Good day, and welcome everyone to the Lockheed Martin Third Quarter 2010 Earnings Results Conference Call. Today's call is being recorded. (Operator Instructions) 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, Jevon, and good morning, everyone. I'd like to welcome you to our third quarter 2010 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.

I'd like to remind you the Statements made in today's call are not historical fact or 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 morning, everyone. As our release this morning outlined, operational performance continued at a good pace during the third quarter and we achieved solid financial results, including sales expansion of 6% and continued exceptional cash flow generation.

Our focus on operating cash has been the center piece of our strategy that enables sustained investment in the business and sustained returns to shareholders through sharing purchases and increases in our dividend, and I think this strategy is working well as evidence by our ability to increase the quarterly dividend by 19% this quarter, extending our double digit dividend increase 3 consecutive years.

Let me start with an update on matters relating to the external environment which we're operating in, and address some emerging trends.

When we last spoke in July, I highlighted what we termed the new reality that we're facing. Greater security means emerging with fewer resources available to meet them. To address this environment the Defense Department has continued to clarify its objective of implementing major changes in the way equipment services are procured from contractors with a goal to save more than a $100 billion over the next 5 years, from overhead and other accounts without negatively affecting war fighters.

Once realized these savings would be invested in new equipment and applied to reserve troop strength, even as military budgets flatten in the future.

On September the 14th, under Secretary Defense Acquisition, Dr. Ash Carter, provided additional detail into 23 areas of improvement to make the department's procurement offices and Defense contractors more efficient.

These actions were broadly characterized into 5 majority areas targeting affordability and controlling cost growth instead of [inaudible] productivity and innovation in industry, promoting real competition, improving trade craft in services acquisition and reducing non-productive processes in bureaucracy.

Within each of these categories, there are more specific areas of focus, like advancing the use of should cost modeling, eliminating redundant government reporting and review requirements, shortening acquisition cycle times, and increasing the use of fixed price incentive type contracts.

Since implementation of these initiatives by the department was planned to be phased in over time, we've not yet seen their total effect on our business. And we've been advised that some areas will require additional study and be subject to more detail future guidance.

We have however, agreed to be use of a fixed price incentive type contract on our F-35 program in the Lot-4 low rate initial production lot, which I'll cover later in greater detail. And we certainly welcome the focus on shortening cycle times, as we're seeing the opposite effect.

Components of the acquisition process have been consuming more time. Some negotiations have taken longer, some awards have been delayed. All having the effect of putting pressure on future growth prospects.

So we're looking forward to working with the department and seeing some tangible results from these streamlining initiatives and we'll keep you posted as they unfold.

Relative to our strategic focus, cost reduction, and efficacy initiatives, we're making good progress. We've entered into an agreement to the rest of enterprise integration group, to Varitop capital for $815 million in cash. While this transaction is subject to government anti-trust review, we expect to close before year end.

Our Pacific Architects and engineers unit continues to see solid interest from potential buyers, and we're on a timeline that supports closure, either late in the fourth quarter of this year, or early in the first quarter next year.

These actions, plus the rebalancing of our global logistics and training business, will provide a most crisp focus for our operations.

We also previously announced implementation of a voluntary executive separation program, designed to right size the company, reduce layers of management, enhance affordability, tighten reporting relationships, and allow for more direct lines of communication both inside the company and with our customers.

This program has been a solid success with approximately 600 employees participating. We will backfill some of these positions but not all of them. And we've all ready begun the process of organizational transition of knowledge transfer as we move to a more efficient model.

I want to thank those executives who are participating for their valuable contribution, and many years of service to our company and to our customers. Their work has been professional and it's been highly valued.

Our focus on reducing overhead cost, travel expenses, and capital expenditures continues with a renewed emphasis on working with our supply chain. With approximately two thirds of the cost of our products procured from vendors, we must continue to drive down cost and improve quality, delivery, and reliability.

These actions are essential to enable us to deliver the best value to customers and financial performance for shareholders.

Turning operational performance, we had a solid quarter with key accomplishments across all business areas. In Aeronautics, I'll highlight 3 programs where special attention warrant.

On the F-35 Joint Strike Fighter, we continue to see progress across many areas of the program, but challenges remaining in others.

In the flight test program, the overall tempo of flights continues to ramp up, as evidence by completion of 133 flights this quarter, or almost as many flights in the quarter as the 136 that were completed during the first 6 months this year. This acceleration in the flight test program was planned, and expected. Flight test performance continue to head a plan on both the conventional takeoff and landing, and the carrier variants, while the short take off and the vertical landing of flight completions remain behind schedule. Overall, we’re 26 flights ahead of plan through September, and are tracking toward achievement of the plan 394 flights for the year.

Looking at some detail, the CTOL variant is 61 flights ahead of plan and the carrier variant is 5 flights ahead of plan, while the STOVL variant is 40 flights behind plan. STOVL aircraft component reliability continues to be the principle focus area. We’re pursuing a multi-faceted approach to improve tempo that is working to obtain higher levels of spare components and parts from vendors, to keep the aircraft in a flight ready condition while completing the analysis and corrective action planning to address the root cause conditions.

On the software front, we’re about 85% complete with the development of over 15 million lines of code, but much work remains. The software flying now has shown good stability and good functionality, but more resources will be needed to complete software build and test. We’re adding an additional software integration line and additional staff to increase capacity and improve productivity.

I thought it might be interesting to give you an example of a day in the life of complex systems development. During routine ground testing of the F-35 fuel management subsystem, a software anomaly was detected. While we never experienced this problem in flight, testing indicated the potential that a fuel boost pump could shut down. Upon detection, flight operations were immediately suspended as a prudent precaution. A corrective modification to the software was immediately undertaken by the fuel systems supplier, and flight testing was resumed limiting the impact to the flight test schedule to about a week. So again, initiated this may not seem like all that much, but from my point of view it’s a model of professionalism in the government industry partnership we’re testing was undertaken with rigor, roles in responsibilities were clear, high standards were maintained and safety was paramount. The process was transparent and effective and resulted in a better airplane without taking on any unnecessary risk.

Production activities continue to ramp up at Fort Worth with low rated initial production work yielding good progress on factory cost performance, but with some schedule pressure. Solid cost performance and learning curve data enabled us to reach agreement on price with the government this quarter, on the low rate initial production Lot-4 contract, the 32 aircraft under a fixed price incentive type contract structure. With a 50/50 share line and a 120% sealing, this contract will be challenging and will require focused attention on execution.

We’re working through the normal process to definitize the contract, and once finalized, the Lot-4 contract will bring the total backlog of production aircraft to 63.

