Good day and welcome, everyone, to the Lockheed Martin third quarter 2016 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 - Lockheed Martin Corp.

Thank you, Andrea, and good morning, everyone. I'd like to welcome everyone to our third quarter 2016 earnings conference call. Joining me today on the call are Marillyn Hewson, our Chairman, President and Chief Executive Officer, and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

Statements made in today's call that are not historical fact 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 Marillyn.

Marillyn A. Hewson - Lockheed Martin Corp.

Thanks, Jerry. Good morning, everyone, and thank you for joining us on the call today as we review our third quarter results.

As today's release details, we continued to move forward financially, operationally, and strategically while delivering critical solutions to customers and returning value to stockholders. In addition to our discussion of financial results and outlooks, I want to highlight a few operational accomplishments in our business areas and other key events in the quarter, including DOD budget status and the successful disposition of our Information Systems & Global Solutions business.

Looking at the summary financials, our team continued to deliver strong results across the corporation, with third quarter sales, continuing operations profit, earnings per share, and cash from operations all exceeding internal plans. We are driving towards achievement of full-year 2016 goals and we are looking forward to another strong year in 2017, fueled by top line growth in our streamlined core business areas. Bruce will provide a detail review of the financial results, 2016 full year outlook, 2017 preliminary trends outlook, and assumptions in his comments later in the call.

The first area I want to speak to is our cash generation and deployment. This quarter, we achieved over $1.3 billion in cash from operations, bringing September year-to-date cash generation to approximately $4.5 billion. While we have achieved strong year-to-date cash performance, I would note that our fourth quarter outlook contains a higher than normal level of significant F-35 cash timing events. Successful closure of these events are dependent on completion of various contractual negotiations before the end of the year.

During the quarter, our Board of Directors approved two key actions in the area of cash deployment. First, the quarterly dividend was increased to $1.82 per share and $7.28 annually. This action represents the 14th consecutive year that the dividend rate has been increased by a double-digit percentage.

Second, share repurchase authority was increased by $2 billion, bringing total repurchase authority to over $4 billion at the end of the third quarter. This level of authority provides additional flexibility to continue to make significant future share repurchases. In recent actions taken by our board, these will enable us to continue our shareholder-friendly focus on returning cash to stockholders through dividends and share repurchases if market conditions and our fiduciary duties permit.

Before examining our third quarter results, I wanted to briefly touch on the status of the fiscal year 2017 DOD and federal budgets. The government is currently operating under a short-term continuing resolution through December 9 that limits expenditures to prior-year fiscal levels. While we cannot predict budget resolution timing, we are hopeful that Congressional deliberations can be concluded as soon as possible.

While we think it unlikely, a continuing resolution and its associated budget constraints could be extended for the full FY 2017 year should the varying budget positions remain unresolved. In the event of a full-year CR, we would anticipate some level of impact against our 2017 orders and associated backlog level, but minimal impact to sales, earnings, and cash flows in 2017, as a large portion of our backlog work is already funded from prior fiscal years.

There are multiple and differing budget scenarios under consideration for the FY 2017 budgets. Significant differences remain in the various proposed budgets funding sources and the potential use of overseas continuing operations funds for additional DOD base budget. Reconciliation of the different DOD budget positions remains unresolved and could remain this way for some time. We hope this is not the case because it is not in the best interest of our nation. A substantial delay would require an extension of the CR to enable continuation of government operations beyond December 9. We continue to urge bipartisan negotiation and resolution of FY 2017 budgets to remove the uncertainty resulting from non-strategic short-term government funding actions.

Moving to operations, while there were numerous mission success events across the corporation this quarter, I will limit my comments to the F-35 Joint Strike Fighter program. The highlight of the quarter was the F-35A conventional takeoff and landing model [CTOL] being declared combat-ready by the U.S. Air Force and achieving initial operational capability, or IOC. This declaration reflects the maturity and performance of the CTOL aircraft and successful achievement of all key criteria to reach IOC readiness.

