Good day, ladies and gentlemen. And thank you for standing by. Welcome to the Lockheed Martin Third Quarter 2011 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 F. Kircher

Thank you, Karen. And good afternoon. I'd like to welcome everyone to our third quarter 2011 earnings conference call. Joining me today on the call are Bob Stevens, our Chairman 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 a 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 Bob.

Bob Stevens

Thanks, Jerry. Good afternoon, everyone. Thanks again for joining us today. In the third quarter, we continued the positive momentum we've been driving since the beginning of the year. We achieved sales growth of 7%, while growing earnings per share from continuing operations by 30%. We generated over $500 million in cash from operations, utilized our strong cash position to repurchase a record level of 13.4 million shares and made dividend payments of $246 million.

Additionally, our Board of Directors approved both an increase of 33% to our quarterly dividend, bringing the full-year dividend payout to $4 a share and an additional share repurchase authorization of $3.5 billion for opportunistic share repurchases. Our sound year-to-date performance has also enabled us to increase our full-year guidance for earnings per share.

Since we were last together in July, both the global security environment and world economic conditions have remained volatile. Domestically, the environment remains fluid, driven principally by the ongoing deliberations on potential reductions to federal budget levels. The recently enacted Budget Control Act of 2011 increased the federal government's borrowing limit, while reducing projected government spending over the next 10 years. It also established the bipartisan congressional joint select committee on deficit reduction, sometimes referred to as the super committee with a debt panel, which is charged with recommending legislation by November 23. The enactment of which would result in spending and revenue changes that would reduce net government spending by at least $1.2 trillion over the next 10 years.

If the super committee fails to recommend legislation or the Congress fails to approve that legislation by December 23, or the President fails to sign that legislation into law, then an automatic sequestration process would be triggered, which would make up any shortfall necessary to achieve the $1.2 trillion target. Under the budget act, 50% of any shortfall would automatically be applied as a reduction to the discretionary appropriations for national defense programs and 50% to other domestic programs commencing in 2013.

We certainly want this committee to be successful. We understand the urgency of reducing trillion dollar annual budget deficits and our $14 trillion national debt. But we also feel strongly that the defense department is already working on nearly $0.5 trillion in reductions, which is very significant, and that resources for national security should be aligned with our nation's strategy to meet global challenges and not a function of automatic budget triggers.

Looking at the current FY '12 DoD budget, Congress passed a continuing resolution that is in effect through November 18. Committees in both the Senate and the House are assessing the President's initial budget request of $553 billion for the base DoD budget and $118 billion for the overseas contingency operations budget. As budget deliberations evolve, we are very focused on the drive for greater efficiency and execution across the corporation.

This quarter, we implemented additional staffing reductions in Information Systems & Global Solutions and at corporate headquarters. While these staffing reductions are very painful, they're essential in responding to changing economic conditions and new realities. We know the demands on our customers are great, and they are being asked to do more with less on a daily basis. It's imperative that we respond to this environment as effectively as possible.

On the international front, we continue to see a varied picture of markets and regions. In the Middle East and Pacific Rim, we believe interest in our products will likely remain strong in areas like missile defense, fighter and cargo aircraft, command and control capabilities, sensors and other systems. The outlook is much more uncertain in the Eurozone with large national debt levels, low economic prospects and high unemployment.

Despite domestic and international pressures, our overall portfolio of products and services is well positioned to provide solutions in support of critical national security missions for our nation and for our allies.

Turning to operations. Let me cover some events this quarter, starting with the F-35, where we continue to make solid progress in development and production. On the development program, flight test activities continued ahead of plan. Through September year-to-date, we were 9% ahead on test flights and 10% ahead on test points.

To update you through yesterday's performance, we have completed 803 flights and 6,287 test points, which means that with 83% of the year done, we have accomplished 92% of this year's planned flights, that's 872 in total, and 95% of this year's planned test points, that's 6,622 by year's end. We completed static structural testing slightly ahead of schedule, which was an important series of tests as they verify the structural integrity of the airframe.

Progress was also made on the carrier variant aircraft during the evaluation of carrier suitability at Lakehurst, New Jersey. The team successfully completed Jet Blast Deflector testing and the first steam catapult launch of the aircraft with 59 catapult launches completed to date. This testing also revealed that additional work will be needed on the arresting hook to reduce bounce and a thorough design of performance review is now underway.

Testing will continue through the balance of the year as we prepare for shipboard testing in 2013. The steel hull aircraft continues to show improved reliability and performance with over 250 vertical landings achieved year-to-date. Beyond the quarter, on October 3, the STOVL aircraft successfully executed a vertical landing on the deck of the USS Wasp, the first vertical landing at sea marking the beginning of sea trials testing for the STOVL variant.

In total, 72 short takeoffs and vertical landings were completed over 19 days, and flying qualities, environmental effects and initial deck and hangar operations, including taxi, towing, tie down, refueling and elevator operations were all evaluated, with all initial sea trial objectives being met. I want to offer a special thanks to all those on the government team, especially all those aboard the USS Wasp, for the dedication and professionalism that enabled these tests to be completed on schedule.

The software development activities on the program continue to progress with software release 1-B flying today, it's performing well with good stability and functionality. Follow-on releases with enhanced functionality are in various stages of development, including integration lab tests, initial system integration and requirements definition.

Overall, the software program continues to have approximately 2 months schedule pressure and we're applying resources to recover schedule and mitigate impacts.

On F-35 production, working with our partners and suppliers, we're seeing greater cycling of the production line. Year-to-date we delivered 8 aircraft under our LRIP 2 contract. 4 of the 5 airplanes delivered this quarter were provided to Eglin Air Force Base to be used for training pilots and maintainers at the F-35 integrated training center in Florida.

We now have 55 aircraft in backlog for Production Lots 2 through 4. On the international front, our 8 international partners continue to support the program and we see expanding interest in the F-35. For example, this quarter we were pleased to submit a proposal for the F-35 to Japan under their F-X competition and look forward to potential interest from the government of South Korea.

I also wanted to provide an update on our Lot 5 negotiations. You may recall that we received Long-lead funding from the government for Lot 5 in July 2010. That Long-lead funding was exhausted in February of this year and we requested additional funding from the government, which has not yet been provided.

We've continued to work on the program to ensure production continuity, so that we could protect the government schedule and so that we and our suppliers could collectively remain focused on cost-effective execution, while we secured additional funding and work to negotiate the Lot 5 contract. As a result, the termination liability at the end of our third quarter was about $750 million. As we requested funding to cover termination liability and fund our supplier base on Lot 5, we were advised by the government earlier this month that the funding for Lot 5 that was appropriated by the Congress in April would now be contingent on our company assuming a new and unprecedented contract provision known as a concurrency clause.