International support for the program continues to evolve. We were pleased with Canada’s announcement to acquire the F-35 as their next generation fighter aircraft, as well as the Israeli government signing a letter of offer in acceptance for procurement of the F-35 for their future fighter fleet. The United Kingdom is completing it’s far reaching strategic review. The results of which will be known shortly. In fact, I believe, Prime Minister David Cameron, is presenting the details of the plan now.

Our sense is that the plan will result in the reduction in the number of Joint Strike Fighters to be purchased from below the original planning number which is 138 aircrafts. We also believe they’re are likely to go to the carrier version of the airplane as compared to the original planning which was the short takeoff and vertical landing variant. As they proceed with 2 aircraft carriers, 1 configured with a catapult that supports the carrier variant operations. As I said, the Prime Minister is, I believe releasing some additional details of the plan, now even as we speak.

We further sense that both partner and non-partner countries will continue their planning for the F-35. Some may reduce quantities or delay the onset of production in others, may increase and accelerate their buy. And we’ll do all that we can to be flexible and supportive as our customers give all their concepts of operation and their recapitalization needs.

In the System Design and Development program, the governments technical baseline review, or TBR continues and is scheduled to be complete next month. While the results of this comprehensive assessment are not yet available, let me give you my overall sense of the progress.

I believe the many independent government assessments of the inherent capabilities of the F-35 system, affirm its fundamental value. Not just in low observability, but in the power of its missions system. Work done to date on the air vehicle support expectations of low signature and sound structural integrity in durability, the propulsion system is performing well and the on board systems are phenomenal. And pilots immediately recognize their strength. The combination of an advanced radar and sensor system along with an integrated communication suite, not only distinguish the F-35 but enhance and enable many other military assets for the F-35 will work with, thereby, improving their value as well. This capability is needed, and valued, and continued investment in the program is warranted.

The TBR then, is specifically focusing on both areas of accomplishment and areas of need. With a negotiation of Lot-4 it appears the cost of the production program are likely to be favorable to prior estimate while the development program will need more resources in software development and flight test. The TBR process is dedicated to developing its solid set of realistic and executable planning assumption, so that the program can be rebase lined as directed in the Nunn-McCurdy process, and that additional resources can be applied.

We recognize the long-term confidence in the program must be earned over time by executing and meeting commitments, and the baseline resulting from the TBR process, is an essential foundational requirement.

Moving to the C-130 J, we continue to ramp up production levels as customers expand their fleets. The Government of [Iran], recently executed a new contract for 2 airlifters, and on the production line we delivered 7 aircraft and remain on track to a plan delivery of 26 aircraft this year. Robust, domestic, and international demands remain consistent with our planning assumptions. Received by Galaxy, achieved an important milestone in the modernization program with delivery of the first production C-5M aircraft to the air force mobility command. With current plans calling for the modernization of 52 C-5 airlifters by 2016, delivery rates on these modernized aircraft will be ramping up to meet customer requirements.

This ramp up was supported by the government’s approval to proceed to full rate production. I’m very proud of our team’s contribution and fielding the modernized C-5M as it provides significantly enhanced capabilities and improved mission readiness for the United States Air Force. With the C-5M providing twice the capability, and costing less than half of other U.S. strategic airlifters, the value to the user community and the tax payer is compelling, and the program aligns well with DoD initiatives on cost savings, efficacy, and affordability improvements.

While accomplishments in Aeronautics are many, I was disappointed by the decertification of our EBMS system. We’re committed to the highest standards in process and performance measurement systems. And at Fort Worth, we’ve not maintained these standards. We will correct the deficiencies that have been identified, we know what to do, we know how to do it, and we’re working closely with government subject matter experts on corrective actions.

Among other factors, implementation of accurate earned value management system measurement criteria requires stable, fully defined baselines for each program as well as some performance measurement history against which validations can occur. This takes time. For the F-35, we’ll need performance history against the baseline that will be produced by the TBR, a process that will likely take 18 months or so. But when we're complete, we'll have a best in class system.

Turning to electronics systems, the team is doing a good job across the portfolio. Two areas merit special recognition this quarter. The Littoral combat ship and missile defense activity. On the Littoral combat ship program, our second vessel at Fort Worth remains on cost and on schedule with more than 60% of the construction completed. Lessons learned from construction of our initial ship that resulted in improved efficacy and a 30% reduction in labor hours on our second ship. We look forward to the Navy's decision, expected later this quarter to select a single design and the initial award of the Kinship order. Current Navy procurement plans continue to support a 55 ship fleet.

In Ballistic Missile Defense, key progress was achieved with successful completion of the critical design review on the medium extended air defense system. This next generation mobile air and missile defense system will replace currently fielded defense capability. MEADS provides full 360 degree coverage and can defend up to 8 times more area than current systems. Cost efficiencies are also achievable in the MEADS design due to fewer system elements and lower life cycle cost.

Moving to Information Systems and Global Solutions, our team, working on the airborne and Maritime Fixed Station Joint Tactical Radio System, the program known as AMFM Gitters, successfully transferred data and live streaming video over an internet protocol wideband network between multiple air and ground nodes. I know that's a mouthful but what that means is that this exercise demonstrated the technical maturity of key AMFM Gitters hardware elements in a rotary wing environment and bring secure real-time, interoperable communications to the war fighter, one step closer to reality.

In the area of new contract awards, I was very pleased to see our IS and GS team extend their multi decade relationship in providing information technology support and solutions to the Social Security Administration. Under the $2.8 billion, 7 year IBIQ contract IS&GS will compete for task orders to provide a broad range of IT support. We've watched the ongoing transformation at the Administration as they work to support the health and economic well-being of millions of Americans and we're proud to play a role.

Finally, let me cover two important satellite programs in space systems. The team successfully launched the first advanced extremely high frequency satellite. This is a technologically advanced military communication system that provides highly secure, survivable global communication for war fighters operating on ground, sea, and air platforms. Advanced DHF remains a top priority in DoD, and there's a potential for future additional satellite awards above the three satellites currently under contract. After launch, the first satellite, experienced a failure of one of its orbit right rising engines. We're now working on an alternative method of moving into final orbit while still preserving the full planned orbiter life for the satellite.

We also completed the critical design review on the global positioning system 3 contract. Completion of this milestone validates the design to insure it meets war fighter and civil requirements, and allows the program to begin the production phase. GPS3 improves navigation, position, and timing services with signals 3 times more accurate and powerful than current GPS systems. Space systems is currently working under a $3 billion contract to build up to 12 satellites for the United States Air Force.