The IOC enables the U.S. Air Force to be the second branch of the military to field combat-ready F-35 aircraft, as they join the U.S. Marine Corps with their operational F-35B aircraft in providing unequaled fifth-generation fighters to our nation and allies. With over 70% of the more than 3,000 aircraft production plan for the F-35 being the CTOL variant, achievement of IOC for this aircraft strengthens the foundation for future decades of fighter production for domestic and international customers.

In addition to the achievement of the IOC milestone, the F-35 also demonstrated the benefit of its unique fusion fused sensors in its first live fire missile intercept event. By leveraging a U.S. Marine Corps F-35 and the U.S. Navy's Aegis weapons system, the aircraft demonstrated the ability of the F-35 to greatly expand the target identification and acquisition range in its support of Naval Integrated Fire Control Missions. The F-35 served as an elevated sensor and detected an over-the-horizon missile threat. It then utilized its advanced data link to send data to an Aegis weapons system that subsequently engaged and destroyed the target.

This fusion of sensors across multiple systems only begins to outline the potential enhanced war fighting capabilities and distributed lethality that F-35 aircraft will enable across our military forces. This capability is embedded in all F-35 variants today and is just one of the revolutionary technologies that this aircraft bring to our nation and allies.

Turning to customer support and demand for the F-35, key milestones this past quarter included rollout of the first F-35A aircraft for the Japan Air Self-Defense Force, marking a major milestone in Japan's enhanced national security defense and strengthening the future of the U.S./Japan security alliance. Japan continues to reflect a planned procurement of 42 aircraft for their national defense requirements.

Beyond the activities for Japan, Norway became the first international partner nation to state its intention to participate in a multiyear, multinational block buy of the F-35. Norway outlined a request for 12 F-35 fighters in their 2017 budget and remains on track to their stated plan to purchase a total of 52 aircraft for their national defense.

We're honored to partner with international F-35 customers to strengthen the security relationships among our nation and allies, as we collectively field this fifth-generation fighter for decades to come.

I'd like to turn to a different topic and provide you a status report on one of the strategic goals we outlined to you two years ago. At the time, we challenged ourselves to expand our focus and footprint overseas and established a goal to achieve 25% of annual sales from international customers. Due to the change in our portfolio content resulting from the acquisition of Sikorsky and the disposition of IS&GS, we are on track to exceed that goal later this year, as the remaining business areas perform a significantly higher proportion of international work than did IS&GS.

International work across the corporation is expanding, especially in the areas of the F-35 Joint Strike Fighter, missile defense systems, C-130J cargo planes, and tactical missiles. The aging of equipment in allied countries, coupled with an expanding level of global security needs, are creating significant demand for our portfolio of products in multiple regions around the world.

Our proven and cost-effective solutions are securing awards from new customers worldwide. We are seeing demand for our equipment, ranging from C-130J aircraft in France and Germany to helicopters in Poland to missile defense systems in the Asia-Pacific, Europe, and Middle East theaters. This demand helps strengthen growth, as our international portfolio is growing at a faster rate than the DOD budget. Higher international work is also providing greater economies of scale that enhances our ability to improve the affordability of platforms and services to both domestic and international customers.

We're expanding our efforts across all of our business areas to provide our products to international customers. With this focus remaining a key element in our growth strategy for the corporation, we now expect to increase our international sales content to at least 30% of total annual sales in the next few years. I am confident that we have the portfolio, strategy, and personnel to achieve this new higher level as we move forward.

I want to conclude my comments by recognizing one of the key accomplishments this past quarter, the successful completion of our strategic disposition of the IS&GS business to Leidos. Closure of the disposition through a tax-efficient Reverse Morris Trust better positions that business to generate shareholder value and opportunities for employees as they move forward outside our corporation. This RMT transaction generated the highest value-creation benefits to our stockholders and allows us to focus even more intensely on our remaining core DOD portfolio.

Completion of the transaction enabled retirement of over 9 million shares of our stock through the exchange offer plus receipt of $1.8 billion in cash to our corporation. We are deploying that cash through dividends, share repurchases, and debt retirement, and are on track for full deployment of the cash before the end of this year.

