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BY THE HOUSE COMMITTEE ON OVERSIGHT AND REFORM

STATEMENT OF
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LOCKHEED MARTIN CORPORATION

BEFORE THE
HOUSE COMMITTEE ON OVERSIGHT AND REFORM
ON
F-35 SUSTAINMENT

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I. INTRODUCTION

The F-35: A Program Maturing

On behalf of Lockheed Martin and the men and women of the F-35 Industrial Team, thank you for the opportunity to speak with you today about the F-35 program and the work we are doing to support the men and women in uniform who sustain these aircraft. The F-35 is the world's most advanced fighter and it delivers unmatched capability to the warfighter, and Lockheed Martin remains laser-focused on delivering the F-35 at an affordable cost.

The F-35 Program was designed with four main tenets in mind: 1) build a multi-role fighter capable of replacing multiple legacy aircraft; 2) leverage the investment from the United States Services and our allies to develop the most advanced technology available; 3) deliver affordability through economies of scale; and 4) ensure coalition operations through unmatched interoperability.

I am proud to represent the more than 254,000 people who support the program, including more than 1,900 suppliers, 1,800 of whom are in 48 states and Puerto Rico. This results in a U.S. economic impact of \$49 billion annually.

The F-35 fleet is growing at a pace unmatched by any fighter in the world. Today, more than 540 aircraft are in operation by nine nations and the fleet has flown nearly 300,000 hours. The total program is planned for more than 2,763 aircraft for the U.S. Services and another 700-1,500 for our allies.

The F-35 is delivering transformational capabilities to the warfighter and with every delivery and every flight hour, the enterprise gets smarter, more mature and more effective, and we are on track to meet several critical performance and affordability targets. This affordability includes production and sustainment of the aircraft.

Focus on Affordability and Performance

Affordability has been a top priority for Lockheed Martin since the inception of the F-35 program. We are seeing costs across the program decrease while readiness increases. This is the sign of a maturing program meeting the needs of its customers. We are proud of the fact we are delivering a 5th Generation aircraft at a 4th Generation cost.

The F-35 combines advanced stealth capabilities with fighter aircraft speed and agility, fused sensor information, network-enabled operations and advanced logistics and sustainment.

We are proud to have met the goal of producing the F-35A at \$80 million per aircraft a year ahead of plan and now are focused on operational and sustainment costs, as we recognize this is vital to the long-term viability of the aircraft for the countries flying the F-35 today. And, we are confident we are on the right path.

There is nothing more satisfying for an organization that builds combat aircraft than hearing from your customer that the jet is performing well in combat and bringing aviators home safely. Five nations have used the F-35 operationally with the U.S. Air Force continuously deployed to the Middle East for over a year now. The feedback from the pilots and maintainers has been positive regarding operational capability and maintainability.

II. FOCUS ON SUSTAINMENT

When we consider the health of the F-35 program, we generally consider development, production and sustainment. While we are confident in the development and production processes in place, we recognize sustainment is vital to the long-term operations of the F-35. We are fully committed to improving all elements of sustainment knowing that this is critically important to the warfighter.

The F-35 program continues to make great strides in the area of sustainment. We quickly scaled from development to production to fielding at an unprecedented rate. Today, F-35 sustainment is focused on meeting warfighter and program requirements. Since 2017, Lockheed Martin has invested over \$270 million in improving the supply chain and leveraging the full volume of production and sustainment to compete and negotiate volume pricing agreements. We are investing in data analytics and automation to increase mission capable rates and maintainer efficiency, as well as increasing repair capacity to enable seamless operations on the flight line.

Mission Capable Rates are Improving

Lockheed Martin has made significant strides in the reliability of the F-35 weapons system. We continue to see improvements in F-35 Mission Capable (MC) Rates with the global fleet averaging greater than 72% MC, a 13 percentage point increase from 2019, and a 20 percentage point increase from the 2018 timeframe of the GAO report, while some operational deployed squadrons consistently operated at or above 80%. During a recent Red Flag exercise at Nellis AFB, the F-35 MC rate was 86% and deployed units are consistently at or above 90%. There has been sustained improvement in readiness metrics over the last 18 months, while growing the fleet by 134 aircraft in Calendar Year (CY) 19. We also continue to see improvements in other F-35 maintenance metrics and are receiving positive feedback from our customers, most recently from the U.S. Air Force which had several squadrons simultaneously deployed for joint operations and exercises.