Finally, I've described for you, many times, my admiration for our workforce, and the quality of our leadership team. I was very pleased to see Linda Gooden, Marilynn Houston, and Joann Maguire recently named among the 50 most powerful women in business by Fortune Magazine and our general council Mary Ann Lavin recognized by the Washington Post. They are exceptional leaders whose talent and contributions are widely recognized inside and outside of our company. And we are very, very proud of them.

In the near-term we recognize we're working in a more challenging environment as our customers face more volatility that will likely pressure our revenue growth, and as we face pension headwind that will likely increase pressure on earnings. I have unshakable confidence in our future however, because of the quality of our portfolio and the quality of our people, and our collective willingness to do all that is necessary to affectively navigate this new reality.

Let me turn the call over to Bruce now to provide some additional detail on the third quarter financial results, and some initial color on emerging trends and there potential impact on 2011 financials, and then Bruce and I will come back and take your questions, Bruce.

Bruce Tanner

Thanks Bob. We posted charts on our website to help with our discussion today, and at this time I'd encourage you to open the charts and follow along with me as I make my comments.

Let's begin with chart 3, a summary of significant of portfolio shaping and affordability actions we took this quarter. First we're pleased with the value we'll receive with the announced sale of our EIG business for $815 million.

And as a reminder, with announced sale, the operating results for EIG have been classified as discontinued operations.

As a result, we've lowered our 2010 sales and segment profit outlook by the amounts we expect EIG to contribute. Other than this movement to discontinue operations, our guidance remains unchanged for the year.

And finally, we do anticipate that this sale will close by year end. As for PAE, as Bob said, we will expect to close that transaction later this year or early in 2011. And moving down the same chart, to our voluntary executive separation program we have about 600 employees participating in the program and I'm sure you saw our AK announcing the $178 billion pretax charge for the program. Over the next few weeks or months, we'll be working with our customer to agree on the timing of recovery of the program cost in the amount of recurring savings that will generate going forward.

We would expect to recover majority of the program cost in the future as we price new business.

You can now turn to chart 4 in our third quarter sales summary. Overall the corporation grew 6% in the quarter. Electronic Systems had the strongest growth at 10%, due primarily to the third quarter deliveries of our Persistent Threat Detection System or PTDS in the quarter. This contract began earlier this year and all deliveries occurred in this quarter.

Both Aeronautics and IS&GS grew at 7% in the quarter with a growth in Aeronautics driven by the F-35 program and C-130 deliveries. Growth at IS&GS was driven by the 2010 census program and our efforts at the Doe [inaudible] site. Space Systems' sales were 5% lower than last year due to the absence of the commercial satellite sale; we had none this quarter versus 1 in the third quarter of last year.

Chart 5 shows our revised sales guidance with EIG and discontinued operations. Again, the only change was removing the sales for EIG from the IS&GS projections. Looking at the end of the year for each of the business areas, I would expect Electronic Systems and IS&GS to be at the high-end of their ranges. Space Systems' to be at the low end of its range, and Aeronautics to likely be in the middle of its range.

Chart 6 shows the same guidance changes for segment profit. Again, looking at where we expect to end the year, I'd expect Electronic Systems, Space Systems, and Aeronautics to be at the high end of their ranges while IS&GS will be towards the lower end of its range.

Moving to chart 7 and our cash flow performance, again this quarter cash was very strong as we generated over $500 million in cash while contributing over $1 billion to our pension plans. On a year-to-date basis, we have generated $3.4 billion in cash from operations while contributing $1.4 billion to our pension plans. Without this contribution our operating cash through the first three quarters would have been $4.8 billion or more than $1 billion more than last year through the same period.

Looking forward to the rest of the year, we were able to keep our guidance at $3.4 billion of operating cash while planning for an additional 800 million of pension contributions in the fourth quarter bringing our full year of contribution level to $2.2 billion.

Turning to chart 8 we'll look at our dividends and yield increases over the last 5 years. With a 19% increase in dividends, we announced in the quarter our yield at the current share price is just under 4% and if you annualize the dividend increase, the yield exceeds 4%. Combined with our share repurchases, we returned 76% of our year-to-date pre-cash flow to shareholders. We'll speak to our share repurchase activity on the next chart, chart 9.

Year-to-date we've repurchased almost 20 million shares for just under $1.6 billion. That brings our current shares outstanding to less than 360 million. A 4.1% decrease since the beginning of the year.

On our next chart, chart 10, we'll show our continuing earnings per share outlook compared with last quarter's outlook. In June we provided guidance of $7.15 to $7.35 per share. Of course in this quarter we had the $178 billion charge for our vest which impacted the outlook for the year by $0.31 per share. And moving the results of EIG into discontinued operations lowered our continuing earnings per share by an additional $0.11 per share.

A number of other items committed to an overall two-set increase resulting in our new EPS guidance of $6.75 to $6.95 per share.

Finally, I'd like to give you a brief update on what we see as emerging trends as we head into 2011. We still plan to provide our detailed guidance in January but wanted you to have an idea of the trends we're seeing as we sit here today. For the top line we expect our sales for continuing operations next year to grow at low single digit growth rate over this year. Aeronautics will have another year of strong growth driven by the F-35 program and C-130 deliveries. Electronic Systems will be flattish compared with this year, losing the benefits of the PTDS sales we have this year in addition to delays and expected rewards for the littoral combat ship, and additional bad production. IS&GS will likely have a slight decrease as we finish the 2010 census this year, and lose that activity in 2011.

In addition, we're expecting the Federal IT market to shrink from 2 to 3% IN 2011 compared with 2010. Between the PTDS and census program, we had nearly $1 billion in 2010 sales that will not be replicated in 2011.

Space Systems will also remain relatively flat compared with 2010 as we've been saying for some time now. We expect segment profit to be similar to the 2010 level will result in lower [Ross] compared with 2010. And as we look at our pension expense on a FASB CAS basis, our asset returns this far are favorable compared with our long-term assumption of 8 ½% return while the rates used to determine our discount rate have declined significantly throughout the year. In addition, we are now assuming that CAS harmonization will be effective in 2012 rather than in 2011. The combination of each of these items leads us to believe that the FASB CAS drag on our EPS will grow considerably in 2011. With that, I think we're ready for your questions. Jevon, if you'd please open up the lines.

Question-and-Answer Session

Operator

Thank you. (Operator instructions) And our first question comes from Rich Safran with Buckingham Research.

Richard Safran – Buckingham Research Group, Inc.

Hi. Good morning.

Bruce Tanner

Hi, Rich.

Richard Safran – Buckingham Research Group, Inc.

I wanted to ask you first, some metal supplies have been talking about the increasing demand and they're raising prices for some strategic metals and specifically I've been noticing it for stainless titanium alloys and nickel alloys. I was wondering if you could comment on how this would impact your cost near and long term. And also in your comments if you would, would you talk about any compactly constraints you might be seeing?