I'll close by stating that we have taken significant actions over the past year to reshape our portfolio and strengthen our core defense business. I'm confident that this positions us well to grow and deliver long-term value to our stockholders.

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

Bruce L. Tanner - Lockheed Martin Corp.

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

Let's begin with chart 3 and an overview of our results for the quarter. Our third quarter performance builds upon our strong first half results, and we are ahead of our plan on all key financial measures through the first three quarters of the year. As you are aware, we completed the split-off of the IS&GS business area during the quarter, and both our current and historical results are now stated on a continuing operations basis.

During the second quarter call, we also identified several other events that we expected to occur in the third quarter that would impact our financial results, and we'll provide an update on these events in the coming charts. And we'll provide our updated 2016 outlook, taking into consideration all of these items in subsequent charts. So we're pleased with our strong results in the quarter and with our outlook for the year in total.

Turning to chart 4, we compare our sales and segment operating profit this quarter with the third quarter of 2015. Sales were higher by $1.5 billion or

15% this year than last year. And similar to the second quarter, the growth was driven by the inclusion of Sikorsky into the results of RMS [Rotary and Mission Systems] for about $1.2 billion and over $250 million in growth at Aeronautics, driven by higher F-35 volume. Segment operating profit was about $180 million higher than last year, with the growth coming primarily from Space Systems as a result of better performance and the book gain associated with the consolidation of AWE [Atomic Weapons Establishment] that we will discuss in more detail on the next chart.

Chart 5 highlights the key financial events impacting earnings in the quarter that we previewed during the July call. From a continuing operations perspective, the largest impact was a $127 million book gain associated with our obtaining a controlling interest in AWE that resulted in a $0.34 favorable impact in the quarter and the year. That gain was partially offset by the initial amortization of an intangible asset associated with the gain, which reduced EPS in the quarter by $0.01 and $0.06 for the year. The intangible amortization will continue on an accelerated basis over the next eight years.

Next, we moved the FAS/CAS pension adjustment associated with IS&GS into discontinued operations, and that lowered EPS by $0.04 in the quarter and $0.15 for the year. And we updated our Sikorsky purchase accounting adjustments in the quarter, which lowered EPS by $0.02 in both the quarter and the year. We are substantially complete with the purchase accounting for Sikorsky and do not expect significant changes as we close this effort in the fourth quarter. All told, these impacts to continuing operations EPS added $0.27 in the quarter and $0.11 for the year.

In discontinued operations, we recognized the book gain of about $1.2 billion associated with the disposition of IS&GS as well as their 2016 operating results up until the August disposition date. These two items amounted to $4.32 of EPS in the quarter and $4.97 for the year.

If you'll turn to chart 6, we'll see how our earnings per share in the quarter compared with the EPS from one year ago. Our EPS in the quarter was $3.61, which was aided by the $0.27 benefit we described in the prior chart. In addition, the third quarter benefited from improved operating performance, a higher FAS/CAS adjustment, a lower tax rate, and lower share count than in the third quarter of 2015.

On chart 7, you can see our cash from operations this quarter compared to last year. Cash in the quarter was around $1.3 billion, about $200 million lower than the third quarter of 2015, and continues to be impacted by our decision to fund F-35, LRIP 9, and LRIP 10 in excess of the amount of government funding. At the end of the quarter, that exposure was $950 million. While we did receive additional funding for LRIP 9 during the quarter, that funding was not sufficient to match the growth in both LRIP 9 and LRIP 10 expenditures in the quarter, resulting in the increased exposure from the second quarter. We remain hopeful that this situation will be resolved soon but have concerns with receiving collections before year end, as we'll discuss when we show our revised outlook for the year in a few charts.

Chart 8 shows the amount of cash returned to stockholders on a year-to-date basis. With just under $4.5 billion in cash from operations year to date and about $600 million in capital expenditures, our free cash flow so far this year is around $3.8 billion. With $1.5 billion in dividends and $1.3 billion in shares repurchased to date, we have returned $2.8 billion to stockholders or 73% of free cash flow. And in the third quarter, we increased both our dividend rate and share repurchase authority, as Marillyn highlighted in her comments earlier.