Since this is a new requirement and a potentially unfamiliar one, let me take a moment to offer some background in perspective. For decades, our nation has provided for its security by focusing on technological superiority rather than numerical superiority. This is proven to be a very successful strategy resulting in the most capable military to ever take the field. To accomplish this strategy, industry has asked to stretch the boundaries of science and technology to create capabilities that simply have not existed before like a fifth-generation, net-enabled, stealthy supersonic fighter that hovers.

At the state of the art today, it's broadly recognized that neither industry nor government possesses the analytical capabilities to predict exactly how these complex and sophisticated systems will behave when subjected to the extraordinarily demanding environments our customers must confront. And that is precisely why we have extensive and rigorous test programs to discover those aspects of performance that we all know are unknown at the time of design.

The term concurrency describes an element of a government acquisition strategy. It results when the government calls for the start of Low-Rate Initial Production, while the development and test activities are ongoing. This approach has been a common practice when building air [ph] vehicles for the military as it's designed to accelerate deliveries while lowering total cost.

Balancing the potential cost of incorporating changes from the discovery of unknowns in the test program with the cost reduction opportunities associated with more volume and earlier periods provides for more effective learning curves and the replacement of older aircraft sooner, which is of value to the government. For Lot 5, the government has stated that in order to obtain additional funding, the industry team would need to accept a concurrency clause including a cost-sharing element.

For discoveries that are known, that is, those that have already been made during tests, this concept may be workable, as we, our partners and our suppliers do stand behind our performance as evidenced by our assuming the fixed-price type contract in Lot 4. This concept breaks down, however, when extended to cover the unknown, that is discoveries that might occur in the future but are not known and cannot be predicted today.

So we and our partners and suppliers need to explore this concept in greater detail to arrive at a fair and equitable cost share for concurrency changes. We're also awaiting the results of the government's should cost analysis and have our first meeting scheduled for next week.

To summarize the status on Lot 5, then, we need to secure funding without delay and believe that funding should not be conditioned on a concurrency clause or any other clause and we should commence the negotiation of Lot 5 including all clauses and provisions as soon as we possibly can. We would very much like to have the Lot 5 negotiation completed by the end of the year.

Moving to the C-130J program, our team delivered 13 aircraft in the quarter and is on track to achieve the increased production deliveries of 33 aircraft that we outlined for you at the start of this year. With a backlog of 81 aircraft and robust domestic and international demand, the C-130J line continues to be a strong contributor to our corporate portfolio.

On the F-16 program, the government of Iraq signed a letter of offer and acceptance for 18 new F-16 fighters with a future sales value of approximately $3 billion. We will be working with Iraq to finalize the contract as soon as possible. Finalization of this award will add to the existing F-16 backlog of 55 aircraft and extend the production line to 2015.

Moving to Electronic Systems. In the expanding area of ballistic missile defense, our team supported the United States Army's flight test of our Terminal High Altitude Area Defense System or THAAD and its successful intercept of 2 different simultaneous targets. This test was the first of the initial operational test and evaluation flights and challenged the THAAD System to track, detect and intercept 2 different targets utilizing 2 THAAD interceptors, making a first for the system. Congratulations to the U.S. Army on their very successful use of this capability and a significant thank you to the Missile Defense Agency for the confidence invested in the THAAD team.

Since 2005, the THAAD System has successfully performed 9 of 9 intercepts, demonstrating the maturity of the program. Production is ongoing to provide additional missile batteries to the United States Army and international interest in the program is strong with an inaugural international award from the United Arab Emirates is expected in the near future.

On LCS, our team began construction of our third ship known as LCS 5, which will be the future USS Milwaukee. We've planned delivery to the United States Navy in 2014. LCS 5 is the first of 10 Freedom Class ships awarded to us by the Navy last December. Our second LCS ship, known as the Fort Worth or LCS 3 put to sea for the first time and began builder sea trials that's focused on operational testing of the vessel's navigation and power systems.

Following the completion of the builder sea trials, the ship will undergo acceptance trials later this fall conducted by the Navy. LCS 3 remains on cost and on schedule for delivery to the fleet in 2012. With good performance and growing international interest, we believe this program offers the potential for future growth.

In Information Systems & Global Solutions, we've provided a significant software upgrade to the air traffic control system at the New York Terminal Radar Approach Control facility, which has responsibility for the nation's second busiest airspace. This software enables the use of GPS technology to help direct air traffic and provide an improved picture of the airspace.

And in Space Systems, 2 critical mission success events were achieved this quarter for NASA. The first was the launch of the Juno spacecraft that will arrive at Jupiter in 2016 with the goal of studying the planet's structure, atmosphere and magnetosphere. And the second was the launch of the twin robotic grill spacecraft to the Earth's moon to map the gravitational field.

Data obtained will determine the structure of the lunar interior from crust to core and expand our knowledge of the thermal evolution of the moon.

Before turning the call over to Bruce, I wanted to comment on 3 additional items from the quarter. I was particularly pleased to see that our corporation was recognized by the Carbon Disclosure Project as one of the top 25 companies worldwide for our efforts to analyze our carbon footprint and identify ways to achieve reductions.

Our investments in energy efficiency are helping improve the sustainability of our products and operations, while also reducing infrastructure costs. Our Go Green culture is driving an innovation of environmental stewardship that provides benefits for our businesses, our customers and the communities where we live and work. In the October 17 edition of Fortune magazine, we were very proud to see our colleagues Marilyn Hewson, Linda Gooden and Joanne Maguire and our board member, Ross Brewer, all included among the 50 most powerful women in business.

As we say around here, when you possess the situational awareness, information dominance and precision engagement that they do, this is no surprise. Sincere congratulations to each of them on a very well-deserved recognition. And, finally this quarter, I established the executive office of the chairman to include myself and our President and Chief Operating officer, Chris Kubasik. This office was created to enhance the corporation's responsiveness, agility and performance in an increasingly complex business environment.

As members of the executive office, Chris and I will act promptly to address and resolve operational and functional issues as they arise. The expansion of Chris's responsibility demonstrates the confidence that I and the board have in his ability, his vision and his leadership. I'll turn the call over to Bruce now to provide some additional detail on the third quarter financial results, our outlook for 2011 and some directional perspectives for 2012. And then open the lines for discussion, and I think we'll try to add back some time here at the back end because there's a lot to cover in the business today. So I'll turn the call over to Bruce now.