Bruce Tanner

Rich, like me take a shot at it and then I'll see if Bob has anything to offer after I finish. It may surprise some folks but in all honesty, we don't buy a lot of the commodities and the metals and so forth that we use to build our products. As it turns out, we tend to aggregate the demands for that – for those products and commodities and instead we let a lot of our suppliers use those aggregated demands to purchase those materials.

And so what we tended to do in the past is establish some fairly long-term purchase agreements that provide us stability in both the supply as well as the pricing. But think of that ability to aggregate the overall supply amongst a lot of different suppliers in our bases bring us the best prices.

And I'll tell you, relative to the specifics you cited, I'm not aware of any issues with our ability to acquire or price fluctuation or that it's out of the ordinary of what we're seeing today.

Bob Stevens

And Rich, let me expand just a bit on Bruce's comment. However, notionally we've had discussions with the Department of Defense Acquisition Team as we've extended these conversation about affordability initiatives in thinking through the prospect of increasing material prices and the greater need for us to act like a strategic buyer. And that's why this notion of long-term contract, long-term predictability, multi-year procurements have been advanced by – I think the industry community broadly because that will allow us to get the best possible prices really in any set of market conditions, even if there were to be some upward price pressure.

Also, you asked the question about capacity constraints here. We planned our program in a flexible way so we're not experiencing any capacity shortfalls today at all. And on our major program, take a C-130 as an example, we've been able to go from 16 to 26 to approximately 36 based on optimizing the investment that we've made. To date, we'd be able to do the same thing on the Joint Strike Fighter. We think our Littoral Combat Ship offering has been thought through in a similar set of circumstances.

So we try to balance our view about the capacity in assuring that we have gated investments. We call them gated, or we want to get a greater knowledge before we make entirely speculative investments about what the future horizon will look like. We try to build as much flexibility in the capacity that we have. And we also have thought through the prospect of potentially building down. If there were more headwind, can we build down and still not lose the bubble on affordability or profitability. The F-16 line is probably a good historical example of the ability to scale up as global circumstances change and customers – recapitalize needs vary and then to build down and build back up.

So the lessons that we've learned there we try to populate throughout the company.

Operator

Our next question comes from Jason Gersky with Citi Investments.

Jason Gersky – Citi Investments

Hey. Good morning, everyone. I was just wondering if you could offer a little bit more detail on the Allred Four Contract. Particularly maybe some commentary about the longer-term margin profile and how you envision revenues and margins ramping over the next several years taking into consideration this contract; just particularly relative to the way you've talked about the program in the past.

Bruce Tanner

Yeah, Jason, I'll jump in here. And Bob gave me some other relatives and is prepared a march relative to the contract structure that we agreed to. I would characterize it as still enabling us to have the kind of margin expansion on the product program that I've been talking about in the past. I think in past calls I've talked about the thought that we'd like it to be able to achieve about a 10 percent Ross about the time we hit the middle of this decade or when we hit full – full-rate production profile in our product contracts. And I still think that's the case. I still think this contract enabled us to do that. We wouldn't have agreed to it if we didn't think we could execute to it.

It's probably a little tighter in terms of the risks elements of it on the Share Line and the sealing that I would have otherwise liked. But I think that puts a little bit of a premium on us to focus on our execution, but I think we're capable of doing that.

Bob Stevens

And Jason, on the other side, a significant and important element when we move from costs reimbursable to fixed-price environments is assuring we've got a known configuration that the requirements are stable. So there's additional discipline in the process and that's not just on our side, it's on the government side.

And not withstanding Lot-4, but let me give you just a sense about this movement from cost-type, to fixed-price type contract. There's less flexibility overall in a fixed-price type of contract and that requires some behavioral changes. You know, I'll make up an overly simplified illustration.

It doesn't really have much to do with Lot-4, but in a cost-reimbursable environment, if we agree that we are going to meet every quarter and the government would say we'd rather meet monthly, our first response is where, and when and what subject matters experts should we bring.

Under a fixed-price contract, we will say we're going to need to submit a change order to you to change the contract budge baseline to now include provision for the costs of meeting monthly. That's a behavioral difference.

So I think we're all trying to go into this environment with our eyes open. As Bruce said, the wristband gets a little tighter on our side; the discipline, I think, gets cranked up on both sides. We lose a little flexibility but we think the advantages of taking on modestly more risk or diminishing flexibility will be worn out by improved performance on the program and that's what we're all focused on.

Operator

Our next question comes from the line of Doug Harned, Stanford Bernstein.

Doug Harned – Stanford Bernstein

Yes, good morning. In the release and your discussion on 2011 earnings, there's a sentence that says that you're seeing – the industry is seeing delays and cancellations in programs and it also – adjacent markets are turning out to be less mature than anticipated. I wonder if you could talk about this a little bit. In particular, if you look at where the overall budget is right now and you look at the 2011 budget, it's actually a pretty strong budget. So think about that in terms of a lot of delays and cancellations. I'm trying to understand how you fit that together.

And then on the adjacent side, what are the adjacent markets that you are seeing as more difficult right now?

Bruce Tanner

Doug, let me start the conversation and then I'll turn it over to Bob. You know, last year about this time we provided you guidance, not just for the year 2010 expectations, we tried to get a little longer-term view of what we're expecting to see and I think during that call I talked about sales in 2011 as kind of being at the mid-single-digit level. We're now – we're now talking about more like the low-single-digit level. And in the items that you mentioned from the press release, the reasons for that diminished outlook – I'll give you a couple of examples maybe to highlight each of what you're talking about there.

One on the delays, think of hurdles like the Littoral Combat Ship, which we are assuming in our numbers of 2011 as a win when we talk about the growth rate we're seeing over 2010. But we had expected when we were talking last year for that award to have been sometime in early summer of this year. We're now talking about a November award potentially. So think of that being, you know, almost six months of delay there. It doesn't change obviously the overall expectations of sales for the Littoral Combat Ship, but it does – it does change the phasing. So we're going to shift some of those sales to the right and push some of the early ramp rate in 2011 over into 2012.

The same exact thing is happening with the FAD, production loss. We'd expect to get those earlier in the year. It looks like they'll be later in the year and it's the same kind of delayed ramp up in the higher FAD production that we're seeing there.

On the cancellation side, the best example I think I can give to you there is we do a contract for IS&GS called the FDI Sentinel Project which is really a case-management study or a case-management program where we were doing development to enable a lot greater capability of that system. And I think in a large part due to the budget pressures within the Federal budget, but the decision was made to stop doing further production on that activity and instead essentially do with what you've got and go more into an operations and maintenance phase going forward as opposed to a development phase.

