Good day, and welcome everyone to the Lockheed Martin Fourth Quarter and Full Year 2015 Earnings Results Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Mr. Jerry Kircher, Vice President of Investor Relations. Please go ahead, sir.

**Jerry Kircher**

Thank you, Karen, and good morning, everyone. I'd like to welcome you to our fourth quarter 2015 earnings conference call. Joining me today on the call are Marillyn Hewson, our Chairman, President, and Chief Executive Officer; and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of federal securities law. Actual results may differ. Please see today's press release and our SEC filings for description of some of the factors that may cause actual results to vary materially from anticipated results.

We have posted charts on our website today that we plan to address during the call to supplement our comments. Please access our website at www.lockheedmartin.com and click on the Investor Relations link to view and follow the charts.

With that, I'd like to turn the call over to Marillyn.

**Marillyn Hewson**

Thanks, Jerry. Good morning, everyone and thank you for joining us on the call. As today's release illustrates, we completed another quarter of solid operational accomplishments while exceeding all of our full year financial goals and I couldn't be more proud of our team. They remain focused on mission success for our customers and financial results for stockholders while also supporting extensive portfolio reshaping actions.

We have a number of significant events to discuss today in addition to reviewing our financial and operational results, I want to provide an update on the FY 2016 DoD budget and a discussion of two completed strategic actions, the closure of our acquisition of Sikorsky Aircraft and our decision to separate and combine our Information Systems & Global Solutions with Leidos in a Reverse Morris Trust transaction.

Financially, 2015 was an exceptional year with achievement of multiple new high watermarks for the Corporation. I was especially pleased to see the broad based domestic and international customer support for our portfolio of products. This support resulted in our achieving a record level of backlog of nearly $100 billion.

Excluding the acquired Sikorsky backlog, the rest of our portfolio achieved $84 billion, significantly surpassing the $80 billion goal we outlined at the beginning of 2015. Our backlog has us positioned to deliver expanding sales levels and financial results as we move forward in 2016 and beyond.

A second area where we achieved another high watermark was the generation of over $5 billion in cash from operations, achieving a record annual level for the Corporation in this critically important area. This cash flow is only achieved through the daily efforts and focus of our team in executing on contracts for our customers.

The robust cash generation also enabled us to expand our cash return to stockholders to a record annual level of $5 billion achieved through our industry-leading dividend payout level and ongoing share repurchase activity.

For 2015, share repurchases reduced the year-end outstanding share count to approximately 305 million shares. We are well on our way to achieve or exceed our goal to reduce outstanding shares to below 300 million by the end of 2017.

Overall, the Corporation continue to excel in the attributes we most value providing critical solutions to customers, and returning value to stockholders.

Looking beyond 2015, our 2016 guidance outlined today results in increased sales, earnings per share and growing cash from operations. The guidance includes the Sikorsky financials from the recently completed acquisition and also reflects the realignment of our information technology and technical services businesses.

The guidance also assumes continuation of the results for the full year of 2016 from the Information Systems & Global Solutions business identified in our strategic review. We will adjust our financial outlook later this year when the disposition of IS&GS is completed.

Bruce will provide a detailed review of the guidance and assumptions in his comments and web charts. I’d like to briefly discuss the defense budgets. Since we spoke last quarter, significant uncertainty was removed with the successful completion of a bipartisan agreement of the FY 2016 base DoD budget. The new budget reflects an annual increase of approximately $25 billion, above the previously planned budget level and is also the first increase in annual DoD budgets since 2012.

The budget is a recognition of increasing global security requirements and the need to allocate additional fiscal resources to respond to the threat environment. A key element in the increased DoD budget is a double-digit annual percentage increase in the investment accounts to fund new equipment procurement and research and development activities.

This strong funding increase will be used to address the acute need to replace aging equipment while ensuring development of key new technologies to respond to evolving security requirements facing domestic and international customers.

As part of the budget we are pleased to see 11 additional F-35 aircrafts added in the FY 2016 omnibus. This marks the first time in the history of the F-35 program that aircrafts were added to the baseline requests demonstrating strong support for our largest program.

We believe our portfolio of products and new technologies will line-up very well with essential recapitalization actions in the areas of ballistic missile defense, tactical missiles and rotary aircrafts.

I'd like to now turn to the two strategic actions we announced back in July. First, we were proud to welcome the Sikorsky team to Lockheed Martin with the successful closure of their acquisition on November 6. Together, we will build upon a legacy of innovation and performance that has shaped the history of aviation for more than a century.

This action advances our commitment to provide customers with affordable, mission-ready solutions in rotary aircrafts. Their inclusion will enable us to move forward with our goal to expand our business into the strategically important areas of helicopter production and sustainment.

Since the transaction closure, the combined team at Mission Systems and Training have hit the ground running. We are already seeing accelerated customer interest in both military and search and rescue opportunities emerging in the Middle East, Asia and Eastern Europe.

It is increasingly clear that we will be better together as we leverage our combined scale and serve as a technology leader at the forefront of vertical lift. I am enthusiastic about the opportunities for long-term value creation of this business as we move forward in providing essential products and solutions to customers around the world.

Turning to our second strategic item, as announced earlier today, we completed the review of our Information Systems & Global Solutions businesses. That review culminated in our decision to separate and combine our IS&GS business with Leidos in a Reverse Morris Trust transaction.