On chart 9, you can see the significant reduction in our share count over time. From our peak share count of 456 million shares in 2002, we've reduced shares outstanding to 293 million, 36% less than we had at the peak. And adjusting our previously stated goal of reducing share count below 300 million shares by the end of 2017, for the 9 million of share reductions from the RMT exchange offer, we expect to achieve the restated goal of 291 million shares by the end of this year, a year earlier than planned.

Chart 10 provides the updated outlook for the year. On the chart, we have three columns. The first shows the outlook we provided during the second quarter call. The middle column shows the same outlook adjusted for the removal of IS&GS results, and the third column shows the revised outlook compared with the middle column. We increased our sales outlook above the high end of the previous guidance to $46.5 billion, and this was driven primarily by higher sales expectations for Aeronautics and Space Systems. Segment operating profit was also increased above the high end of the previous guidance, also driven by Aeronautics and Space Systems.

We increased earnings per share from continuing operations to around $12.10, reflecting the strong third quarter results. And we are giving two views of cash from operations, one assuming we do collect billings for the F-35 program before year end, and one assuming those collections slip into 2017. Assuming we do collect F-35 billings, our cash outlook is greater than or equal to $5.7 billion, a $350 million improvement over the restated second quarter outlook. And this improvement reflects strong cash performance at RMS, Space Systems, and Missiles and Fire Control.

If the F-35 collections slip into 2017, our outlook for 2016 would be greater than or equal to $5 billion. The $700 million difference in the outlooks would be a digital event at year end. If it slips out of 2016, 2017 will be $700 million higher. If it does not, 2016 will be $700 million higher, but the total cash between the two years will not change, and we'll elaborate more on that in a few charts.

Chart 11 shows our prior sales outlook compared with the current outlook by business area. Compared with the midpoint of our previous guidance, we're increasing our sales outlook by $900 million, with Space Systems and Aeronautics driving the change. Space Systems increased due to the consolidation of AWE results into our financial statements, while Aeronautics grew due primarily to continued higher than expected sales performance on the F-35 program.

Chart 12 provides the same outlook update for our segment operating profit. As with sales, the segment operating profit outlook was driven by increases in Aeronautics and Space Systems. The increase in Aeronautics was driven primarily by the additional F-35 sales volume and improved performance across several programs. The increase in Space Systems was driven by the AWE consolidation gain as well as improved performance in government satellites.

On chart 13 we provide our preliminary trend information for 2017. We expect sales to increase around 7% above the 2016 level, with most of the increase coming from Aeronautics's growth, driven by F-35 production and sustainment and Missiles and Fire Control growth driven by higher air missile defense sales.

RMS and Space Systems about offset each other next year, with slight growth in RMS being offset by lower sales in Space Systems, as the additional AWE volume for a full year in 2017 compared to a partial 2016 is more than offset by lower volume in our government satellite business as well as the absence of any commercial launch activity next year.

We expect segment operating margin to range between 10% to 10.5%, with the reduction from the 2016 level driven primarily by a full year of consolidated AWE sales in 2017 without the benefit of the gain in 2016, lower ULA [United Launch Alliance] equity earnings due to the mix and volume of launch vehicles expected in 2017 as well as the end of the $40 million annual deferred gain in 2016, and the significant volume increase in F-35 sales at a lower margin rate than the average for the corporation.

Cash from operations is expected to be greater than or equal to $5.7 billion, again assuming the F-35 collections slide into 2017. We'll provide more color on our longer-term views on cash from operations on the next chart. And we're planning to have at least $2 billion of share repurchases next year, which we expect will further reduce our share count below the 290 million share level.

Our updated pension outlook assumes a FAS/CAS adjustment of $800 million of income, higher than we discussed during the second quarter call. Interest rates have risen slightly since the last call, and we now see a discount rate of 3.625% rather than the 3.5% we mentioned last quarter. In addition, a new longevity table was published late last week that results in another improvement to the FAS/CAS projection we provided last quarter.