So not so much a cancellation as a scope reduction. In fact, reflecting I think the reality we're talking about.

And then on the adjacent market scenario, really we're talking about there's the energy market, and specifically there's the concentrated solar power market. We had talked to you last year at this time. We had in play a potential deal we were looking at providing for Arizona Power Municipality. As it turned out, it didn't happen for a number of reasons, but we also thought there were a number of smaller arrangements around the country that were going to materialize. And as we sit here today, again I think because – and frankly because of some of the fiscal pressures we're seeing and the tax revenues going down, I think we're seeing a delay in those particular types of projects. And Bob, I'm [inaudible].

Bob Stevens

Yeah. I would tell you that obviously we only speak for ourselves, but I'm going to guess we're not the only one speaking to the predominant of the [inaudible] as described to you. Even as early as April of 2009 when

Secretary Gates had a number of program decisions and announcements, some of which impacted our company and some in which impacted others, we began to communicate to you and others our sense and the praise we viewed in this new reality. And big part of that new reality was the fiscal challenges that our nation's facing and the need to adapt, just some fiscal discipline.

As a result, you know, we're seeing the – I think some building of the pressure on that horizon. Bruce gave you some illustrations about delays and cancellations. As we watch the Bills work their way through the congress, I think there was a level of interest that drew our attention in the Senate Appropriations Committee mark because they talked about the number of programs. I even think that if I get the math right, I think the number's 41 programs they may have described as being delayed in some fashion. The result of which was they're withholding some funding to see if those delays were going to be recovered or whether they were going to be persistent. So I think there's a broader observation of the process slowing down a little and that's why among the affordability initiatives that Dr. Carter [released], we are keenly interested in adding our full prodded voice and any experience we have in our energy and focusing on shortening the cycle time. Not only because it will help remedy the discussion that Bruce just had with you now about the onset of revenue recognition, but we pulled out all the way through to floor structure and military capability, that can be fielded. And we don't want to see that process delayed either because the real value of the systems we work on, if you think of returns on their value commences when they get fielded and put into operational services.

So we – I think we have joined objectives and initiatives with the administration in getting this right. But our job here is to make sure that we're as clear and transparent and can give you the best of our professional judgement as we look out over pretty complicated landscape and give you a feel that we have a future.

I'll also say we've not hesitated in taking actions here that would be consistent with our appraisal of this future. Even as far back as 2009, we began consolidations where our program baselines would be changed. We've gone through some pretty painful reductions in force and that's something we work hard to avoid, but we can't avoid the reality of sizing the workforce to the volume of work that we have to accomplish with the government. We – we've elected some of the vestures here that we've described to you fully to help us focus and really meet new sets of expectations in the markets that we serve. But also to help us get a greater operational focus.

We talked about the voluntary separation program. We've been scrubbing our expense budgets and our capital budgets and really focusing on generating operational cash, which we think is a very important focus area as we adapt to the new reality which we are committed to adapting to, and running this business well. We think it's very sound judgement on our part to focus on cash so that we can certainly weather any financial challenges we have, but also very much prepare for what we believe will be a re-establishment of the growth trajectory for the business in the future as we go through these early rounds of budget examination to see what new baselines will look like.

I like the priorities our programs enjoy. I like the support that we've had in the President's budget with the administration. I like the support that we've had in Congress overall. As a statement about the portfolio, I think we align well with the military and intelligence community needs and some markets will probably accelerate and some will have a little pressure and we'll do our best to have sound judgement here as we allocate resources and do not over invest in emerging or adjacent market areas so that we have difficulties in returning value on those investments and we'll stay very focused and we'll do our best to keep you advised in advance of our experience in these challenges.

Operator

Our next question comes from the line of Joe Nadol with JP Morgan Securities.

Joseph Nadol – JP Morgan Chase & Co.

Hi. Good morning, guys. My question is on cash deployment. You had very strong cash flow in the quarter and you effectively upped your guidance pretty significantly for the year ex-pension. But you made some significant changes with regards to deployments. Big extra deployment into the pension fund, raised the dividend very significantly and you cut back pretty significantly on share purchase. Since there's a zero-sum gain, I was wondering if you could offer us some insight into how you're thinking about those three buckets relative to each other going forward.

Also, any – if you can shed me a light on what the net proceeds from EIG should be and how you're going to use those proceeds.

Bruce Tanner

Thanks, Joe. I'll tackle this one. You asked about pension, dividend, share repos and the actions we took in the quarter and what that means for the future. I'll start off with pension just to begin with because that's a big moving piece of the whole discussion. As I said in my prepared remarks, we are now assuming that cash harmonization is effective in 2012 versus 2011.

That actually has the effect of lowing the CAS number in 2011 from what we expected. That's one of the contributors to the additional FASB CAS GAAP relative to ETS that I talked about earlier.

The discount rates have – are significantly lower and I don't think that's a great surprise to anyone. They're lower now than they were at the end of the last year. And we still need to see how much change we're going to see between now and the year end.

Relative to the $2.2 billion, you know, we might give a little bit of tutorial relative to the risk of funding requirements for pension plans. The ERISA, which obviously is the law that governs our pension plans in general, basically treats the discount rate and difference and either our FAS evaluation or our CAS in that discount rate for ERISA is for all intents and purposes, kind of set now going into next year. So think of it as a 24-month moving average. So we kind of know what that is now and with the contributions to get us to the 2.2 and where we expect our asset returns to be by the end of the year, we think that this additional contribution amount will get us to the 80 percent funded level at the start of 2011 relative to an ERISA measurement perspective, which gets us in line with the expectation of the PPA, the Pension Protection Act that becomes effective for us in 2011.

And in that scenario, unless there are future changes beyond in 2011 in the form of lower discount rates or obviously lower asset returns, we would not expect to have to make additional discretionary contributions into the fund as we've done for the last few years. In essence, the baseline – I'll call them the baseline ERISA requirements for contributions will be what it takes to keep the fund funded. Not just the 80 percent to actually grow that number over time. So a lot of what we've talked about recently in terms of discretionary contributions, we would not expect to have to make anywhere near that level going forward.

On the dividend, we took a look at where we sat from the dividend perspective and our growth prospects and we just felt that – and I should say we talked to an awful lot of investors as well who felt that in today's environment, a strong cash generating company with a strong dividend yield was looked upon favorably. And so we did that consciously under that assumption.

And then on the share repurchases, we probably were a little bit lighter in the quarter here this year. We still expect to continue, although we've, you know, as compared to the first three quarters of last year actually were up compared to where we were last year. I think some of that was just the phasing what we did in the first half of the year. I don't see that changing, Joe, as we go forward because we still, you know, the 50 percent of free cash flow going forward that we've done for quite some times is still our plan.