Compared to legacy aircraft at this point in the program, the F-35 is performing well. That is not to say that we have not seen our share of challenges along the way. However, as you will read in this statement, the F-35 program continues to actively address the challenges and find solutions.

Supply Chain Partnerships

Our partnerships with our 1,900 suppliers are vital to the success of the program. Supply rates are something we track closely, and we are exceeding requirements. In order to keep our supply chain healthy in these uncertain times with COVID-19, we have provided over \$1.1 billion in accelerated progress payments from the Department of Defense to our supply chain, including

small and distressed businesses to ensure they can maintain their workforce and return to a pre-COVID workflow as soon as possible.

We are continuously outperforming against the program's authorized supply chain funding levels. We have taken aggressive action to ensure availability of spares including investing in spare parts to build inventory despite insufficient funding for spares in the DOD budget that supports the targeted mission capable rate tied to supply. As a result, spare parts are available earlier than they would otherwise be, and we have seen a corresponding improvement to the MC rate associated with availability of supplies. We believe further improvements are possible if the government increases its budget for spare parts to meet at least 90% of need versus its current budget of 80%.

The percentage of time an aircraft is not mission capable due to lack of parts is something we track very closely. This is known as the Not Mission Capable - Supply rate (NMCS), and we are exceeding the funded requirement for this measure. Since January we have averaged 16% NMCS, which is far better than the service budgeted rate of 20%.

Lowering Cost Per Flying Hour

One of the most important long-term metrics for our customers is the Cost Per Flying Hour (CPFH) of the F-35. Our goal as an enterprise (services & industry cost) is a CPFH of \$25K by 2025 for the U.S. Air Force F-35A. We are confident \$25K is attainable, but it will require collaboration with the JPO, services, allies and our industry partners to reduce overall cost. Over the past five years we have seen a reduction of 38% in the Lockheed Martin responsible costs of total operations and sustainment costs (Lockheed Martin is estimated to account for 39% of Operations & Sustainment costs) and we project that with our investments we will drive down Lockheed Martin controlled cost another 50% in the next five years. We are working with the government so that they can achieve similar savings on the remaining 61% of flying hour costs that are under the control of DOD and propulsion suppliers, not Lockheed Martin. It is going to take a unified effort to achieve the \$25K CPFH by 2025.

Transitioning from ALIS to ODIN

The Autonomic Logistics Information System (ALIS) is the hub of F-35 maintenance data and information. This is where all information regarding the maintenance and parts data of every F-35 is managed and stored. This is an area where industry and JPO have received feedback from the fleet and are working to make the system more user friendly and transition the system to a cloud-based system and next generation architecture. In partnership with the JPO, we will transition to Operational Data Integrated Network (ODIN) with an expected field date of December 2022. In the meantime, we will continue to utilize and update the current ALIS to ensure the maintainer has the best possible tools at their disposal to keep the aircraft performing as expected.

Improving EELs and RFI Processes

As your committee notes, and the DOD IG highlighted, there have been challenges with respect to an aspect of F-35 sustainment--- the inclusion and tracking of data elements associated with Electronic Equipment Logbooks (EELs). EELs are digital files that track maintenance history, configuration, and life usage on a subset of F-35 parts, along with data files, pictures, and videos. Unlike legacy aircraft sustainment systems that track spare parts logs primarily via paper, EELs store data electronically and enable responsive sustainment of this technologically sophisticated weapons system. Yet, even on the F-35 not all parts need to have EELS.

EELs compliance and accuracy has been a well-known challenge and Lockheed Martin is applying significant diagnostic and remediation efforts to address this issue. EELs challenges do not indicate that a part is flawed, nor are EELs issues caused exclusively by the contractor. Making EELs function is an F-35 government and contractor enterprise activity. As pointed out in the June 2019 DOD IG report, "The contractor creates EEL problems when it does not send the EEL with the spare part, does not create an EEL for a spare part, or enters incorrect information into the logistics systems. In addition, DOD personnel create EEL problems when they do not follow proper spare part maintenance procedures when removing or installing a spare part or when transferring a spare part between units."