On the next two charts, we provide a longer-term view of both cash from operations and our pension impacts. Beginning with chart 14 and our longer-term trend for cash from operations, during the third quarter of 2014, we established a goal of generating more than $15 billion of total operating cash for the years 2015 to 2017, significantly higher than prior years, as we were expecting what we call a pension funding holiday for that three-year period. As you can see from the chart, assuming the F-35 collections slip into 2017 and based on our 2-year view of cash for 2016 and 2017, we expect to generate around $15.8 billion over the 3-year timeframe, significantly exceeding the 2014 goal.

If we look forward to the next 3 years beginning with 2017, we also except to generate at least $15 billion of total operating cash between 2017 and 2019, with all years at or near $5 billion even after we begin to make required pension contributions in both 2018 and 2019.

On chart 15, we provide a view of our expectations for both the FAS/CAS adjustment and cash implications of our pension plan over a longer timeframe. All of our projections on this chart assume an 8% return on assets every year and a constant discount rate of 3.625%.

As most of you know, we have a significant prefunding balance that represents the difference between our pension contributions as required by ERISA and the recovery of those contributions via our CAS billings to the government. At the end of 2016, we expect that prefund credit balance to be around $7 billion. And we expect to recover a sizable portion of that $7 billion through the year 2025, which means that our CAS recoveries should exceed required pension contributions in all years through 2025, providing a cash tailwind even during years with required contributions.

And as many of you also recall, our pension plan was modified in 2014 in a two-step process that results in the plan becoming fully frozen at the end of 2019. The first step of the plan modification began in 2016 with the freeze to the salary levels used to calculate pension benefits. This means that between 2017 and 2019, our FAS expense will decrease while our CAS expense increases to recognize the recovery of the prefund balance. At the end of 2019, we have the second step of our plan modification of freezing of the years of service used to calculate pension benefits. And at this point, the plan becomes fully frozen.

Beginning in 2020, we will no longer have service accruals for our salaried workforce, and this creates a number of changes to our FAS/CAS adjustment because of the full freeze. We will no longer recognize service costs for the frozen plan, and the amortization period for previous actuarial losses or gains will be extended from roughly 9 years to about 18 years in length. The combination of these changes will likely result in FAS income rather than FAS expense beginning in 2020, as our expected FAS asset returns will exceed the cost elements in our FAS calculation. This means we would expect to have considerable FAS/CAS adjustment income growth between 2017 to 2019 and then see significantly higher FAS/CAS adjustment income beginning in 2020 going forward for the foreseeable future based on current assumptions.

That leads us to our summary on chart 16. We had strong operational and financial performance in the quarter and expect to finish the year in a similar fashion. We completed the IS&GS RMT transaction in a manner that was beneficial to the IS&GS business and Lockheed Martin stockholders. The strategic actions we've taken over the past year have strengthened our portfolio and will enable us to fund for future growth. And we have long-term trends and cash from operations and pension impacts that position us to continue to deliver value to our stockholders.

With that, we're ready for your questions. Andrea?

Question-and-Answer Session

Operator

Thank you. Our first question comes from Seth Seifman with JPMorgan. Your line is open.

Seth M. Seifman - JPMorgan Securities LLC

Thanks very much and good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning.

Seth M. Seifman - JPMorgan Securities LLC

I wondering if you can talk a little bit more about the LRIP negotiations. I'm sure there's not a lot of detail you can go into. But can you talk in general terms maybe about what the sticking points here are? I know it's gone on for many months longer than expected. Do you see, Bruce, any risk to the margin guidance you've given or maybe any upside to the margin guidance you've given based on how those negotiations pan out, or is that not really what's on the table now?

Marillyn A. Hewson - Lockheed Martin Corp.

Let me just start with the negotiations. This is a very large contract. It's the largest contract to date on the program. So there's a lot of data, there's a lot of work that has to happen in those types of negotiations. And we are making progress and both parties want to get this contract right, so it takes time to do that. So I would say we continue to make progress on it. Bruce, do you want to cover the margin side?

Bruce L. Tanner - Lockheed Martin Corp.