Bruce L. Tanner

Thank you, Bob. And good afternoon, everyone. As I highlight our key financial accomplishments, please follow along with the web charts that we've included today. Let's begin with Chart 3 and an overview of our third quarter. We grew sales for the company by a strong 7% driven by growth in Aeronautics and Space Systems.

Our earnings per share from continuing operations grew by 30% compared to last year, driven by higher sales volume and segment margins, and as a reminder, last year's third quarter included the charge from our VESP program. We generated over $500 million in cash from operations bringing our year-to-date total to more than $3 billion. We repurchased over 13 million shares and increased our quarterly dividend by 33% to an annualized dividend of $4 per share. So, overall, we had another strong quarter.

On Chart 4, we'll look at sales on the 4 business areas. 3 of the 4 business areas grew sales in the quarter. Aeronautics' growth was driven primarily by the delivery of 13 C-130s this quarter compared with 7 deliveries in the third quarter of 2010. Higher sales for the F-35 LRIP programs and a C-5 delivery this quarter versus none in the third quarter of 2010 round out the increases. Space had higher sales due to the delivery of a commercial satellite in the quarter, while none occurred in 2010.

Electronic Systems' sales growth was driven by air defense sales at Missiles & Fire Control and the soft CLS program sales increases in Global Training & Logistics. IS&GS experienced a decrease in sales, primarily due to the absence of the U.S. Census activity this year compared with $115 million in sales for that program in the third quarter of last year.

Turning to Chart 5 and our earnings per share in the quarter. Our earnings per share from continuing operations grew 30% over last year's level. And our pension adjusted earnings per share grew by more than 40% as shown on the chart after adding back the negative effect of the FAS/CAS pension adjustment in both periods.

As I said earlier, this EPS growth was driven by the higher sales volume, a slight improvement in segment operating margin and last year's VESP charge being significantly greater than this quarter's severance charge for reductions in both IS&GS and the corporate office.

On Chart 6, we'll further describe our cash from operations in the quarter. This quarter's results were similar to last year's, both in the operating cash and the level of pension contributions and we remain on track to generate at least $4.2 billion this year.

Staying with cash on Chart 7, we have returned more than 100% of our free cash flow to the shareholders. $3 billion returned through dividends or repurchases versus $2.6 billion in free cash flow.

On Chart 8, we'll discuss our share repurchase activity in more detail.

During the quarter, we repurchased 13.4 million shares, which represents the highest number of shares we've ever repurchased in a quarter. That brings our year-to-date number of shares repurchased to just under 30 million. And if you look on Chart 9, you can see that we've already matched the highest annual percentage reduction and share count through just the first 3 quarters of this year.

Chart 10 shows the significant increases in our quarterly dividend amount over time to the current level of $1 per share, resulting in an annualized yield in excess of 5%.

On Chart 11, we have our current earnings per share outlook for the year. We increased both the low end and the high end of the earnings per share from continuing operations by $0.05 as a result of a $25 million increase in segment operating profit for the number of other items that offset one another.

On Chart 12, I want to provide some insight into what we are expecting as we look toward 2012. Of course, we'll provide more detailed guidance on the January call, but we wanted to at least provide you with the trends we're seeing today. We expect sales at the top line to be flattish compared to 2011. That difference from our previous discussions about long-term sales growth primarily in the Aeronautics business area. Aero will likely see flat to slight growth compared with 2011 as a result of establishing the final baseline of the F-35 development contract, which occurred this quarter.

Error of quantity changes, the phasing of F-16 deliveries from 2012 to 2013 to bridge the production line and avoid a gap and the effects of our cost reduction activities. Electronic Systems also will likely see flat to slight growth while Space Systems should remain relatively similar to 2011 sales.

IS&GS should have a slight decline in sales probably in the mid-single-digit range as the government IT market continues to face budget pressure. Segment operating margins, on the other hand, should remain at around 11% versus the mid-10% range we have previously described. Most of the improved margin is projected in Aeronautics, reflecting both the lower F-35 volume and the rephasing of the development program and the impacts of cost reductions on our price backlog. Operating cash flow should be impacted by higher than expected pension contributions in 2012 compared with 2011. 2012 funding is expected to be some $800 million higher than what we are funding in 2011 but cash flow from the core pensions should be consistent with this year's levels. And our estimated FAS/CAS pension adjustment should be higher than previously discussed as described on the next chart.

Chart 13 shows the potential changes for our FAS/CAS estimate from previous estimates. As you can see, our 2012 FAS/CAS adjustment could be comparable to the 2011 adjustment of $925 million, which is substantially higher than the $200 million estimate I provided in January. We use the notional 4.5% discount rate, reflecting the significantly lower rate environment since the end of last year. The discount rate change accounts for about 2/3 of the estimated increase in FAS/CAS for 2012. The remainder of the estimated increase is driven by our expectation that CAS privatization will move out of the 2012 time frame into the 2013 or 2014 time frame. And we will likely lower our long-term asset return assumptions to 8% from the current 8.5%, reflecting a slightly more conservative view of future market returns.

And, of course, our FAS/CAS adjustment will not be finalized until year end, when the discount rate and other factors are known.

Finally, on Chart 14, we have our summary. Overall we've had a strong year so far and we expect that the full year will follow suit. Some of the cost and proven actions we've been taking are favorably impacting our results this year as well as next year on our price business, and while 2012 is obviously dependent upon budgetary outcomes, we expect to have greater clarity to share with you on the January call. And with that, we're ready for your questions. Karen?

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from the line of Doug Harned from Sanford Bernstein.

Douglas S. Harned - Sanford C. Bernstein & Co., LLC., Research Division

On the Aeronautics, I really wanted to if -- I have 2 things in there. You'd said you had better margins because of F-22, C-130J. First, are those onetime improvements in margin due to those 2 programs? And then how do you think about F-35 margin going forward given the uncertainty around LRIP 5, the timing of the LRIP 5 agreement looking into next year?

Bruce L. Tanner

This is Bruce. I'll answer those 2, if that's okay. I think you're talking about the quarter for F-22 and C-130, are you not?

Douglas S. Harned - Sanford C. Bernstein & Co., LLC., Research Division

That's correct, yes.