We are excited about this path forward and believe this is the best fit strategically and will be beneficial to the shareholders of both corporations. This transaction is an important milestone in the portfolio shaping strategy we announced last July and allows to focus on our core business in aerospace and defense.

The combination of a proven IT and technical services businesses with Leidos will create a more diversified competitor positioned for growth and future success while unlocking value for our stockholders. This agreement aligned to the IS&GS business with an industry leader in government IT and technical services and will create an enterprise capable of providing unparalleled solutions in industries ranging from national security to health and life sciences.

The complementary portfolios of both companies will create a diversified and balanced business mix with expanded domain expertise, increased advantages of scale efficiencies and synergy opportunities. These benefits will be the foundation to create value for stockholders, customers and employees.

One of the important goals in our strategic evaluation of the business was to ensure that the final decision provides a good cultural fit and home for IS&GS employees. It is my belief that employee morale and opportunities for their growth are key elements in the future success of every enterprise.

Over the last few months, during our many interactions with Leidos, we have come to know their management and culture and we are confident that this combination fully satisfies our employee goals. Bruce will speak more about the financial aspects of the transaction and the projected timeline for closure in his remarks.

I'd like to end my remarks with a few key operational highlights in the fourth quarter that enabled the Corporation to finish the year on a very strong note. Starting with the F-35 Joint Strike Fighter, we achieved our full year delivery goal of 45 aircrafts to domestic and international customers.

This delivery level reflects our continuing ramp up in production on the program and is a 25% increase above prior year deliveries. For 2016, w are expecting additional production expansion with planned deliveries increasing to 53 aircrafts.

The team also continued to retire key task on the F-35 development program as we look forward to completing remaining task in 2016 as the development phase winds down.

Switching to the C-130J air lifter, multiple highlights were achieved in the quarter with delivery of the 2500th aircraft and receipt of the multi-year two contracts that extends the production line into late 2019. This contract was a portion of the $26 billion in total new contract awards we secured in the quarter and it enabled achievement of a strong book-to-bill ratio for the full year of 2015.

We also made progress on growing our international sales content which grew 6% above prior year levels and expanding the international sales content to 21% of total corporate sales.

I'll close by stating that 2015 was an exceptional year for our Corporation and we implemented both strategic actions to better position the business for operational and financial success. We secured record new business awards and cash generation, both central components to future corporate success and value creation.

Looking forward, I am enthusiastic about the future contributions we can provide to customers and stockholders with our enhanced corporate posture.

I'll now turn the call over to Bruce to review our financial performance in more detail, outline our 2016 financial guidance and then we'll open up the lines for your questions.

**Bruce Tanner**

Thanks, Marillyn, and good morning, everyone. As I highlight our key financial accomplishments, please follow along with the web charts that we included with our earnings release today.

Let's begin with chart 3 and an overview of our results for the year. Sales for the year were $46.1 billion, ahead of our expectations from when we spoke in the third quarter. Our segment operating margin was also better than expected ending the year at 11.9% and this enabled us to achieve earnings per share of $11.46 for the year.

Cash from operations for the year was our highest ever at $5.1 billion. We returned $5 billion of cash to our shareholders in the year, led by repurchasing 15.2 million shares for $3.1 billion and we grew our backlog significantly to almost $100 million for the integration of Sikorsky into the Corporation. We will cover all these items in more detail in the coming charts so it was an exceptional year in 2015.

On chart 4, we compare our sales and earnings per share for 2015 with our results in 2014. Sales were about $0.5 billion higher this year than last year including the addition of about $400 million of sales from Sikorsky for the short period after the close in early November.

Even without the Sikorsky sales, we were slightly higher than last year's results and better than we had expected when we spoke in October as we had higher volume in several business areas as we closed the year.

Earnings per share were $0.25 higher than last year at $11.46 for the full year and were also higher than the guidance we provided in October driven by the increased sales volume and improved performance.

On chart 5, we will discuss our share repurchase activity, we repurchased 15.2 million shares in 2015, nearly 4 million shares more than in 2014 and that brought our shares outstanding at year end to 305 million shares.

This positions us well to achieve our goal of reducing share count below 300 million shares by the end of 2017. At the end of 2015, we have around 4 million unexercised options, which is a significantly lower level than we had several years ago and the announced transaction with Leidos creates the potential to reduce share count by up to 15 million shares upon closure later this year.

If you'll turn to chart 6, we'll review our cash returned to stockholders in 2015. Our cash from operations, as we said earlier, was $5.1 billion and with about $900 million in capital expenditures in the year, we had $4.2 billion of free cash flow with $1.9 billion in dividends along with a $3.1 billion in share repurchases, we returned $5 billion to our stockholders in 2015, the highest amount in our history and this represents a 120% of our free cash flow for the year.

Chart 7 shows our backlog levels over the last five years. 2015 represents the fifth consecutive year that we've ended the year with more than $80 billion in backlog. Without the addition of Sikorsky's backlog, 2015 would have still represented the highest backlog level in our history at more than $84 billion and with Sikorsky, our backlog is nearly $100 billion.

On chart 8, we discuss our outlook for 2016. We are expecting sales to be in the range of $49.5 billion to $51 billion and this range includes the realigned IS&GS business area for the entire year as it is our practice not to incorporate adjustments such as our RMT transaction until they have been consummated. I'll provide more color on the sales ranges by business area in a couple of charts.