In aggregate, Lockheed Martin is addressing multiple avenues to improve fleet performance beyond just the EELs challenges. We are also ensuring a robust supply chain to keep costs down. Lockheed Martin continues to conduct supply chain competitions, restructure supplier contracts, build supply chain capacity, implement advanced analytics tools and accelerate modifications to earlier aircraft to further improve reliability and readiness. In addition, we have invested over \$30 million since 2017 in automation, tool enhancements, and process improvements to reduce F-35 EELs issues.

As a result of these efforts, significant progress has been demonstrated. Since 2017, all parts requiring U.S. Government approval now have a Defense Contract Management Agency (DCMA) acceptance process for Ready-For-Issue (RFI) parts compliance, effectively ensuring 100% RFI parts for sustainment contracts post-2016. In 2019, Lockheed Martin demonstrated an increase of 45 percentage points in EEL improvement issues, while simultaneously scaling the fleet. This year, the percentage of RFI parts has improved from approximately 43% to 85%. We have two additional rounds of corrective actions to incorporate occurring in Q3 2020 and Q4 2020. We believe these changes will help us meet our customers' 90% threshold requirement.

Lockheed Martin is committed to transparency and partnership in the resolution of challenges associated with EELs. We have been, and will continue to be, compliant with our contractual obligations on this program and look forward to continued partnership with the committee, DOD, and the JPO to resolve outstanding concerns related to this issue, fully-realize a responsive 5th Generation sustainment construct for this exceptional weapons system, and deliver both best value for our nation's taxpayers and exceptional capabilities for our warfighters.

The Performance Based Logistics (PBL) Concept

A Performance Based Logistics (PBL) concept is another way Lockheed Martin is looking at improving aircraft sustainability while decreasing costs built on the same premise of the Lockheed Martin U.S. Navy award-winning PBL construct. This proven concept brings stability and predictability to the logistics process; improves performance and readiness; and results in cost savings and less risk for the U.S. Government. Lockheed Martin has proposed \$1.5 billion in advance funding and expects customers to receive \$1 billion in savings over a five-year period. We expect those savings to grow to \$18 billion in operating costs and improvements in mission capable rates for the warfighter through 2040, assuming follow-on performance-based agreements.

III. LOCKHEED MARTIN'S INVESTMENT

Lockheed Martin recognizes the importance of sustaining the enormous capability of the F-35 fleet. We have dedicated hundreds of thousands of manhours to ensuring the aircraft meets the needs of our pilots and maintainers. We have also invested more than \$270 million to improve F-35 sustainment operations and are prepared to advance the U.S. Government \$1.5 billion to implement a PBL contract. We continue to partner with the JPO daily to maximize the capabilities of the aircraft and ensure we are meeting our contractual obligations. We take this expectation of our customers seriously and will continue to partner with the DOD, JPO and services to deliver on our commitments.

IV. SUMMARY/CONCLUSION

Thank you again for the opportunity to update you on the F-35 program. Lockheed Martin is dedicated to delivering on our commitment of providing the world's most advanced fighter to our customers at the best possible cost with the sustainment processes in place to ensure the aircraft can provide the unmatched capability our servicemen and women can count on for decades to come. We do not take lightly the role the F-35 plays in meeting the national security objectives of the U.S. and our allies.

The program is maturing on schedule and Lockheed Martin is dedicated to continuing to enhance the F-35's advanced technology while ensuring affordability through all aspects of the program to deliver for the American taxpayer and the men and women who fly, maintain and support the aircraft. In the past two years Lockheed Martin has achieved an \$80 million F-35A USAF flyaway cost, including the propulsion system. As the fleet size has grown by more than 33%, we have reduced Lockheed Martin cost per flight hour costs every year for the past five years while the mission capable rate has improved by approximately 20 percentage points and forward deployed units are achieving greater than 75% mission capable rates or better.

On behalf of Lockheed Martin and the F-35 Industry Team, we are honored to provide this amazing capability to warfighters around the world. Thank you for the opportunity to provide this update. I look forward to your questions.