Bruce L. Tanner

Yes, for both those -- for F-22 and C-130, we did have some fairly good risk retirements in the quarter. In particular, for the F-22 I'll say that was probably larger than what we should be expecting going forward. Obviously, the production program runs out, I believe, in February of next year. So there may be some potential risk retirements along the way but I don't think it'll be as quite as large as the one we'd experienced in the third quarter of this year. For C-130, I'm trying to think, Doug. I'm not sure if we had large step-ups or risk retirements in the quarter or not. I think that was mostly volume driven for the most part, with maybe a little bit of improvement there. So I would say there was not anything in particular that happened in the third quarter that can't continue to happen going forward, if that makes sense. And in the last question I think you have was on F-35 profitability and what the prospects are relative to the LRIP 5 negotiation. I should remind you, I think that we booked the development contract as a standalone contract. We also booked each of the Production Lots, so LRIP 1, 2, 3 and 4 as standalone contracts. So the LRIP 5 negotiation will have literally no impact on the other contracts as far as bookings is concerned or margins are concerned. I would suggest that for LRIP 5, you would expect us to be appropriately conservative to start off on that program.

Operator

And our next question comes from the line of Rich Safran from Buckingham Research.

Richard Tobie Safran - Buckingham Research Group, Inc.

I just wanted to ask you about 2 programs, THAAD and F-16. I heard your comments about the test success. Congrats on that. Also on your comment about the outlook for THAAD, I just want to know, for the UAE, do you think that that's -- I know you said the order could come in the near future. Do you think that's something you could book in late 2011 or is that potentially a 2012 event? And also if you could maybe touch on any additional F-16 opportunities you see beyond the Iraq order you just got, if you expect that production will continue beyond 2014.

Bob Stevens

Yes, I'm happy to do that, Rich. I'll tell you that we have been working to secure the THAAD order. And I think our best judgment now is we're sort of right at the cusp of the end of '11 or early '12. And it's honestly just really hard to make that call based on all the knowledge we have. We think our discussions have been constructive and positive and headed in the right direction. I know you know that everyone here would much prefer a late '11 order to be sure. It's just treading right on the seam of the year. I will tell you we're especially appreciative of the work that's been done by the Missile Defense Agency, they've been very forward leaning here in working with both us and the Emiratis and they have facilitated a great pathway for us to follow here. So we don't see any impediments, I think it's just being workman-like in the final details here. On the F-16 program, we were pleased to see the Iraqis make progress. When we last talked about prospects for Iraq, we mentioned the deferral in the order and it's nice to see that deferral reversed. We're also, relative to future orders, looking at the prospects in Oman for 18 airplanes. And we'll continue to survey other countries to examine whether they have further interest in the F-16. With 18 airplanes, I think we'll certainly move out beyond 2015 or so on the production line. You may recall that we actually rephased the production flow on the F-16 line, lowering near-term production volumes so that we would have a better opportunity to smooth the production flow that would enable or enhance the ability to secure our future orders. We thought that was an action undertaken that would generate greater additional value in the future, so we have done that. And then there'll be some opportunities with the administration's decision in Taiwan to modify a number of their existing F-16 aircraft. And there is, even though this current round of discussions did not result in the sale of new airplanes, the goal of security environment remains sufficiently volatile that we don't really know what the future has and that's why we want to keep the line as vibrant as we can and ready to assess any contingencies when they arise.

Operator

And our next question comes from the line of Joe Nadol from JPMorgan.

Joseph Nadol - JP Morgan Chase & Co, Research Division

Just wanted to, I guess, confirm that the FY '12 sales outlook is predicated on the President's proposed budget, that's what it says in the press release, despite the fact that the budget control act looks like it's going to chop that by about $25 billion. And if we assume instead that the budget is going to come down $25 billion from the President's proposed level, what sort of sales outlook would you have for next year instead?

Bruce L. Tanner

This is Bruce. Let me try this one. I think the answer is that it depends a little bit by the business area. If you just sort of think of Aeronautics and space, especially, those 2 business areas have a lot of backlog that extends over multiple years. And so really if we're talking 2012, most of what's going to occur, saleswise, for those 2 business areas in 2012 is contracts that are under -- in our backlog as of today, electronics. And I would suggest to you that that's probably not going to change whether it's the President's budget or the $25 billion reduction. Electronic Systems is a bit of a mixture. Some of the programs within that business area have that long-duration backlog and some of them are shorter. But that is less subject to the volatility in the budget outlook in the near term, say, 2012 than maybe businesses like IS&GS. The area where we have the most vulnerability to what's going to happen in 2012 is IS&GS. And I will say I think we've got a fairly good handle on what happens to that marketplace even in a budget environment with that $25 billion reduction you're talking about. I think we see the government's IT marketplace dropping from about 5% to 10% year-over-year. And I think that's about where we're seeing that layout in just about any scenario we can put together ourselves. In the meantime, we will continue to look to international to help offset some of that increase, but I think, hopefully, what I'm conveying to you is that I think under either scenario I don't see a whole lot of volatility in our sales outlook for 2012.

Operator

And our next question comes from the line of George Shapiro of Access 3:42.

George D. Shapiro - Access 3:42, LLC

Bruce, I wanted to pursue right now like you've mentioned you returned more to shareholders in your free cash flow. Next year, with the $800 million pension payment, the free cash flow is probably something less than this year, maybe it's $2.5 billion to $3 billion. And you've got $1.4 billion $1.3 billion in dividends and you've been buying back stock at $3 billion. So even if you just continue what you're doing you're going to be returning like $4.3 billion versus free cash flow of $2.7 billion or $2.8 billion, would you continue to do that and just work down the cash balances? Or would you wind up lowering the share buyback? Or what other scenario might you come up with?

Bruce L. Tanner

Yes, George I think there's a couple of things there. You probably saw that we -- well I know you saw, George, that we did a $2 billion debt offering in the third quarter. We used about $500 million of that to reduce some of our debt obligations with 2013 durations on them. We have, I think, somewhere around $4.6 billion of cash on the balance sheet as we sit here today. I think that is fungible [ph] into the extent that we could either use that to further fund the pension plan, use it for general purposes or continue along the cash deployment actions that we have done so far this -- for quite some time, quite frankly. So I think we have the power to continue to do that. I think as I'd said many times with many of you folks, we don't need $4.6 billion of cash on the balance sheet. And so we will likely draw that down to a lower number. Some of that, again, being available for pension so that they're available for acquisitions and obviously some of that being available for cash deployment to our shareholders. So I would like to think we would probably continue to use the same sort of firepower we have today going forward relative to those buybacks going forward.

Operator

And our next question comes from the line of Jason Gursky from Citi.