Our outlook for segment operating profit is a range of $4.9 billion, to $5.50 million and I'll also show you the range by business area in a couple of charts. Our FAS/CAS adjustment is higher than we provided on the October call and I'll discuss the reasons behind the increase on the next chart.

We expect our earnings per share will be between $11.45 and $11.75 for the year and our outlook from cash from operations is strong again this year at $5.3 billion, up from the $5 billion we projected in the October call.

Chart 9 provides a reconciliation of the expected 2016 FAS/CAS adjustment that we discussed in October, compared with our current guidance. We had an actuarial update to the mortality or longevity assumptions that reduced our longevity estimates and results in a lower FAS expense and increased the FAS/CAS benefit by $125 million.

Our prior assessment assumes the discount rate of 4.25 – our prior – excuse me – discount rate of 4.25% increased at year end to 4.375% which resulted in a $60 million improvement in the FAS/CAS benefit.

The actual return on our pension assets was a negative 2% rather than the 0% return we expected in October, which results in a $40 million reduction in the benefit and with some minor adjustments which improved $20 million, we increased the FAS/CAS benefit for 2016 by $165 million to $975 million in total.

Chart 10 provides our sales and segment operating profit outlook by business area for the year and all but Aeronautics have been adjusted since we spoke in October to incorporate the addition of Sikorsky, the realignment of the Heritage IS&GS business or in the case of MST both.

Overall, sales excluding Sikorsky will be roughly comparable to our level in 2015, although 2015 finished stronger than we had expected and our segment operating profit and margin before the incorporation of Sikorsky is right in line with where we expected it to be when we spoke in October.

I want to draw your attention to MST and the incorporation of Sikorsky into that business area, as we've made some significant adjustments to account for purchase accounting and integration which we'll discuss more on the next page.

Chart 11 captures the adjustments made to Sikorsky outlook for both sales and profit. Beginning with purchase accounting, the largest impact to profit is the incorporation of the non-cash intangible amortization associated with the acquisition, which lowers profit by approximately $230 million, based on current projections, which can change as we finalize our purchase accounting analysis and we impact to both sales and profit by what are called customer inventory rights.

Essentially, this recognizes the portion of government contracts that were partially completed by Sikorsky before our purchase and for which Lockheed Martin can only recognize the sales and profit that has occurred since our ownership.

This adjustment reduces sales by $400 million and profit by $30 million and is weighted much more heavily in the first part of the year as you would imagine. You will notice a similar sales reduction in 2015 described in our earnings release.

Cost to integrate Sikorsky into the Corporation along with the remaining cost to complete the restructuring actions announced by Sikorsky last year before our purchase amount to another $115 million reduction in profit this year. All told, these adjustments reduced sales by around $400 million in profit by $375 million in 2016.

If you'll turn to chart 12, we will discuss the impact for the transaction with Leidos that was announced this morning. Stockholders of Lockheed Martin will receive $5 billion of value for our contributed assets in a very tax-efficient structure. Just to put some sizing to the tax benefits, we would have needed to sell the business for almost $7.7 billion to have created the same after-tax value as the transaction we announced.

At current valuations, we would receive the $5 billion in the form of $3.2 billion in equity from Leidos for a 50.5% ownership in the newly formed company and $1.8 billion from a special cash payment to Lockheed Martin. The $1.8 billion special cash payment is a fixed amount through closing, while the equity amount will vary with changes in the value of Leidos's shares until closing.

Because this is structured as a stock split-off, an additional benefit we would anticipate is reduction in our share count of up to 15 million shares. In addition, Lockheed Martin's stockholders who choose to participate in the split will also benefit from the synergies created by the new company, which are expected to be $120 million a year at steady state and because this is anticipated to be a stock split-off, we expect to have a significant book gain of more than $1.5 billion at closure.

On chart 13, we show the expected high level impacts on some of our future financial measures after that IS&GS transaction is complete, compared to what those results would have otherwise been had we retained the IS&GS business.

We expect our sales growth rate will be higher under the new structure. GAAP earnings per share should be neutral to slightly positive as the share count reduction from the transaction more than offsets the lost operating profit from IS&GS. Cash from operations is also expected to be higher as the increase in cash generation from Sikorsky offsets the lost cash generated by IS&GS.

Return on invested capital should be higher after the transaction as a result of using the proceeds to reduce our invested capital base and we expect shares outstanding to be lower because of the stock split-off arrangement. And at the end of the day, we think the new organization better positions the company for long-term growth.

Finally, on chart 14, we have our summary. 2015 really was an exceptional performance year, particularly given the strategic actions we undertook. We finished the year strong and we set a very solid foundation for 2016. We continue to make cash deployment actions with our stockholders in mind and we believe that our portfolio shaping actions have us well positioned for future value creation.

With that, we are ready for your questions. Karen?

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question for today comes from the line of Rob Stallard from RBC Capital Markets.

**Robert Stallard**

Thanks so much. Good morning.

**Marillyn Hewson**

Good morning.

**Bruce Tanner**

Good morning, Rob.

**Robert Stallard**

I think we can start with the F-35. Marillyn, you mentioned what your expectation was for 2016 deliveries of this aircraft. I don’t know what the cadence might be for the few GSP on that given what we’ve seen in the FY

2016 budget and the export markets and when you might expect this program to move on to a fixed price contract basis? Thank you.