Yeah, thanks for the question. You asked what were the sticking points here. And I'll say they're the typical points that enter into every contractual negotiation. They revolve around what's the cost to perform the contract, what are the terms and conditions associated with that contract, and what's the profit level for the contractor for performing that contract. And I'd say we haven't really reached closure on any of those three, but we're making progress every day towards that closure, so still hopeful we'll close soon.

I think the latter part of your question was were there risks to the margins, and you should think at least the near-term margins are really impacted by contracts that were negotiated much prior to LRIP 9 and LRIP 10. So especially 2016 and 2017 have very little if anything to do with the margin performance in LRIP 9 and LRIP 10. So latter years obviously are much greater impacted. We're still looking to have margins on the F-35 program eventually get to mirror or mimic what we've seen in the similar life cycle of the F-16 programs and C-130 programs, and that's still our objective as we sit here today.

Operator

Thank you. Our next question comes from the line of Myles Walton with Deutsche Bank. Your line is open.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Thanks, good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Hi, Myles.

Myles Alexander Walton - Deutsche Bank Securities, Inc.

Can I ask a question on the capital deployment or cash deployment? I think, Marillyn, you said you're in a position to disposition the Leidos dividend through the end of the year. And I think, Bruce, you said you'd overachieve the share repurchase reduction by the end of this year. Just a clarification, how much do you intend to repo through the end of the year? And did, Bruce, you mean 291 million diluted share count at the end of the year or period end share count? Thanks.

Bruce L. Tanner - Lockheed Martin Corp.

So good questions, Myles. On the capital deployment side, we're still looking at about $2 billion for the year. I think we've had a little bit of benefit. We still have – we haven't talked about it in a while. We still have some remaining options eligible to be exercised, and those options are just proving to be a lot sticker in the past few years than they have been in the years previously. So we're getting some benefit from where we had plan levels of option exercise just coming in lighter than expected.

You talked about the $1.8 billion on the Leidos special cash payment. So we've spent most of that through the first three quarters. I want to say it's around 400-some-odd million dollars. I know it's a little less than that as we sit here today. We made the debt retirement of about $0.5 billion in the month of September, and a pretty good chunk of it has gone towards share repurchases and dividends, including the third quarter dividend that we just made. So our expectation is that we will have consumed the full $1.8 billion in capital allocations by the end of the year.

And I'm sorry, you asked one other question, Myles, about the 291 million shares. Was that an average or was that the point estimate at the end of the year? It is the year-end view as far as shares outstanding.

Operator

Thank you. Our next question comes from the line of Noah Poponak with Goldman Sachs. Your line is open.

Noah Poponak - Goldman Sachs & Co.

Hi. Good morning, everyone.

Marillyn A. Hewson - Lockheed Martin Corp.

Good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning, Noah.

Noah Poponak - Goldman Sachs & Co.

Bruce, the 7% total company revenue growth in 2017, can you tell us what that is organically? It looks like AWE is not apples to apples maybe by about 2%. Is that right, and is there anything else? And then I just wondered if you all could speak to your view of the sustainability of whatever that organic revenue growth rate is on a multiyear basis, in your view.

Bruce L. Tanner - Lockheed Martin Corp.

I'll take a shot at that, Noah. So I think you're pretty close to being right. So I think you should think of the AWE, which I'm not sure if that's organic or inorganic, by the way, but you should think of AWE as contributing about roughly $400 million in sales this year, probably growing to a little over $1 billion – $1.1 billion next year, so maybe $700 million of change. So that's probably a little less than 2%. So we would think the growth organically as you describe it from year over year is probably in the high 4s, maybe a little bit around 5% or so next year.

Going forward for the next three years or so, we still believe – we talked about in the second quarter call that we think we have growth ranging from about 3% to 5% in the out years. We still feel good about that, although it's probably not as steady over those years as you might think. So we have a bigger uptick that we're expecting in 2017, a lot of that driven by the F-35 program. We see additional growth in 2018, also by F-35, but there's a countervailing issue happening because we have the end of the F-16 production line and the end of C-5 deliveries, both of which occur in 2018. So while we still see growth – organic growth in 2018, it will be a little bit diminished because of those two events, but still better than we've seen for the last few years. And then frankly, as we sit here today and look at the longer term, 2019 is a higher growth rate than 2018, in part because of the absence of those two events.