Jason M. Gursky - Citigroup Inc, Research Division

My questions are F-35 related. First, why did you choose to, in a sense, negotiate this process with LRIP 5 through the press? Do you think that it's realistic that LRIP 5 won't happen and that you'll have to bill the government for that termination? And then lastly, with the budget control act as the backdrop, if the government were to reduce the number of F-35s that it buys over the lifetime of this program, when would that happen? Do you think that this is a fiscal '12 -- excuse me fiscal '13 budget introduction time frame like wind? When are we going to get a little bit more clarity on the impacts of the budget control act on the F-35 program, specifically?

Bob Stevens

Relative to your question, I want to just say back to you your words as why did we elect at least to paraphrase why did we elect to negotiate this in the press. That is absolutely the last thing that we're doing. We have a responsibility that I take very seriously here about disclosing and discussing with you and others the financial performance of this company. And as we had accumulated the termination liability exposure that I described to you at $750 million on the Lot 5 work that we've undertaken, as we've exhausted the Long-lead funding that we have and as in our discussions with the government, the construct of not receiving incremental funding until we negotiated a concurrency clause, in my mind was a relevant change with a new contract provision that we have not seen before, I have not had the occasion to discuss that with you and other investors of capital in this business that we felt it was simply responsible to advice the investors in the business that these discussions are underway. I have no intention of negotiating Lot 5 in any other fashion other than in good faith with those in the government who are chartered to negotiate Lot 5 as well. We've had many exchanges of ideas, many concepts have been advanced. It is very clear to all of us and hopefully this will sound consistent to you, that our customers are facing a new reality as are we, that they're confronting a greater number of challenges and they will clearly have fewer resources available to meet those challenges. And that's why our company has undertaken, for now, a multiyear approach to affordability. Divesting businesses, cutting expenses, checking capital carefully and engaging in a series of reductions in force that for us are very difficult and very painful, but yet we all know are very necessary. So there's no desire to elaborate in greater detail with you or anyone else about the details other than to inform you as honestly and as straightforwardly as we can about the quality of the business. I'd also say that when you're looking for insight as to when the program architecture of the F-35 might change, if it were to change, relative to quantities or timing, that decision resides entirely within the government and not us. We know there are deliberations underway now consistent with the budget control act as you've highlighted that are causing our customers to look at all their expenses just like we are, all their programs. Roles in missions analyses and how will the nation need to posture for an uncertain security future knowing they're pursuing a course now reducing $0.5 trillion so it's difficult for us to have greater visibility, and therefore, we can't share that visibility with you. But as soon as we know as we learned about the conditions on Lot 5, we will disclose this to you as accurately as we can.

Bruce L. Tanner

And, Jason, I'll just -- sort of one other more thing for consideration, I think we looked at instead -- at the levels of exposure that we have from a termination liability perspective, we really thought that this was something that we should disclose in our 10-Q filing and the reason we included it in our press release and we're talking about it today was so that there was no surprises when people looked at our 10-Q later this week that we haven't discussed that with you and the rest of our investors prior to that becoming public.

Operator

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

Samuel J. Pearlstein - Wells Fargo Securities, LLC, Research Division

I was wondering if you could talk a little bit about both Aeronautics and ES just if I look at the pie chart in your presentation about what the profits should look like for the full year, it would seem like you need to have a pretty substantial sequential decline of, call it, $30 million or $40 million apiece in operating profits from Q3 to Q4. And I know you highlighted the F-22 in this quarter, I don't know if that $30 million is the swing factor, but just what would cause the profits to be down sequentially in the fourth quarter in those segments?

Bruce L. Tanner

Sam I'll take that and also the -- you're right. If you just squeeze for the fourth quarter, if you will, both Aero and Electronic Systems probably looked a little lighter than we've run for the first 3 quarters of the year. I think as we look here today, I think the return on sales will probably, for Aeronautics, will probably be more similar to what we saw in the first quarter maybe a little bit around that range and lower than what we saw in the second or third quarter. And that's really because of the risk retirements that I talked about that occurred not just in the third quarter, I mentioned for the F-22, but also in the second quarter for other planes [ph]. As we sit here today, we have the potential to have additional risk retirements in the fourth quarter but we haven't closed on those potentials yet. And so that's sort of where we are with the Aeronautics business area. For Electronic Systems, we're seeing -- we're going to have actually a little lower volume, obviously, in the fourth quarter with a very strong fourth quarter in 2010 from a top line perspective. We think that the margins will likely follow the sales excuse me -- EBIT dollars will likely follow the sales at a slightly lower margin. This is one business area, to be honest with you, although, Sam, right, I do believe that we have some potential upside there. I think what I'd like to see is I think the last 2 years in Electronic System, we've run somewhere around a 12.2% margin. I think if you just squeeze for the fourth quarter we'd be a little light for that and I would say it, one of my objectives will be to see if we can't get closer to what we've run in the last 2 years.

Operator

And our next question comes from the line of Heidi Wood from Morgan Stanley.

Heidi R. Wood - Morgan Stanley, Research Division

Bob, I'm going to go back to that F-35 issue from a different angle than my colleague earlier. There were multibillion-dollar costs associated with concurrency on the F-18 wing drop, which didn't service until very late in that program's testing and the government pays out without issue. As we look forward and we see these attempts to have industry shoulder more of this, I'm wondering whether it's fair for us to understand that it introduces 2 new elements to the picture: one is greater technical risk on the heart of the industry and two, potentially reduced profits because even if I logically extend what you're telling us, doesn't any share line up on this cost-sharing element portend overall profitability on F-35 is going to have to be lower than what we might have been expecting before?