**Marillyn Hewson**

Thanks for the question, Rob. Well, as we are looking at deliveries for 2016, 53 deliveries as I mentioned in my opening remarks, it will grow to roughly 59 or 60 in 2017 and then by 2018 it will be up to roughly 100 aircrafts and then beyond that – so, if you look at over those three years, it's about 250 to 260 aircrafts going forward.

And we really see that the program is getting much more stable as we continue to ramp up. The LRIP-11 is going to be the last LRIP where we will be a fixed price incentive contract and then we move into production lot one and on and that will likely be from a fixed price.

**Operator**

Thank you. And our next question comes from the line of Howard Rubel from Jefferies.

**Howard Rubel**

Thank you very much. Bruce, with all the moving parts, would it be possible for you to provide a little bit of a walk between 2015 and 2016, I mean for example, you have a couple of restructuring items last – this past year, you have a benefit of an R&D tax credit that was offset and now in the upcoming year, it won't be offset. So you kind of have flat earnings, but the reality is there is some things that should improve as you go forward.

**Bruce Tanner**

Yes, thanks for the question, Howard. So, you hit – this is a very complicated quarter and a very complicated outlook for 2016 because of all the moving parts you just described. We did have a restructuring event at the end of the last year. You saw that this is in our MST business. It amounts to about $67 million.

Think of this is a sort of rightsizing that business post the integration of Sikorsky into MST. I also mentioned in the chart that shows the adjustments to Sikorsky that we are seeing some carryover what I would call restructuring charges from the actions that were taken at Sikorsky in 2015 before ownership that are somewhat carrying over into 2016.

Those now quite offset each other but it's pretty close. As you said, we had the R&D tax credits that occurred at the end of 2015, which benefited us – it wasn't in our outlook until it literally happened in the month of December. The good news about that is that's now becoming permanent going forward so, because it is permanent, we've also assumed that in our 2016 outlook.

We had some deal closure costs that also hit 2015, think of that is about roughly $0.09 a share or so, I think about $45 million collectively for those sort of transaction costs. And then 2016 is where it gets complicated. We've got – as I said, the purchase accounting adjustments for Sikorsky, the integration costs for Sikorsky.

So just a lot of moving pieces there. It's also important to note that as a result of the debt deal that we did to acquire Sikorsky, interest expense is somewhere on the magnitude of about $230 million or they are about higher than it was in 2015. So I hit the – I think most of the sort of the things are changing that are between the years, Howard, they are probably a couple I left off, but I think those are the big drivers.

**Operator**

Thank you. And our next question comes from the line of Hunter Keay from Wolfe Research.

**Hunter Keay**

Hi, good morning.

**Bruce Tanner**

Good morning.

**Hunter Keay**

Bruce, can you maybe sort of follow-up on some of these – some of the math behind the Sikorsky? Can you maybe help us give a sense for what the actual underlying revenue number is for Sikorsky in 2016 and maybe think about helping us figure out sort of what MST margins would be on sort of a core apples-to-apples basis in 2016 and then maybe beyond that, think about maybe a longer-term trajectory for how you can think about getting some efficiencies out of Sikorsky and maybe a little bit of a more stable sales environment and maybe on gas side longer term in that segment?

**Bruce Tanner**

Yes, so – all good questions, Hunter. Let's see, where should I begin? So, Sikorsky, because of the adjustments that we talked about for the customer inventory rights, I don't think a lot of people necessarily had in their head that there is about a $400 million reduction for sales that occurred before our ownership if you will that are carrying over into 2016.

But that brings the sales down and profit down from what it otherwise could have been. You should think Sikorsky as being roughly the same size as the realigned IS&GS. They are kind of both in the $5 billion range, if you want to put it in that perspective. I think you asked about sort of apples-to-apples, margins from MST before considering Sikorsky.

That's a little bit hard to do, because as you recall, and we talked about this in the opening remarks the realignment of IS&GS really affects four of the five business areas. So, if you put it just on the basis of what I'd call the Heritage MST business, before the incorporation of the portion of IS&GS that's going into it starting this year, its margins are actually fairly comparable to what they were in 2015.

The IS&GS business, so think of this is the seed for ISR business that was previously within IS&GS. That business coming into MST is a little bit margin headwind, but it brings it down a little bit. And then I think you talked about the prospects for Sikorsky going forward, I think maybe the easiest way to talk about this – and I should say before I talk about the prospects going forward, we tried to capture all this.

I know there is a lot that I've just said, but I think we provide some pretty good insight in our schedules and in the press release that show the realignments to capture all the pieces I just walk through if that's not clear by what I just said. Sikorsky, I think the biggest change that we are seeing from when we announced this deal is the changes and sort of the OEM helicopter sales in the commercial marketplace, obviously driven by the oil and gas marketplace as we sit here today.

So I think I had said at the July call that, OEM sales for commercial helos had peaked at about roughly $1.5 billion. This doesn't include the aftermarket sales which a portion after the site but a pure helo sales is about $1.5 billion in 2014 and what I said at the time was, we thought because of the oil and gas pressures, we thought 2016 would probably half that number.

As it turns out, our current outlook is probably half of that number. So think of that as roughly $375 million or so of commercial helo sales in the year 2016, which – and think of that also as being the highest margin products within the IS&GS portfolio. So that's some of the pressure that we are seeing.

On the flip side, Hunter, what I'll tell you is we are already seeing the benefits, some of the combinations, particularly on the international military side. Marillyn talked about some of that in her opening remarks and what I would characterize is sort of the paramilitary side. So think of that is things like coastguard, search and rescue and border petrol fleets.

And those are actually we think upside to the plant and upside to the business case, as at least we initially look at that. But those prospects won't impact 2016 and will frankly have much impact even in 2017 if we are successful in closing on those.

And then the last thing I'd close with, Hunter, is the cash prospects, going forward, we do expect to be much improved in terms of the current level of cash generated by Sikorsky going forward over the next few years and you should think of that primarily as the transition from development programs where we are seeing lower margins, therefore lower cash and some different terms associated with that to pure production programs that should be sort of normal cash generating business just like they would be within Lockheed Martin. Hope that covers the waterfront for you there, Hunter?

**Operator**

Thank you. Our next question comes from the line of Rich Safran from Buckingham Research.

**Rich Safran**

Hi, good morning.

**Bruce Tanner**

Good morning, Rich.

**Marillyn Hewson**

Good morning.

**Rich Safran**

Marillyn, Bruce, a two-part question on logistics programs. Sometime ago, you had talked about assertions against the government for extra work done on the C-5 program, this is over and above issues. I wanted to know, if this is the year when you expect that to start to flow through and is that factored into your guide? And second, on the C-130J program, congrats on the multi-year and extending production to 2019, could you comment if you have the opportunity on that program to get to the same margins you currently have? I am just getting – I was just looking to get a sense of how you see margins trending on the program? Thanks.

**Bruce Tanner**

Rich, I'll take those two. So, we had talked about the C-5 program in the past and the fact that there was some – what we thought were some over and above activities that we build it created some entitlements for some adjustments. We still believe that to be the case, but we have not factored that in our guidance for 2016.

I'd love to say it's going to happen this year but I am not sure I am that good at predicting the future. But we do think we still have entitlement there. So hopefully that helps with that question. From a C-130 multi-year, thanks for the comment, relative to getting that done and it's good to have that program stretch out to 2019 now. You asked about do we have the same margin opportunity.

I have described this in other forums where you should think of new multi-years as sort of starting off at a lower initial profit recording rate than probably where we ended the current or older multi-year and contract some of the C-130 programs.

So we will see some – I'll say optically lower margins from a GAAP perspective, because we are starting that program lower, but at the end of the day, and sort of from an economic value perspective, we would expect the current multi-year program to have very similar economics and especially similar cash flows even from day one as the previous programs that we completed. So, while a little bit of near-term – I'll say, EPS and margin pressure relative to what we have done in years past with prior C-130 deliveries, we think at the end of the day, the economics for those two programs are comparable.

**Operator**

Thank you. Our next question comes from the line of Cai von Rumohr from Cowen and Company.

**Cai von Rumohr**

Yes, thank you very much and congratulations on the Leidos transaction. So, you report IS&GS part of your numbers that guides approximately $360 million of EBIT. They are saying it will be higher, because they won't have the pension, the corporate overhead, the home office costs. How much of those costs which looked like they are about 100 plus million? Are you able to basically cut now that if and when you kind of get rid of IS&GS in that transaction?

**Bruce Tanner**

Yes, so, Cai, I'll take that one. So, we should think of the discussion in what was – what we talked about from the Leidos point of view is this is more of an EBITDA comparison than the EBIT numbers. The segment EBITDA actually that we are showing for IS&GS, so your numbers are right as usual and think of it is about $360 million of segment EBIT from IS&GS this year. I mean, the first adjustment that's made to that to get the EBITDA is obviously to take out the depreciation and amortization.

You should think of those being collectively about $80 million because we have some level of depreciation from the capital assets there, but we also have the amortization from previous acquisitions within IS&GS and so that gets you to what about $440 million or so.

That the total EBITDA for this business going into Leidos, you should think of it as about in the $500 million-ish range and the delta to go from what I just described from the original EBITDA – segment EBIT plus the depreciation and amortization, there is a lot of moving pieces to get to the top but the biggest single one the elimination of the pension costs.

We are repaying those assets and liabilities and therefore that cost reduction is what the other benefit is to get to roughly the $0.5 billion of EBITDA for IS&GS in the new structure.

**Marillyn Hewson**

And Cai, thank you for your comments. We are really excited about the transaction. So appreciate your congratulations.

**Operator**

Thank you. And our next question comes from the line of George Shapiro from Shapiro Research.

**George Shapiro**

Yes, good morning.

**Marillyn Hewson**

Good morning.

**George Shapiro**

Bruce, I wanted to – couple of things here. With the 15 million share reduction at closing, that looks like it effectively offsets the dilution from IS&GS and so when you go into 2017 with the lower shares, you get at least some profitability out of Sikorsky, because this year it looks like maybe zero when you include all the amortization. So why – and you are going to get some growth from the F-35, get some growth from the budget, so why won't the GAAP EPS be higher rather than what you say neutral to higher in 2017 and beyond?

**Bruce Tanner**

George, I think – my fault – I probably confused speak about the words I chose to use there. I am not trying to give you an outlook of what 2017 looks like compared to 2016. So that's not the way to view the words neutral to higher. It's what would 2017 and beyond look like now after IS&GS versus had we retained IS&GS.

And the words you said are exactly what I intended which is, back to Cai's comment, we are losing, think of it as $360 million of profit that you would expect to have a negative earnings per share impact because of this split-off arrangement and the expectation that we get $15 million shares back, plus the benefits potentially of the $1.8 billion in cash tax free, that we'll be able to have enough share count reduction to offset the effects of that $360 million or actually it's maybe a little more than that.