Operator

Thank you. Our next question comes from the line of Rich Safran with Buckingham Research. Your line is open.

Richard T. Safran - The Buckingham Research Group, Inc.

Marillyn, Bruce, Jerry, good morning.

Marillyn A. Hewson - Lockheed Martin Corp.

Good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning.

Richard T. Safran - The Buckingham Research Group, Inc.

There are a lot of questions out there about what happens after your pension funding holiday expires in 2018, so I thought a bit. I ask about slide 14. It shows some significant gains even when you resume your pension contributions. And what I wanted to know was have your pension contributions declined a lot? I had thought that you were talking about numbers north of $1 billion, maybe $1.5 billion in 2018. So I thought maybe you'd comment on how you're able to generate the cash flows that you're discussing today in the slide.

Bruce L. Tanner - Lockheed Martin Corp.

I'll take that one, Rich. So you're right. And I think just from conversations that we've had at conferences and with investors as they toured through Bethesda, there was a lot of misunderstanding perhaps relative to our ability to continue to generate cash flow from operations when we started having pension contributions. So we wanted to tee up that we do think we're going to continue to have strong cash from operations, which is the reason why we came up with a new goal, essentially the same as the old goal for a three-year period with a common 2017 in both of those three-year goals.

The amount of pension contributions, we have zero in 2017. For all intents and purposes, we have some minor contributions relative to the Sikorsky collective bargaining pension plan, but for all intents and purposes that's pretty minimal. In 2018 and 2019, that's still a little fluid at this point in time, but you should think of both of those years probably ranging between $1.5 billion and $2 billion of pension contributions. So we are able to essentially mimic what we did with the pension funding holiday because we do expect to have organic, if I could use that term, operational cash growth. And most of that comes from the F-35 program going forward, the Sikorsky business, which we've described as treading water for a number of years from a cash flow perspective. And then as we finish a lot of the development programs and a couple of the loss programs frankly that we have within Sikorsky, we expect to see a return to cash generation.

And then the last one is the international growth that we talked about, sorry, that Marillyn talked about earlier. So those three elements and then everyone else holding constant is contributing mightily towards that level. And then I'll remind you maybe – I know you know this, Rich, but while we do make those pension contributions, and that's a hit to operating cash, they're also tax deductible, so it's a 35% offset to what we see there as well.

Operator

Thank you. Our next question comes from the line of Peter Arment with Baird. Your line is open.

Peter J. Arment - Robert W. Baird & Co., Inc. (Broker)

Yes, good morning, Bruce and Marillyn.

Marillyn A. Hewson - Lockheed Martin Corp.

Good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Hi, Peter.

Peter J. Arment - Robert W. Baird & Co., Inc. (Broker)

One to Marillyn, I guess your comments on the 25% international. I can remember back when it was down in the low teens, and obviously you've had the benefit here of some of the portfolio shaping that boosted that. But I wanted to just get at my comment on the visibility around that. When you look at that number continuing to grow and with the goal of getting it out to 30%, how much – if we think about 2017 what's already in backlog or what you have to win when you look at that kind of percentage on the international just given the concerns about sometimes there's delays on those contracts?

Marillyn A. Hewson - Lockheed Martin Corp.

Thanks for the question, Peter. I would say the biggest growth area for us is the F-35. Certainly we've got a lot of international sales on the F-35, and so that will be the largest one. The second one is on missile defense. We've seen a lot of demand expanding for missile defense in Asia-Pacific and the Middle East as well as in Europe. So THAAD and Aegis, Aegis Ashore, Patriot, MEADS. Last year our international sales were almost $9.6 billion. And so when you think about the backlog that we've also been building over time, it's around 30% of that. Thirty percent of our backlog is international today. So we've got a lot of quality booked business that will come in toward those international sales.

And so I think our portfolio is really well positioned for growth. We continue to have a pull for not only missile defense but munitions and other things in the market, particularly in the Middle East. And we're seeing growing interest in things like helicopters in Poland and, as I mentioned earlier, the C-130J in markets that we hadn't been in before like France and Germany. So we expect that we'll continue to have a pull for international growth.

Jerry F. Kircher - Lockheed Martin Corp.

Welcome back, Peter.

Operator

Thank you. Our next question comes from the line of Jason Gursky with Citi. Your line is open.

Jason Gursky - Citigroup Global Markets, Inc. (Broker)

Good morning, everyone; Bruce, just a quick clarification question and then one for Marillyn. Clarification question, the international revenue streams that you see coming down the pike here, do you think that these will be margin accretive for you given the mix?

And then, Marillyn, can you just spend a few minutes on missile defense as it relates to international? Talk a little bit about the competitive environment, the partnering environment, and how you see this market developing over time. Which products are you going to be leading with, participating in? And does it really matter to you which products eventually come out on top from a competitive perspective?

Bruce L. Tanner - Lockheed Martin Corp.

Okay, Jason, I'll take the first one on what you describe as the international revenue stream, and I think the question was whether that was margin accretive or not. You should think of most of the – in fact, just the overwhelming majority of the growth in the international business going forward as being FMS or Foreign Military Sales in nature, as opposed to direct commercial sales in nature. And frankly, most of that growth, think of that on programs like the F-35 and the PAC-3 missile and the THAAD air missile defense system. Most of those are being negotiated. Even though they're FMS, most of are being negotiated concurrently with the U.S. government's needs.

So I would not expect to see huge benefits margin-wise from the growth that we're seeing in the international business. Some of that may materialize. We're starting to see pockets of direct commercial sales within that 30%. And to the extent that that happens, that's usually at a higher margin than the FMS, but not hugely accretive would be my overall take.

Marillyn A. Hewson - Lockheed Martin Corp.

So, Jason, on your questions around missile defense, the lay of the land relative to competition versus partnering and developing over time, if I could just walk through some of the products. From a PAC-3 standpoint, we do partner with Raytheon on the Patriot system. So we continue to sell PAC-3s around the world. And we just declared our initial operating capability for the PAC-3 MSE, the Missile Segment Enhancement, which is the extended range and greater capabilities. So we're going to have continued demand for the PAC-3 MSE. I think we'll see countries that will look at buying that greater capability.

On THAAD, it's in the UAE today, of course. And there's a strong pull for THAAD in the Middle East. Qatar and potentially Saudi and others will be looking at THAAD going forward. On Aegis, we just with Korea and Japan, they're adding it to their ships, and we'll have other countries I think moving along in that regard. Aegis Ashore, we've set up our Aegis Ashore in Romania, and we see an opportunity in Poland.

And then from a competition standpoint, MEADS, the Medium Extended Air Defense System, now that Germany has made their selection, we expect other NATO countries to be looking at MEADS and maybe some Middle East countries looking at MEADS as a potential for their capability with its 360-degree capability, and really the next generation beyond the Patriot system is a new system. So Poland is still looking at MEADS, for example, and we've had some interest from some Middle East countries on MEADS.

And then the Ground Based Strategic Deterrent is another opportunity for us on growth in missile defense in the U.S. And so not just in the international marketplace, we continue to see growth in the domestic market for our missile defense capabilities. So hopefully that answers your question.

I think over time, the defensive systems that countries need we expect they'll continue to put in place. But the rest are not diminishing, they're increasing. And so the defensive systems that we can provide or what we hear from countries around the world that they want, whether it's Japan or

Saudi Arabia or the UAE or others, as I travel around the world, that is a top priority for these countries.

Operator

Thank you. Our next question comes from the line of Pete Skibitski with Drexel Hamilton. Your line is open.

Peter John Skibitski - Drexel Hamilton LLC

Hi, good morning, guys. Nice quarter.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning.

Marillyn A. Hewson - Lockheed Martin Corp.

Thank you, Pete.

Peter John Skibitski - Drexel Hamilton LLC

I had a couple program questions. One is the F-16. It looked like maybe you guys got approval during the quarter for an incremental order. I thought maybe it was Bahrain. