Lockheed Martin Expresses Disappointment Over U.S. Navy Termination Of Littoral Combat Ship Contract

Lockheed Martin Corporation today expressed disappointment over the U.S. Navy's decision to terminate its contract for construction of the second of two new Littoral Combat Ships (LCS), a radically new class of surface combatants. The Navy announced the action at the expiration of a 90-day stop work order imposed on the second ship in January to allow the service time to review costs associated with construction of the first LCS. On March 15, Navy Secretary Donald Winter announced that the stop work order would be lifted only if Lockheed Martin agreed to accept a fixed price incentive contract for its second ship.

"As a team of men and women who hold ourselves accountable for our actions, we are greatly disappointed by the cost growth experienced on the first LCS and by our inability to reach a satisfactory conclusion with our Navy customer on a path forward for the second ship," said Lockheed Martin Chairman, President and Chief Executive Officer Bob Stevens. "We committed to a course of action that was intended to break the long-standing cycle of first-in-class ship cost growth and, while achieving several important program objectives, did not meet that goal. Although we successfully maintained the ship's schedule and improved on its design, cost growth also occurred. Our team is understandably frustrated that, having invested nearly three years of dedicated effort and significant corporate resources to bring LCS 1 to within 20 percent of completion, we will not have the opportunity to apply lessons learned to a second ship, see this program through to conclusion and deliver a superior capability to Sailors as they meet unique challenges defending our nation's interests in the coastal waters battle space where the U.S. Navy will increasingly face challenges in the future."

Stevens said a Lockheed Martin team worked diligently over the past month to develop a proposal that responded to the Navy's request to restructure the contact for the second LCS ship. "We believe that our proposal was fully consistent with the Secretary's stated desire to bring the benefits of increased competition to shipbuilding while holding the Navy's industrial partners accountable for cost performance within their control," he stated.

Lockheed Martin's LCS team -- including naval architect Gibbs & Cox and shipbuilders Bollinger Shipyards and Marinette Marine -- was one of two industry groups competitively selected in May 2004 to each design and build two ships for evaluation by the Navy. The Lockheed Martin team was cleared to commence detailed design and construction of the first ship in December 2004; the keel for LCS 1, FREEDOM, was laid in June 2005 at Marinette Marine in Wisconsin, where the ship was christened and launched in September 2006. In June 2006, the Navy awarded the Lockheed Martin team a cost plus incentive fee (CPIF) contract to commence work on its second ship, LCS 3, at Bollinger Shipyards in Louisiana.

Headquartered in Bethesda, Md., Lockheed Martin employs about 140,000 people worldwide and is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. The corporation reported 2006 sales of $39.6 billion.

First Call Analyst:
FCMN Contact:

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