And that's all we are intending, it was not intended to say we expect 2017 EPS to be neutral or higher. In fact, we expect 2017 to be higher than 2016 for all the reasons that you just said.

**Operator**

Thank you. And our next question comes from the line of Seth Seifman from JPMorgan.

**Seth Seifman**

Thanks very much and good morning. I was wondering, if you could talk a little bit about ULA and just quickly talk about what's in there for 2016? But then also talk about your long-term plans, it would seem that, that's a market that's coming under some pressure as well as one where there is some competition and whether there is going to be any investment required there from Lockheed Martin at any point and just your plans for that market?

**Bruce Tanner**

Yes, so, really good questions, Seth. This is something, obviously, it's a 50-50 joint venture with Boeing. So this is probably a question that was better answered from the two partners as opposed to a single partner. We had some good things happen recently relative to the ability to procure the

Russian RD-180 engines and think of those for the civil and commercial marketplace.

That activity is very strong. We are seeing some benefits actually from the cargo – the CRS, I've lost track with the acronym stands for the crew re-supplier cargo re-supply mission where two of the three vehicles are – it's currently slated to be launched by Atlas Vehicles. So, that's helping us. We have some kind of bridge we think to get to the ability to have developed an American engine if you will to replace the RD-180.

Right now, it is not our expectation that that will require contributions from the parents, but that's something that we got to work out sort of between our partner and the US government to ensure that. As you know, and as you read, we have had some commercial development activity on the engine front and we are watching that closely and see how that place out.

But you should not think this is requiring large contributions from a developmental perspective to develop that engine going forward. I think you also asked about the earnings in 2016 maybe compared to 2017. You should think of those maybe down a little bit, but actually fairly comparable year-over-year between what we had in 2015 and what we expect in 2016.

**Operator**

Thank you. Our next question comes from the line of Peter Arment from Sterne, Agee.

**Peter Arment**

Yes. Good morning, Marillyn, Bruce.

**Bruce Tanner**

Hi, Peter.

**Peter Arment**

Hey, Bruce, I guess a clarification back to Sikorsky. The long-term target on the synergies was $150 million when you originally announced the deal but given some of the pressures on the energy side, some of the restructuring they announced is that still a good number? What's the timeline we should be thinking about that? Thanks, Bruce.

**Bruce Tanner**

Yes, so, Peter, good question. That is still very much the plan and the expectation and that's – that is the work that the MST team is doing now.

Last year it was sort of spent in the integration mode bringing Sikorsky onboard and making sure everything can happen from the IT services to making payroll and alike. 2016 is very much focused on creating synergies and capturing those synergies.

I had said in the – in our October call, we thought we could have about $150 million sort of steady state runrate. That occurs probably in the 2018 timeframe. Again, we are seeing a lot of the integration costs occurring in 2016, that’s dampening that a bit. But the runrate is still what we expect and as I have said – and I think on previous calls, we would expect sort of the retained portion of that runrate to go down a little bit over time as we give some portion of that back to our US government on the contracts.

But at the same time, we expect to start getting revenue synergies from the combination some of which I talked about earlier on – in terms of the international military markets that will maintain that $150 million synergy runrate going forward.

**Operator**

Thank you. And our next question comes from the line of Rob Springarn from Credit Suisse.

**Rob Springarn**

Hi, good morning.

**Bruce Tanner**

Hi, Rob.

**Rob Springarn**

I want to just take a high level look at sales and I think you said that ex Sikorsky you're kind of flattish for the year and I guess there is a 1% headwind here from IS&GS. But, perhaps you could talk at a high level about what's happening in space and I guess core MST and I guess a little bit in MFC to drive sales down in a year that the budget is inflecting understanding that there is some lag there, but why we don't see better growth in 2016? And then one clarification, Bruce, on the 300 million share count, you don't just get there by the RMT, but you are planning to continue to buyback stock with some consistency from what you did in 2015?

**Bruce Tanner**

Yes, so, I’ll answer that first. So, we are really, really close, I mean, it sort of depends on what you assume in terms of how the stock price is moving and so forth. But you should think of the RMT benefits from a share count exchange is just about getting us back to neutral and we would expect again to use at least some portion of that $1.8 billion to make up the rest and maybe there is some more on top of that, Rob.

**Rob Springarn**

Okay.

**Bruce Tanner**

Relative to – I think you asked about the, maybe three of the business areas, MST, missile and fire controls and space systems for what's going on in 2016, maybe compared to 2015. I talked a little bit about this in the October call and really nothing has changed other than we've again but we've moved pieces around because of the realignment of IS&GS.

But at a very high level, you should think of the missile and fire control being lower than 2015, again, we've realigned that business to remove the tech service business that was there. But sort of the core or heritage missile and fire control is lower, again because we expect lower – what I would describe as in-theater demand for programs like the GMLRS, the missiles, javelin and some of the fire control programs.

And you should think of that as – again, this is reflecting a reduction in OCO funding for some of that in-theater activity that is very quick turn business to us. So even though we are talking about the procurement accounts going up, we don't expect that to offset in 2016 for missiles and fire control. MST, the current outlook really makes kind of a – for a hard comparison.

So, it's got Sikorsky for the full year in 2016 versus less than two months in 2015. The heritage – I think I have talked about this sort of the heritage MST business has slight growth. 2016 over 2015, which reflects the continuing ramp up of some of the programs that were won in 2015 for that matter in 2014 and the realigned C-4 ISR business that I talked about earlier from IS&GS is expected to have sales reductions from the 2015 level for that business that are probably comparable to what is currently shown for the realigned IS&GS business in total.

So that's sort of what's brining the combined if you will MST without Sikorsky to the levels that we are seeing. And then Space Systems – Space Systems is sort of a good news, bad news. A little bit lower funding for things like Orion and the fleet ballistic missile programs, but the main reason is because of lower government satellite activity in 2016 and 2015.

That’s a good news story because that says each incremental satellite that we are selling to the US government is costing less than the previous ones. We are doing about the same volume in terms of numbers of satellites but our programs to reduce costs are paying off and each one is subsequently cheaper and that’s what we are seeing within Space Systems.

**Operator**

Thank you. Our next question comes from the line of Myles Walton from Deutsche Bank.

**Myles Walton**

Thanks good morning.

**Bruce Tanner**

Good morning, Myles.

**Myles Walton**

One clarification if I could, Bruce, on the purchase accounting; just what the trend-line looks like into 2017 and 2018 of Sikorsky, but on the real question, cash flow utilization in 2016, it sounds like maybe some of this is implied to go to debt pay down or reduction otherwise, it looks like you are building up your net cash balance or you could do a repurchase that is well in excess of the $1.8 billion. Obviously that's the dividend you are getting back. It sounds like, otherwise it is a pretty wholesome debt pay down or a lot of optionality on further repurchase. Where is your thinking on that?

**Bruce Tanner**

Yes, so, Myles, you should think, we have about – it’s not quite, but a little less than $1 billion. I think $945-ish million of debt or the maturity is coming this year in two different tranches. So we are going to pay that debt down. So think of that is about – again, roughly a little bit less than $1 billion use of cash.

The trend on purchase accounting going forward, the customer lien rights that we talked about, those are essentially through at the end of 2016. In fact, I think they end up in the third quarter of this year. So even the fourth quarter is clean from sort of the reduction associated with that and that’s both on the sales and the profit. So the only one that will sort of carry over year-over-year is the intangible amortization.

Again, as I said in my opening remarks, that’s kind of subject to little bit of a bouncing around between now and about a year after closures, so it’s purchase accounting adjustments net out. But we think, right now, it’s about $230 million a year.

**Operator**

Thank you. And our next question comes from the line of Ron Epstein from Bank of America Merrill Lynch.

**Ron Epstein**

Hey, good morning.

**Bruce Tanner**

Good morning, Ron.

**Ron Epstein**

Just - maybe a big picture question for Marillyn. When we think about Sikorsky, what do you think Lockheed can do with Sikorsky that United Technologies couldn't? Like what do you guys bring to that party that it was being starved of or whatever? How do you really create a lot of value with this thing that wasn't being created before?

**Marillyn Hewson**

Well, thanks for the question, Ron. I mean, I mean, if you look at how Sikorsky is aligned with our portfolio, we’ve been doing business with Sikorsky for the past 40 years with the mission systems that we’ve put in place into the platform. So, right off the bat with that opportunity, we think that we’ve got some opportunities and cycle time reduction and some synergies that come with that.

And then, in addition to that, that’s our customer base where we sell Sikorsky as the same customer base where we are selling in the balance of our portfolio, it broadens our opportunity both in the domestic and international marketplace. It just gives us the broader opportunity to sell into those marketplaces.

So I see that as an opportunity. And then we have excellent expertise in doing business with the Department of Defense and with other governments around the world and the work that we do in our international business development, what we do with our government affairs here in the US, we believe we can make that piece of business better by bringing it into Lockheed Martin and it’s an area that we bring expertise and capability in that again allows us to do that, our customer relationships, our understanding of doing business with the US government, our understanding of doing business around the world is what we bring to that.

We also – I think understand government contracting to a great extent and we bring the expertise of our folks to that. So, a lot of areas of synergy and a lot of that is represented and some of the things that Bruce was talking about in terms of both cost and revenue synergies. The runrate synergies that we have in that since and then, Bruce, if you want to add anything along that line?

**Bruce Tanner**

Yes, the other thing that we bring is, maybe a little different focus, especially the – I'll say the negotiation of government contracts – at least as we look at that, some of the terms and conditions, I think, we'll do some different ones going forward, especially as they relate to cash.

And so, I would like to think that going forward, we will be a stronger cash generator under our ownership than what it was previously. And in doing that, I don't think there is any sort of like, difficult to do things, it's just sort of getting them in this case being Sikorsky in parallel to what we do with all the other business within Lockheed Martin. So, we know the game plan. We know the playbook. We just have to sort of execute it with Sikorsky.

**Marillyn Hewson**

The only other thing I would add is, as I said in the past, we aligned well with them in terms of focus on innovation and technology. We are always looking beyond a day and at the rotary wing area is one that is in great demand and one that we want to continue to invest in the research and development to bring better and new innovation to those platforms.

**Operator**

Thank you. And our next question comes from the line of Sam Pearlstein from Wells Fargo.

**Sam Pearlstein**

Good morning.

**Marillyn Hewson**

Good morning.

**Sam Pearlstein**

I was wondering if you could talk a little bit about what is happening in the international markets right now, have you seen any slowdown from the Mid East and kind of the key awards to watch this year? And then, Bruce, do you expect to have a relatively flat backlog or should we start to see you eat into that a little bit this year?

**Bruce Tanner**

Well, let me just pick up on that, the international interest. We continue to have growing international interest for our programs, particularly in the area of missile defense and in the Middle East and Asia-Pacific and even in Europe, where Germany has selected MEADS as their missile defense capability and Aegis Ashore, so that is an expanding demand.

We continue to see that with some of the current conflict in the Middle East we are seeing some of our ammunitions and things of that nature that there is a continued desire for our targeting PODs and other things that they need in the current conflict. F-35, on the international front it will continue to ramp up. There is a strong interest of growth in those sales, in fact, in the next five years about 50% of the orders will come from the international marketplace.

And then, I know that there is lot of interest in terms of oil prices. We are not seeing a lot of pullback on expenditures on national security. Certainly oil prices affect our sale of commercial rotary wing, but in the balance of our business, well it does put some pressure on budgets in the countries that are buying national security assets and things that they need to protect their citizens.

The choices that they are making are on cutting in other areas, so that they hey can protect their citizens and so we are seeing a big damper on that, it maybe some things that will slip out a little bit or they might reduce the volume on the near-term, but they are still going to buy the products and capabilities and technologies they need to enable them to protect their citizens and to deal with their security issues.

**Bruce Tanner**

Yes, so, Sam on the question relative to backlog and would it be flat. The short answer is no. We would expect to see a reduction by the end of this year. And you should really think of that's coming primarily from two business areas. MST, we'll have – and when I say down, we are talking probably somewhere less than $5 billion down, maybe $4 billion and probably half or so of that is MST.

The bulk of which of that is for Sikorsky. As you might expect, we are having sales that are coming out of backlog from prior years. Orders that are not being replaced because of the – particularly the commercial business I talked about earlier with new orders. Second one is space, also down pretty – about half of that number as well and that's just the timing of orders.

We had some very good orders in the past few years that are playing out the sales and we don't have quite the size including the Orion order a few years back and we are not seeing those orders replicated that they are translating into sales as we speak here. So the big orders we are watching this year, not a lot of – frankly not a lot of large competitive orders that we are chasing this year.

The biggest orders we are looking for are the – sort of the follow-on F-35 orders in particular lot 10 and finalization of lot 9 and a lot of the ancillary contracts that go with both of those LRIPs. So that's a big chunk of it. The biggest single international order that we are watching probably is a THAAD order with Qatar.

And we have other air missile defense programs kind of scattered throughout the region but not nearly at the same size as we are seeing in Qatar. But that's the driver of the biggest international orders prospects as we see 2016.

**Jerry Kircher**

Karen, I think we got time for one more question.

**Operator**

Thank you. And our final question for today comes from the line of Joe DeNardi from Stifel.

**Joe DeNardi**

Hey, thanks for squeezing me in. Bruce, just on aeronautics margins going forward, can you just talk about, given the booking rate increases you had on F-35, how dilutive to segment margins is that program and when is inflection point for margins within that segment and then just directionally, how should we think about FAS/CAS in 2017 at this point?

**Bruce Tanner**

Yes, Joe, let me try to capture those and then – and my thoughts on that. Aeronautics margin, as I said on the October call, there is really two reasons for that that are driving them below 2015. The first one being, as I call the dilutive effects of the F-35 program, even though the margins on F-35 are increasing year-over-year, there is still lower than the overall composite rate for Aeronautics and that's bringing the rate down slightly.

The other reason primarily was the C-130 impact that I think Rich was talking about relative to the – sort of the conversion of older C-130 contracts and now booking sales under a new multi-year – again economically, I don't see a lot of difference between the two, but from a sort of a GAAP reporting perspective, we'll expect to have sort of a lower starting margin on the new multi-year than the ending margin on the previously negotiated C-130 contracts.

And those two are what are kind of bringing down the margins of Aeronautics in 2016 compared to 2015. I do think – I think you asked about what's the prospects going forward. I think 2016 is sort of the bottom point, if that makes sense relative to the margins of Aeronautics.

And we would expect to see slow improvements going forward every year primarily as we see the sort of getting to a – I'll say an ordinary production program on the F-35 program starts to take effect as well as the inevitable increases on C-130 because we are starting off at a lower booking rate that we are right now.

I think you asked about 2017 FAS/CAS, I would expect it to be – and look, I always hesitate to talk about next year. There is so many moving pieces in FAS/CAS, but if we were just sort of current course and speed, it's always the way I'd like to describe that we are about $975 million a day. It's probably in the $450 million higher next year if we were to strike a line today, but obviously a lot of things can change between now and the end of the year.

**Marillyn Hewson**

So let me just wrap up the call for today and summarize the year and how we are looking at the business going forward. I want to end by reiterating that the Corporation completed an extraordinary 2015 strategically and financially and the performance of our team continues at a very high level, even amid our bold strategic actions that we took to position the business for future growth.

As we are looking into 2016, our record backlog coupled with increasing DoD budget has the Corporation positioned for a bright future of top-line growth and increasing cash flows. Through the focus, dedication and integrity, we continue to deliver on our commitments to customers and stockholders.

So, again, thank you for joining us on the call today. We look forward to speaking with you in our next earnings call in April.

Karen, that concludes our call today.