And I think your last question concerned the EIG net receipt that we expect to get from that. And we would expect to net out about a ½ billion dollars, thinking that relatively EIG sale. And we would continue to use them in our – I'll just characterize it as our general purpose use of cash for all the sorts of three things that we talked about earlier.

Operator

Our next question comes from Myles Walton from Deutsche Bank AG.

Myles Walton – Deutsche Bank AG

Thanks. I did have a quick question I think on this C130J and looking at the air mobility commentary in the discussion. It was one of the first times of seeing their mobility even come down on a year-on-year basis and also given how many more you delivered in the quarter year-on-year. I'm just not sure how to read that. Can you help me with that one?

Bruce Tanner

Yeah, Myles, this is Bruce again. I'm sorry, one of the reasons for that, the year-over-year change was we're kind of getting towards the tail end of the original multi-year contract and as we typically get towards the tail end of contracts we do have more profit adjustments recognizing the performance on that contract. That's exactly what we've experience in this scenario last year.

So we had more inflection-to-date pickups. As we start into kind of the new contracts post-multiyear, with the volume coming there, as you point out, there are higher numbers of aircraft. So we've not yet had the kind of experience on these contracts early on to have – to warrant the sort of inflection to date adjustments as we did with the prior multi-year contract.

Myles Walton – Deutsche Bank AG

Okay. And how much of a headwind is that on a run-rate margin basis?

Bruce Tanner

Well again, it's going to be quarter to quarter dependent because we didn't have those sorts of inceptions-to-date step ups ever quarter last year. You know, as I look going forward in 2011, I wouldn't expect to have a significantly, you know, you call it a headwind going forward for C-130, I wouldn't expect to see that from 2010 to 11.

So that's kind of thinking of it as the run rate we're doing now is about the run rate we're going to expect to have in 2011.

Operator

Our next question comes from the line of Noah Poponak with Goldman Sachs.

Noah Poponak – Goldman Sachs

Hi. Good morning. Question on the margins. I guess it looks optically like if you were calling for modest revenue growth in '11 but segment operating income flat, that that would imply margin pressure in the business. Is that right and where are you seeing it and why?

Bruce Tanner

That's actually what I tried to see in the prepared remarks, exactly as you just said, Noah and you know when, again, I'll harken back to when we spoke a year ago this time and I did give longer-term guidance for both 2011 and 2012 at that time. I thought at that time that we were trending more towards going into margins in the, you know, 10, 10 ½, upper-10 range and I still think even though sales have come down a little bit, with the portfolio changes we're seeing, the higher F-35 sales stroke, you know, just as an example, I'm still seeing next year the F-35 market is going to grow some 20 percent above the level it is in 2010 for instance. So it is bringing with it lower margins over all and with that kind of portfolio shift, I do expect the margins to come down somewhat from where we are today, down into the tens probably in 2011.

Noah Poponak – Goldman Sachs

When you think about the margin longer term, you know, we hear a pretty concerned effort out of the Pentagon to transfer more risk to the contractor and make it more about performance and not up-front contracting. How concerned are you internally that that pressures defense contractor margins?

Bob Stevens

This is Bob Stevens. You know that, the answer to that is it all depends, but right now we're not concerned. What we – if you look historically, we've had a good number of fixed-price type contracts where we execute very well. So the discussion in my mind is not whether or not risk is transferred or the contract type is cost reimbursable, fixed prices. What are the underlying conditions in behaviors that align with the contract type? There is no magic in a contract type. The magic is in alignment and that's not just from our point of view, that's the government's point of view.

So as a matter of professional discipline on our part, we're going to continue to advance discussions that say, if we want to undertake a different kind of contracting architecture here, let's also undertake all the responsibilities that are necessary to align the conditions that make that contracting methodology successful for you, the government and us the industry. And so far, I believe we've been able to do that and I tried to highlight a little of Lot-4 F35. There will be some behavioral changes and there'll be some discipline, and there will be some reduction in flexibility. We won't jigger around the configuration, we'll be – we'll have a tighter bandwidth on performance all around. And I believe the government is up for that and we are certainly up for that and we know how to do this. We have the breadth and depth of our portfolio has been such that we've got lots of experience across the company and what we're working on now is to make sure that we're populating that experience across the company so that perhaps if there are organizations who in the recent past have not had familiarity with fixed price incentive type contracts, they're becoming a lot smarter about fixed-priced contracting environments today as we think out government customers would want us to be so that we don't fail to meet the execution responsibilities and commitments that we make.

So I mean, it is a concerted focus here. We're not overly concerned about it. We can believe we have defined financial returns and generate value there as we have to deliver commitments under contracts to government customers.

Jerry Kircher

Jevon, this is Jerry. Because we've got a bunch of people in the queue still, if we could extend the call to 12:15, let's continue on and work through the open queue.

Operator

No problem Sir. And our next question comes from George Shapiro with Access 342.

George Shapiro – Access 342

Yeah, Bob. I was wondering if you could provide for that F-35 contract the target price and the target margin and also how that relates to either what's your experiencing now on [L-rip3] or the implied learning curve that you're expecting to get just so we can make some judgment on how achievable this might be given the tighter ranges that you talked about on sealing.

Bob Stevens

Yes, George, I'm not going to give you the target price and I'm not going to give you the target profitability or the margins. And I'm sure you'll do a good job at making estimates about our performance of the absence of that data. I will tell you we have about a 74% learning curve expectation on production. We're about walking down that curve. And of course there's lots of negotiations and even in the back of my mind George, some competitive landscape of the F-35 as you look broadly around the globe, we think there's going to be strong international interest and I'm really not leaning forward in giving very specific pricing and other information about it. That's the only reason I don't want to offer it at this time. But I will tell you, as we look at the transition from the FDD program into production, if we look at the movement of cost, if we look at the likely returns, the cost reimbursable environment through the transition production and the transition fixed price contracting, I tell you, this is in line with historic standards, save for maybe two observations that we did share with you and others, a 50/50 share line in Lot-4 is a little more aggressive and 120% sealing is a little tighter, but then we believed we had a constructive and valuable discussion about the content of the program, the configuration of the aircraft, what's expected to be delivered. And those are the areas that tend to put pressure on cost. When you don't have as thorough an understanding about content or what is exactly deliverable – we've tried to take that on earlier with full cooperation from our customer because our customer wanted us to step up and embrace some of this fixed-price incentive contract modeling.

So it isn't again, that we say no, we can't do that – our viewpoint honestly is we can do a lot of things provided that conditions are consistent to warrant the contracting methodology and the architecture in the contract.