Bob Stevens

Well, I think we've thought through this to the extent we can't have been able to given that we've learned about this just a few weeks ago during the government's discussions with us. We think that there is a pretty big distinction between that which you know, that which has been observed in a test program that might require the change in the configuration of an airplane. We think that there is a method to absolutely assure that we incorporate changes wisely and well so that there is no open-ended position from a government's point of view of the inability to get the configuration changed. We think we can put a share line on that. We think that can have a ceiling price associated with it, we would incorporate those changes and have responsibility for that. I think the dilemma, not only for our company, I'm certainly believing for our industry partners but I think for industry more broadly, especially knowing that the work that we do is so specialized. It is in essence so inherently governmental. This is not really a commercial line of business that we have here. So many of the systems and technologies are tailored for that extreme level of performance and unbelievably demanding conditions that -- and it's one of the immense motivating factors in this industry is to take on those technological challenges to put our best intellect and experience forward to challenge the boundaries of what is known and to genuinely create and innovate things that simply haven't been done before. And that's not in today's complex systems, that's not just in, let's say, airframe dynamics but it integrates airframe with propulsion, with avionics in very sophisticated ways. All who have done this know the challenges of doing that and you can just look at the headlines and see the challenges reside not just in aeronautical systems for the military but in state-of-the-art air vehicles, whether they're commercial or not. We think that deserves a good deal of discussion so that we can arrive at an equitable position with the government that respects where we should properly support our execution and performance responsibilities. But again we are willing to do and believe we have demonstrated both in taking a fixed price contract on Lot 4 and in supporting the Lot 5 work beyond the funding that we have had to keep our industry team focused, especially our small businesses, because we recognize it's difficult for them to get financing. They have workforces that are highly valued to us. We would not want to see any disruption in that workforce's ability to remain focused with the kind of the economy that we see today so there's a lot at stake in keeping that focus. And we think that fair and equitable position would result, in the long run, without undue pressure on profits by introducing new elements as you've described. And I think when we looked at history, we've seen the same general phenomenon that you'd described, that discoveries can be certainly unexpected and unpredicted and they can occur both early and late in a test program. And I think we will be mindful of that and we will bring that to the attention of our customers as we negotiate Lot 5.

Operator

And our next question comes from the line of Myles Walton from Deutsche Bank.

Myles A. Walton - Deutsche Bank AG, Research Division

First for Bruce. Can you tie out how the F-35 work this year is weighing on your cash flow? And I guess how much you're absorbing versus the supply chain?

Bruce L. Tanner

Yes, Myles, good question. Relative to LRIP 5, I'll presume you're -- don't know if I caught that in your question...

Myles A. Walton - Deutsche Bank AG, Research Division

That's exactly right.

Bruce L. Tanner

So far through the end of the third quarter we actually had no cash exposure. On this program at this point in time, we had termination liability exposure predominantly, but not exclusively with our supply chain. We think of this as buying or committing advanced procurement systems and the like but not having sort of the bills through the pipeline to be paid at this point in time. That starts becoming realized cash starting this month, the month of October. And as we look out the point towards the end of the year and say we were still in the situation through the end of the year, I think that number from our perspective, Lockheed Martin's perspective, could grow to as large as $150 million of cash for the year. I'll quickly say that I think there are operational opportunities within the corporation that even if we did have that $150 million exposure on the LRIP 5, that we could offset that and still maintain the $4.2 billion that we've guided you to. But that would be a potential exposure if it was not finalized before the end of the year.

Operator

And our next question comes from the line of Noah Poponak from Goldman Sachs.

Noah Poponak - Goldman Sachs Group Inc., Research Division

Just a quick follow-up on the F-35 and then one bigger question. Just in terms of how this resolves itself, if I'm hearing you correctly, you're saying you will likely find some middle ground where the resolution does have some cost share on future unknowns just that it won't be all of them?

Bob Stevens

Well I don't know how to answer that in specific detail. I will certainly tell you our intention is to negotiate good faith with the government. We've exchanged views, we've had a lively discussion here. They're onboard to taking information, we're onboard to taking information. There are uncertainties that we embrace in the work that we do today. We have many contracts that have cost sharing formulas with the government that is not foreign to us. It's finding the right formula for what I think for both of them and us is a new avenue for cost-sharing under a contract as we've tried to look for a precedent so that we could be informed by that, which has occurred over time in history, we don't find a precedent for this kind of contract provision in any contract that we have and we haven't been provided any precedent from any contract that might be available for us to examine. So I think we're fundamentally plowing some new ground here. Of course we're facing a new reality, where we'll continue to be confronted with new circumstances, is part of our commitment is to be as agile and as forward leaning as we can be but also to act responsibly and serve multiple interests and everyone knows that we have a responsibility to do that. So we want to engage and start the negotiation for Lot 5 in the totality of the negotiation. We submitted the proposal in April and are looking forward to receiving the should cost analysis so that we can take that onboard. And then in this good faith process that we believe accurately describes to be the environment we're in today, we can get closure on Lot 5.

Noah Poponak - Goldman Sachs Group Inc., Research Division

Maybe tying the topic into a bigger picture question. I wonder, Bob, if you'd be willing to discuss where you see the range of potential outcomes for the segment margins of this company at longer term. If we look back prior to the -- before the last defense spending upturn you guys were in the 7s, it's clearly a substantially different company today, but this F-35 discussion is one of many examples of the Pentagon acting substantially different than they have the past 5 to 10 years. When you put it on a pot and you look out, where do you see the potential scenarios for the margins for the company just because the difference for us financially modeling between 11 going to 10.5 and 11 going to 8 makes all the difference in the world?

Bob Stevens

I know that's true and I surely appreciate your question. I'm not sure I can give you an answer as refined as your question is because if we're talking about -- and I know how relevant a half a percentage point or a basis point is on returns, I know you appreciate that we've just described for you an environment of, let me say, more than reasonable uncertainty and I know you know that when you just look out at domestic and global events. We -- under a continuing resolution, Bruce talked about the sensitivity our business has under the CR, we have the prospects of a successful super committee. It's not clear if this committee is successful, if that number would be $1.2 trillion or more and where the incidents of those either expenditure reductions or revenue enhancements would follow. We have the mix of business in both international communities as well as domestic. We're working hard on the international front. And we think that can offset both revenue volume as well as profitability, and we performed well with our margin generation on the international business and is likely going to depend on wins and losses and just fundamental blocking and tackling in our business. I will say this: I like our portfolio very much. I believe it is robust, and I believe it aligns well with the aspects of the global security environment that we see today and I think our customers believe that as well. I have great confidence in our professional workforce. I would submit to you that they, like all of us, have been seeing this uncertainty grow now for probably the better part of 2 years. And if I look at the first 3 quarters of execution in our company in 2011, I am enormously proud of them. It does not mean we don't have challenges. We have challenges because we stretch far in technology and in our commitment to you. But they have stayed focused and they have stayed disciplined when Lord knows there were enough distractions out there. So I don't think I'm going to be able to satisfy that interest. Our goal is to sustain our margin generation. We understand what returns mean to you, what returns on invested capital mean in assessing the quality of this company and how that creates an investment. So hopefully our actions over the years, including returning cash to the shareholders and making prudent acquisitions and the way we've run this business has at least suggested to you that we take this responsibility seriously.

Operator

And our next question comes from the line of Troy Lahr from Stifel, Nicolaus.

Troy J. Lahr - Stifel, Nicolaus & Co., Inc., Research Division

Bob, regarding your past restructuring efforts on headcount, does that really rightsize the business for the initial $0.5 trillion of cuts but if the super committee cuts more, then we'd probably see another round of restructuring?

Bob Stevens

Well if -- we've taken those actions thus far. And I think the best way to answer that is I don't believe today we can guarantee that we won't have to engage in more adaptations in our business if sequestration were to occur. I personally know that we haven't fully incorporated the prospects of sequestration here because you can't really have a feel today of the location of where those reductions would come nor the timing of those reductions. But I think I can speak with pretty good confidence that neither we, nor our industry colleagues, nor the Department of Defense have internalized both strategic and operational plans that are built on the consequences of the sequestration process. I think that's why Secretary Panetta and Secretary Gates before him both described the prospects of sequestration in very negative terms. So we don't really have that embedded in. We'll continue to run this business with greater agility if we see upside opportunities for innovation or for investment, we will seize those opportunities. We certainly have the financial capacity to do that. If there are more reductions necessary, we'll certainly try to build the strength of the business so that we can minimize those consequences. But we won't hesitate to take the actions that will be necessary to keep the business rightsized for the environment that we see.

Operator

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

Howard A. Rubel - Jefferies & Company, Inc., Research Division

Bob, you've got a tough challenge. I mean, the behavior of the Pentagon, though, has been building for this for some time as respect to the F-35. I think on prior calls, I asked you about UCAS and there was clearly a delay by the customer just to kind of drag things out as opposed to improve efficiency. So I'm trying to understand here what is really different from what's been going on for the last 18 months other than maybe this specific issue over, what I would call, changing the rules of the game after they've been started?

Bob Stevens

Well, for me, and I think I speak for all of us on the call, what's changed was the more definitive language in the discussions that we had that, as Bruce mentioned, required us to put a disclosure in our 10-Q and because we intend to be transparent and open with you and others knowing we were going to be required to put that disclosure in the 10-Q, have this conversation with everybody today as I said earlier certainly we have no interest or desire to negotiate anything in the press. That's not where negotiations occur, but the disclosure was mandatory and part of our responsibilities. I think for us, it was a new circumstance, Howard, to have bid Lot 5 exactly the same way we had bid Lot 4 which is what we were asked to do only months ago. To have submitted that proposal in April, and 2, 3 weeks ago, be confronted with a new contract requirement that wasn't reflected in the price that we have offered. And as we discussed the overall negotiation climate for Lot 5, we're advised that the additional funding that we have been requesting since February was, in fact, conditioned on the successful negotiation of a concurrency clause. My preference would be to negotiate all the terms and conditions and all the aspects of Lot 5 at the same time, not selectively address incremental pieces. I can say that if we had, had the funding associated with the undefinitized contract action, we would not have had a compelling responsibility to disclose and we

would've gone about the negotiations in Lot 5 as we did in Lot 4. And you will recall, we had no such discussions with you about events on Lot 4, that was a negotiation that took over 12 months from the proposal's submission, to having a contract concluded in its finality, and we weren't having discussions. This is a responsibility for disclosure that we undertake, and the conditions that we see now are the first really tangible evidence of changing the requirements and expectations for Lot 5 and that's why we're talking about it now.

Operator

And our next question comes from the line of Cai Von Rumohr from Cowen and Company.

Cai Von Rumohr - Cowen and Company, LLC, Research Division

So you mentioned throughout your commentary on the quarter risk reductions and the amounts for various programs. And believe me, in your latest 10-Q for the first time, you revealed the amounts in total for the first and second quarters, I believe it was 4.25% for the second quarter. How big was the benefit from changes and estimates of completion in this quarter and last year? And approximately how large should we expect that to be for the year?

Bruce L. Tanner

Cai, I'll take that one. We've come back and looked historically, I'll say we're, generally speaking, around somewhere between 26 and 32-ish kind of a percent on a quarterly basis in terms of the amount of pickups or step-ups that we have on our contracts, think of those as the inception to date adjustments that reflect the risk retirement that I was talking about earlier on the F-22 program. Now I don't recall that out of the top of my head but I want to say it was somewhere in the $300 million to $400 million range this quarter, probably closer to the $400 million actually maybe a little bit higher than that maybe as much as $425 million or so in the third quarter. So I don't think out of school of what we did in the second quarter and if I remember your question right I would say, going forward, we would expect to have a fairly good-sized, maybe a little bit towards the lower end of that percentage as far as the adjustments going forward. Again this year and a little bit last year also, it's because of the F-22 wind down, there were just some recognition of a lot of risk retirement with the end of that production line that we took that obviously post 2012 won't be there.

Operator

And our next question comes from the line of Rob Spingarn of Crédit Suisse.

Robert Spingarn - Crédit Suisse AG, Research Division

Bob, to what extent could unit quantities for future LRIPs, let's say 6 and 7, or frankly even 5 be tied to these concurrency costs? And that we could be flatlined here at 29 aircraft as for the SAC-D proposals on the basis that maybe they're looking to just find a solution if you can't find one otherwise?

Bob Stevens

I think that I wouldn't rule that out as a possibility, Rob. I don't have the insight nor do we participate in the determination of exactly how overall risk on the program would be managed. And I know you're suggesting in your question, would the prospect of incremental cost for concurrency changes be offset by a reduction in production quantities, I'm not sure whether that would happen or whether that would not happen. Our goal has been very much to keep our head down and focused on execution and the details of the development and the test program and then on the production side continue to more tightly weave together our global supply chain so that we can improve maturity, improve quality, lower the total cost. Our experience is built on a foundation of just a couple of observations and one of them is that volume matters over time on production programs. We've got a good learning curve in the aggregate for the work that we're undertaking on the F-35. It is, again, just as some of this risk of uncertainty, in my judgment, is inherently governmental, it's also the government's responsibility to look at concurrency on the program and make their judgment of what those cost risks consequences might be from concurrency changes in the production bills compared to the opportunity of driving down learning curves aggressively. And in my mind, reaching out for international opportunities to help build the volume on the program. I would just remind all that the name of this aircraft is the Joint Strike Fighter for a reason. It's not only Joint with regard to the Air Force and the Navy and the Marine Corps here. By design from the inception of this program forward, it was intended to be multiservice and multinational. And with that construct came the prospect in any economic environment of greater quantity. So when we do our modeling here, we look favorably at a forward leaning posture that would reach out and build security cooperation partnerships between our governments and friendly and allied governments and in building those security cooperation partnerships, we would have an aircraft that by design was interoperable and having the ability to be shared consistent with our global supply chain. That is the F-35 by design. So it is possible that future production lot quantities would be affected by either concurrency cost risk or other cost risks or other appraisals of the program. That decision doesn't rest with us.

Operator

Our next question comes from the line of David Strauss from UBS.

David E. Strauss - UBS Investment Bank, Research Division

Bob, could you give us some color around F-35 learning or cost reduction, what you're seeing there, how it's tracking relative to prior programs? And then one for Bruce. Bruce, can you give us some detail around -- you'd talked about the booking on -- your booking on F-35 this year is a mix of EMD and LRIP 2 through 4, can you talk about how that changes as we move into 2012?

Bruce L. Tanner

Yes. Let me take on both those, actually. I'll say the learning curve performance that we've experienced so far and that we are actually forecasting in the LRIP 5 proposal is in family or a little better than in family with all the experiences of building similar fighter aircraft at least in our portfolio, our history of those type of aircraft, be it F-16s, be it F-22s, be it F-117s, even. I think the learning curves we're experiencing so far, as I'd say, are in family or a little better than that at this juncture of the -- the comparable juncture of the build sequence. So I think we're actually performing very well in that regard. And we're continuing to show those sorts of improvements going forward. Relative to the booking on F-35, we do have a situation where I think next year is EMD or the SDD contract sales are going to be a little bit lighter but not much than this year. So we still have, I'll say, the drag of a low-margin cost reimbursable type contract. We have actually had some of the risk retirement inception to date pickups that Cai was referencing on the LRIP contracts last year and this year so those opportunities are still there. And part of it is, Dave, back to your question on learning curves is, assuming we do make those learning curves going forward, that's one of those elements of risk retirement that will enable us to increase the inception to date booking rates on those programs [ph]. I wouldn't think, though, that you would see a large increase on the return on sales. Having said everything that I said between 2011 and 2012 simply because of where we are on those early production lots.

Operator

And our next question comes from the line of Pete Skibitski from Suntrust Robinson Humphrey.

Peter J. Skibitski - SunTrust Robinson Humphrey, Inc., Research Division

Bruce, you just touched on this a little bit, but I was wondering if we can go further. I think you said the SDD contract on the F-35 would be down a little next year. I'm just wondering in your top line assumption for 2012, the LRIPs for F-35, sort of in aggregate, are they expected to be up, are they expected to be flat and to what extent maybe the LRIP 5 timing of that contract depends or drives that?

Bruce L. Tanner

Yes, very little LRIP 5 impact on 2012 costs that I would expect to see. I'm doing this from the top of my head a little bit here, but I believe the F-35 -- if I just think of F-35 in total, and that includes both the SDD contract and the LRIP contract, I want to say we're growing some 7-or-so percent year-over-year for 2011 and 2012. The development contract, actually, is reducing somewhat, not a lot. I want to say $100 million or maybe a little bit more than that year-over-year and the difference is more than offset by increases in the LRIP contracts from '11 to '12.

Operator

And our next question comes from the line of Carter Copeland from Barclays Capital.

Carter Copeland - Barclays Capital, Research Division

Just one quick one for you, Bruce, in the interest of time since we're running behind. On the pension, I don't think you'd mentioned this, but the $800 million in funding for next year, how do you see that looking beyond if things are unchanged, what sort of contributions do you think we might end up seeing beyond 2012?

Bruce L. Tanner

Carter, I'm a little hesitant to speculate beyond 2012, given where we are today. But I have looked at that. And I'll say -- and I always caution this with current course and speed assuming the 4.5% discount rate held and asset returns would be at the expected longer-term asset return rate of 8% versus 8.5%. I would think our funding level on an ERISA basis or the cash out are paid into would be close to the amount we're talking about in 2012 going forward. So I wouldn't see an increase year-over-year beyond 2012 assuming those parameters hold constant with what we're seeing or projecting in 2012. So think of it as being $1.3 billion ERISA payments in 2011, about $2.1 billion next year. And I would think that number will stay fairly consistent short of those previous items or factors that play into the payments changing, as I said, the discount rate in the asset return.

Operator

And our next question comes from the line of Michael Lewis of Lazard Capital Markets.

Michael S. Lewis - Lazard Capital Markets LLC, Research Division

I just want to switch gears real fast to talk about the Joint Air-to-ground Missile. It could face some cancellation risk here, if that does occur, do you think that that's actually a positive for the HELLFIRE for a potential new upgrade to the system?

Bruce L. Tanner

Yes, Mike, I'll take that one. The JAGM, we're watching that very closely. Obviously, we've got a number of customer tests and a number of, actually, company-funded tests and that missile is performing very well. You might think of this as sort of an all-capability missile for any target on the ground from both rotary wing as well as fixed wing. The HELLFIRE is performing extremely well. In theater, it is battle proven, it is very affordable. I mean, it has every characteristic you'd want to have in a weapon of that nature and I would submit to you that we have improved the HELLFIRE over the years, not just going forward. We have made that a better missile bringing back a lot of the technology that's already being considered into the JAGM, into the

HELLFIRE and we could do that going forward as well. So that's a product we would be pleased to sell for a long, long time.

Operator

And our next question is a follow-up from the line of Myles Walton of Deutsche Bank.

Myles A. Walton - Deutsche Bank AG, Research Division

Just a clarification, Bruce, when you said 4.5% for the discount rate, is that actually what you're seeing or are you giving us a sensitivity that can establish kind of worst case scenario conditions because Northrop, for example, is looking for more of a 25 to 50 basis point headwind. It's 100 basis point headwind, I'm just curious, is that what your actuaries are telling you?

Bruce L. Tanner

Yes, Myles, the actuaries are probably a lot easier for me to understand at the end of the year as they are now, frankly. But I think just from a sensitivity perspective, I think we're seeing realistically right now 75 to 100 basis points drop since the end of the year. So it's probably somewhere in that range and that's the reason we went with the 100 basis points, frankly.

Bob Stevens

Good. First, I want to say thanks for your help on the call today, Karen. Thanks, everybody, for being patient. I know we went longer on the call again, we thought we had a lot to talk about the F-35 and other programs. We took some time today to describe to you some of the challenges that we're facing. But we also have some very strong fundamental differentiating aspects of our company.

Our financial strength and our stability, our cash generation, which provides exceptional firepower for shareholder value deployment, our workforce excellence, which I believe is second to none and our program portfolio that offers the best alignment to global security needs. We'll continue to work hard, we'll continue to stay focused, and we look forward to talking to you on the call in January. Thanks again for your time today. Karen, thank you again.