%	6.2%

Net sales of the Space Systems segment decreased by 8 percent and 6 percent for the quarter and nine months ended September 30, 2000, respectively. Third-quarter net sales decreased due to lower volume of military, civil, and classified satellite activity. Volume declines in ground systems

sales and an expanded line of business that includes reconnaissance systems sales, also contributed to the third-quarter reduction in net sales. Net sales for the nine months ended September 30, 2000 decreased from the comparable 1999 period due to volume declines in military, civil, and classified satellite activity, as well as an overall decrease in ground systems activities. These decreases were partially offset by an increase in volume of commercial space activities, primarily Atlas launch vehicles. The remainder of the year-to-date variance in net sales primarily relates to a decreased volume of government launch vehicle activity which was partially offset by the favorable impact of previously recorded adjustments on the Titan IV program that is discussed in a subsequent paragraph.

Space Systems pro forma EBIT increased by 6 percent in the third quarter of 2000 from the comparable 1999 period. Approximately $30 million of this increase was due to the absence in 2000 of a launch vehicle contract cancellation charge recorded in the third quarter of 1999. This increase was partially offset by the effects of volume decreases in military satellites and the absence in 2000 of an approximate $20 million award fee recorded in the third quarter of 1999 on a military satellite contract.

For the nine months ended September 30, 2000, pro forma EBIT decreased by 8 percent as compared with the same period in 1999, with approximately 70 percent of the decrease attributable to the impact of volume declines on military, civil, and classified satellite programs discussed previously. Continued pressures on commercial space programs, including reduced EBIT on commercial satellites, expensing of start-up costs associated with the Atlas V (EELV) program, as well as the net effect of charges taken in each year on the Atlas program due to market and pricing pressures, more than offset the increases related to the higher Atlas launch vehicle activities discussed previously. Offsetting the year-to-date impact of these declines were increases related to the effects of adjustments on the Titan IV launch vehicle program caused by performance and contract modifications recorded in the second quarter of 1999 and 2000, respectively. The impact of these adjustments was partially mitigated by the impact of the aforementioned year-to-date volume declines in government launch vehicle activity. In 2000, the nonrecurring and unusual items included gains associated with the sales of surplus real estate. In 1999, the nonrecurring and unusual items included a loss associated with portfolio shaping activities partially offset by gains attributable to the sale of surplus real estate.

Aeronautical Systems

	$Millions			
	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999
Net sales	$1,038	$1,214	$3,327	$3,980
EBIT	$77	$105	$245	$151
Margin	7.4%	8.6%	7.4%	3.8%

Net sales of the Aeronautical Systems segment decreased by 14 percent and 16 percent for the quarter and nine months ended September 30, 2000, respectively, from the comparable 1999 periods. Anticipated volume declines in F-16 fighter aircraft programs, primarily due to an approximately 70 percent reduction in scheduled deliveries, accounted for more than 80 percent of the decrease in third-quarter net sales. The remainder of the decrease is primarily the result of a decline in volume on strategic alliance programs and a reduction in C-130J airlift aircraft deliveries during the third quarter of 2000 over the comparable 1999 period. Approximately 70 percent of the decrease in net sales for the nine months ended September 30, 2000 from the comparable 1999 period is the result of the anticipated decrease in volume on F-16 fighter aircraft programs, primarily due to an approximately 60 percent reduction in scheduled deliveries. The majority of the remaining decrease in year-to-date net sales is due to a decline in volume on C-130J airlift aircraft programs.

Aeronautical Systems EBIT decreased by 27 percent and increased by 62 percent for the quarter and nine months ended September 30, 2000, respectively, from the comparable 1999 periods. The third-quarter decrease is mainly attributable to the decline in aircraft deliveries discussed in the preceding paragraph. The year-to-date increase is primarily due to the absence in 2000 of a negative adjustment recorded during the second quarter of 1999 that resulted from changes in estimates on the C-130J program due to cost growth and a reduction in production rates. This adjustment included the reversal of previously recorded profit on the program. The increase resulting from the absence in 2000 of this charge was partially offset by the effects of the decline in F-16 aircraft deliveries discussed previously.

Technology Services

$Millions

	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999
Net sales	$566	$584	$1,629	$1,569
EBIT as reported	$18	$29	$80	$97
Pre-tax impact of nonrecurring and unusual items	($28)	$0	($34)	$0
Pro forma EBIT	$46	$29	$114	$97
Pro forma margin	8.1%	5.0%	7.0%	6.2%

Net sales of the Technology Services segment decreased by 3 percent and increased by approximately 4 percent for the quarter and nine months ended September 30, 2000, respectively, from the comparable 1999 periods. This net decrease was largely comprised of declines in volume on aircraft maintenance and logistics contracts partially offset by increases in certain government services contracts, primarily the Consolidated Space Operations Contract. The increase in net sales for the nine months ended September 30, 2000 was primarily attributable to a net increase over the comparable 1999 period in volume on various federal technology services programs. The majority of the remainder of the year-to-date variance was the result of an approximately $30 million decline in volume on certain defense and science energy services contracts due to program completions.

Technology Services pro forma EBIT increased by approximately 59 percent and 18 percent for the quarter and nine months ended September 30, 2000, respectively, over the comparable 1999 periods. Excluding the effects of the fourth-quarter 1999 divestiture of Lockheed Martin Hanford Corporation, pro forma EBIT for the segment would have increased by approximately 70 percent and 23 percent for the quarter and nine months ended September 30, 2000, respectively, over the comparable 1999 periods. Both the quarterly and year- to-date pro forma EBIT increases are attributable to the impact of the increased volume on certain government services contracts discussed in the preceding paragraph. They were partially offset by declines in volume on certain defense and science energy services contracts due to program completions. In 2000, the nonrecurring and unusual items were related to portfolio shaping activities.

Global Telecommunications

	$Millions			
	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999
Net sales	$214	$85	$498	$260
EBIT	($23)	($21)	($81)	($75)

Net sales of the Global Telecommunications segment increased during both the quarter and nine months ended September 30, 2000, respectively, over the comparable 1999 periods. Third-quarter net sales increased as a result of the Corporation's consummation of the merger with COMSAT and the inclusion of COMSAT's consolidated operations into the segment's results beginning August 1, 2000. The remainder of the third-quarter increase was primarily attributable to the increased volume on systems and technology programs. Consistent with the quarter, the increase in year-to-date net sales is primarily attributable to the inclusion of COMSAT's consolidated operations into the segment's results. Approximately 65 percent of the remaining increase in year-to-date net sales was attributable to telecommunication satellite services and was primarily associated with the recognition of revenue on a Proton launch vehicle, which successfully launched the ACeS 1 satellite in the first quarter of 2000. Increased volume related to systems and technology programs also contributed to the remaining year-to-date increase in net sales.

Global Telecommunications EBIT decreased during both the quarter and nine months ended September 30, 2000 from the respective 1999 periods. Third-quarter EBIT decreased due to performance issues on certain IBS information outsourcing programs. These decreases were partially offset by the impact of the addition of COMSAT's operating results discussed in the preceding paragraph. The majority of the decrease for the nine months ended September 30, 2000 over the comparable 1999 period is due to pricing pressures and the impact of a negative adjustment related to performance on certain IBS information outsourcing programs. These decreases were partially offset by the impact of the addition of COMSAT's operating results and the impact of increased volume on network systems and technology programs discussed in the preceding paragraph.

Corporate and Other

	$Millions			
	3rd Quarter		Year-to-Date	
	2000	1999	2000	1999

Net sales	$177	$166	$458	$414
EBIT as reported	$4	$48	($100)	$155
Pre-tax impact of nonrecurring and unusual items	$0	$34	($109)	$148
Pro forma EBIT	$4	$14	$9	$7

Net sales of the Corporate and Other segment increased by 7 percent and 11 percent for the quarter and nine months ended September 30, 2000, respectively, over the comparable 1999 periods. Both the third quarter and year-to-date net sales increases were mainly as a result of higher volume on state and municipal services programs. In both periods, these third-quarter increases were partially offset by the absence in 2000 of sales attributable to the Corporation's commercial graphics company, Real 3D, which was divested in the fourth quarter of 1999.

Corporate and Other pro forma EBIT decreased for the third quarter and increased for the nine months ended September 30, 2000 over the respective 1999 periods. Third-quarter decreases were primarily due to the absence in 2000 of EBIT associated with Real 3D in addition to reduced EBIT at other corporate units, partially offset by increases related to a higher volume of state and municipal services programs. The majority of the increased in pro forma EBIT for the nine months ended September 30, 2000 over the comparable 1999 period is due to the absence in 2000 of losses associated with Real 3D and the impact of the higher volume on state and municipal services programs discussed previously. These increases were partially offset by the absence in 2000 of a favorable adjustment recorded by the segment's Communications Industry Services line of business in the first quarter of 1999 as well as reduced EBIT at other Corporate units.

In the third quarter of 1999, the nonrecurring and unusual item related to portfolio shaping activities. For the nine months ended September 30, 2000, the nonrecurring and unusual items included the charge associated with Globalstar, as well as the favorable adjustment related to a previously recorded charge on the shutdown of CalComp operations. In addition to the items recorded in the third quarter, year-to-date 1999 nonrecurring and unusual items included a gain on the sale of a portion of the Corporation's holdings in L-3 stock.

FIRST ADD -- THIRD QUARTER 2000 ACHIEVEMENTS -- TO FOLLOW

SOURCE: Lockheed Martin

Website: http://www.lmco.com/

Company News On-Call: http://www.prnewswire.com/comp/534163.html or fax, 800-758-5804, ext. 534163