Bruce Tanner

George, I'll offer up on other maybe observation for you. First off, if I go back to my early days when I started my career in Fort Worth working the F-16 program, every single F-16 contract in production was an FDI contract. So we've had this experience now for, in my case, almost 30 years.

And as I look at the F-35 in particular, you know, not to directly answer your question relative to target price and margins and so forth, but I found one of the interesting things as I looked at it is you take a look at the cost, the target cost on the L-rip 1 aircraft, so that was for two aircraft and compare that with the target cost of L rip-4, the cost of the L rip-4 aircraft are about half as much as the cost of the L-rip 1 aircrafts. So think of that in 31 aircrafts down the product line, we've lowered the cost amount on those aircraft by half and the other aspect as I look at from the risk perspective

Bob described as far as working this contract is, you know, I very much view the L-rip 4 contract is the risk we're taking on is continued, I'll say performance down the learning curve.

I think we have a good understanding between ourselves and the government relative to concurrency risk with new findings in the SDD contract, the development contract such that that will not sort of bleed over onto the L-rip 4 contract. And it's because of that, that I ultimately felt comfortable signing the – or getting the agreements with the contract with the terms that we have.

Operator

Our next question comes from Peter Arment with Gleacher & Company

Peter Arment – Gleacher & Company

Good afternoon Bob. Bob, could you just give us maybe some more color on this U.K. F-35 decision to swap out of still offering conventional? I realize it's kind of real time but sounds like you've been briefed a little bit. Maybe one of the puts and takes of the way we should think about this on the program for the long-term. And then if you could also just tie it in with your views of the international, in general, for the entire corporation. I mean, you've seen real cuts in the U.K. by 8% in Germany, and I think expectations are there's further pressure here in the U.S. How should we think about the international market place, thanks?

Bob Stevens

Yeah, I'll take it in sections, Peter. Actually, I think we probably know about as much of the U.K. decision on F-35 as you do. I mean, you have to sort of filter out the things that are being described and discussed as the process is unfolding from the actual results of the process. It's a very comprehensive review that's been undertaking in the United Kingdom, it's very broad. It's very deep. It's very forward looking.

I don't even think the exact numbers of airplanes to be procured, have been determined as I'm sure - which is typical of all national security planners that we deal with in our international and domestic community. We try to work through concepts of operations likely future scenarios, how much equipment will need to be capable, on what date to accomplish what task. So I believe we're watching the results flow out of the U.K. sort of in process. Where some determinations have been made, I think the judgment to move away from Stovall to the carrier variant. And I'm going to make some guesses here Peter, but that that decision might be made to enhance interoperability, to enable potentially U.S. aircraft to land on U.K. aircraft carriers, where French aircraft, or vice versa. So I think that the experience we've had has been judgments are made on capability, total expense, lifecycle cost, interoperability, flexibility. And that's what we're seeing in the U.K. And we'll have to see what ultimate judgments are made about airplanes. But just stick with the F-35 for awhile.

We've long expected that there would be substantial movement over time. In the total estimated volumes of airplanes to be procured, whether they're U.S. airplanes for the Air Force, the Navy, or the Marine Corps or whether they're for are international partners. The model we've offered before, the one that we think is the most relevant to the situation we face today on the F-35 is the F-16, started at little more than 900 airplanes grew into 4400 airplanes. In 26 countries we're still seeing follow on orders from those countries to back build support, extend their fleet.

I very much believe that will be the case of, for the F-35. And I know, governments now are facing tough economic conditions. But they're also facing very tough security environments. I do believe this airplane has already demonstrated the fundamental capabilities that cause individuals to recognize its enormous value. So I rather suspect, we'll see it in the case of the U.K., reduction in the quantity, but we'll also see cases like Israel who was not an investing partner in the core program, who's come forward in the queue. They've talked about 75 airplanes in total, they'd like to get the first [inaudible], I think 18 to 20, or whatever that number will be sooner.

I believe other governments and countries in the Middle East, in the Asia Pacific theater are also recognizing very significant security challenges. I think some of those countries are feeling less pressured in their fiscal environments. They might have more resources, and may look at the current circumstances with regard to the U.K. or maybe other countries who are lessening the buyer, delaying the buys as a opportunity to get in the queue, and to buy airplanes. Our focus here has to be on execution. And we're not going to allow ourselves to be distracted. We're certainly not overly concerned or hyperventilating. I suspect they'll be some EBB and Flow in quantities and timing, and even aircraft types.

But we've got a very capable program foundation here. We talk a lot about the Stovall because it deserves to have the conversation since its 40 flights behind its schedule and we're having some component failures. The time we spend there causes us to talk less about the CTOL and the CV version that are really flying very well. And I assure you that the United States Navy and the United States Air Force are very excited about the prospects of performance of this program, and recognize the contributions we can make by delivering this capability as do our international partner.

So I'll tell you again, get a seat with a seat belt on it, because this is not the first discussion we're going to have with international partners about quantities or aircraft types or timing. There will be more. Our goal is to stay close to those customers, support them in every possible way we can, and give them very realistic appraisals about our performance and what they should expect. Not just on cost and pricing, and availability, but aircraft capability.

Extending the discussion beyond the F-35, when we look at the international market place, we still see growth opportunities for our business. Our portfolio is well populated with the kinds of capabilities that governments place a high priority on. Like missile defense. I know we can't get talk definitively about the littoral combat ship, but I really believe deeply in that mission, and deeply in the concept of a ship of this class in the littorals. And I'm confident other international governments do as well. So there would be international opportunities there, for the C-130. We believe they're strong interest. We're not done delivering F-16s yet, and have significant campaigns under way that you know, support the evolution of F-35 quantities.

So our sense is, we're living in a world that has a lot of security challenges, notwithstanding the economic pressures. What's really going to matter is, do you have a mature portfolio, have you demonstrated that the systems that your working on, actually work when they're placed into service they do. And can you deliver according to the commitments that are under the contract. Those are the fundamental details we focus on without allowing ourselves to be distracted. So I don't see a dramatic [inaudible] or change in the expectations for international growth. We're committed to staying on that pattern. We'll redouble some efforts in our international support community. We'll flow resources, talent people, executive presence there, and then we'll work with the U.S. government here as we develop the budget for 2012, figure out what will happen through the continuing resolution, and the potential laying duck session for the 2011 funding, and keep you advised.

Operator

Our next question comes from Cal Von Rumohr, from Cowen and Company.

Cai Von Rumohr – Cowen and Company

Yes, thank you very much. So your pension guidance for 2011 of a billion, is 550 million higher than what you gave us at midyear, despite the fact that you're putting 800 million more into the pension from despite the fact that you're now in positive territory in terms of returns. And based on kind of what you told us, the discount rate was about 100 million per 25 bids, you know, that's probably some 350 million negative. So by my numbers, you're 200 million off. How much of that is CAS/harmonization and if you could walk us through the other items. And then give us some rough color as to what should we expect in 2012, because you gave us some color on that the last time. Thanks.

Jerry Kircher

You're numbers are all very directionally accurate. Think of the discount rate change, and by the way, I'm not here to suggest that the discount rate is 5% today. We tried to give you some sensitivity in the press release. We picked that number thinking if things continue down the path from the interest rate perspective, that's where it could be. I don't think we're there today, by the way.

But sticking to that number, if you assume the 5%, that's about 400 million of the 550 or so that you're talking about. And then the CAS/harmonization, from what we considered last year to now, moving that out from 2011 to 2012 that accounts for the full difference. Think of that as being about 150 million bucks next year.

In 2012, I'll be honest with you, I hate to even speculate on 2012, given that we – I don't know where we're going to end up in 2010. I'd just as soon wait until we see what that looks like, and perhaps I'll give you some more color on that in the January call.

Operator

Our next question comes from Troy Lahr, from Stifel Nicolaus.

Troy Lahr – Stifel Nicolaus & Co, Inc.

Yeah, thanks. Bob, I'm wondering if you can maybe talk about how you're managing the loss of knowledge at the executive level. I guess, it sounded like maybe 3 times more people took the offer. Are the 600 people leaving, kind of a different phases, and maybe can you talk about how that's spilt between your four segments?

Bob Stevens

Yeah, I'm happy to. A editorial note, at least from my point of view, I've heard some discussion about what was expected versus what was happened. What happened was what I expected, so. And I won't comment more about that, I just find it interesting.

So more than 70% of those who have accepted the voluntary executive separation program are retirement eligible, which means they could walk out the door today. And I'll be very candid in my selection of language with you. It isn't as though the actions that we've taken or that I've authorized here are taking us off a cliff. These folks were going to leave in the next couple of years anyway. And the question in our mind was, how do you want to orchestrate the environment in which seasoned senior folks are going to leave. And we elected to take ourselves to a position, rather than allow circumstances to envelope us and take us in a place that we have not planned for – or couldn't adequately predict what the outcome would be.

So years ago, we began planning through a series of executive rotations. Perhaps you're familiar with the phrase full spectrum leadership, the investment in a center for leadership excellence here to begin to populate a set of experience to rotation of assignments, and broadening experiences in this company. A cadre of talent, it was not retirement eligible today, recognizing we've got a demographic ship not just in our company and our industry, but throughout our government where the baby boomers are going to go to retirement. And they're going to go no matter what you and I do.

So the best program was part of a much broader articulated strategy of how to transition through generational change in our company without losing the bubble on execution or programs. So we began to link executives through mentoring program and through experiential relationships so that we would grow the population underneath the senior leaders who were about to depart. And you added an important component here, the phasing of executive responsibility. So let's do some math; 600 or so people will leave between now and February. Our sense was that they would be leaving in the relatively near-term anyway.

We begun early phasing in a variety of ways where it makes sense to do that. We won't back fill, so entire compliment of 600 executives because a principle goal for us is to get leaner, more streamline, to right size this business, but we will back fill while we consolidate and realign our organizational focus. We think that makes us stronger, not weaker. And we'll have people who will be placed into these realigned executive responsibilities, who have had experience, who do have contact with those who will be departing. In some cases, under the direct tutelage of those who will be leaving, and I will say this about the professional work force that we have, including our retires today and our soon to become retirees who are in the Vest program. They care deeply about the mission. They care deeply about this company, and there is not one who would fail to help a colleague even after they were to depart in February. So I think we're very well aligned to face the reality that we're all facing. And others I guess, will go about this at a approach that they think makes sense. This approach in our judgment was exactly the way we ought to navigate in this new reality, knowing we're going to face the challenge that we're facing.

So I think we're very well positioned here. I don't expect a single blimp on a program, I don't expect any difficulty. We have plenty of phasing in time, which we are doing now. And we'll continue to stay very focused on this. It's not just going to be through February, but when new people go to new assignments at any time, under any set of conditions, we try to give them more rather than less help to make sure we're all getting grounded and our expectations are clear and communications are crisp. And we're prepared to do that, and have means and mechanisms in place now to help facilitate that.

So I'm pleased you asked the question because I think we haven't talked a lot about beyond the numbers, what do you expect in an operating environment from the company as you move forward, and your question gave us an opportunity to highlight that a bit.

Jerry Kircher

Jevon, I think we have time for one more call if we could please.

Operator

Okay, our final question comes from George Shapiro, with Access 342.

George Shapiro – Access 342

Yeah, Bob. I had one other question just in general here. That with the – you sold EIG for 12 times EBIT, your own stock selling for 5 times. We've seen other transactions in the 10 to 12 times. I mean, why wouldn't this get you to want to take a sharp look at some of the other businesses that you have, and potentially take a look at them for sale if the valuations between the public and private markets don't close?

Bob Stevens

Well, there's several observations I'd offer you there, George. But first, and I hope we conveyed this with clarity when we talked to you about EIG and PAD we do, routinely look at every aspect of this business, strategically, operationally, and financially relative to a short-term, intermediate term, and long-term fit with regards to delivering value to customers and value to shareholders while we create a vibrant environment here for our employees. If we trigger a threshold and any one of those domains, as was the case with EIG on the organizational conflict of interest or PAD where gross opportunities were progressively misaligned with our core strategy, we won’t hesitate. I will also tell you, we’re not pleased with trading multiple of our stock, and damn well believe we can do better. So in the short horizon I don’t think we’re going to be looking at wholesales divestiture here before we look at operating the businesses better, navigating through some near-term turbulence, recognizing the quality and strength of our portfolio and our ability to execute going forward, because we have the leadership and the professional capability to do a better job. And that’s got our focus. It won’t cause us to fail to look at the quality of our portfolio on a recurring basis, but I don’t think you should expect from us, wholesale divestitures because at a moment in time, there’s a little more pressure here than any of us would like. Our job is to go execute better and relieve some of that pressure.

Jerry Kircher

George, I thank you for the question. Let me thank you Jevon for your help on the call today, and thank everybody who joined us. We’re going to focus, as I said on execution, and on streamlining, and on becoming more efficient as we learn more about our budget priorities and program priorities here on the domestic business front, and in the international community. And we’ll be able to share more complete set of observations with you in January when we’re next on the line together. So thanks again for being with us today.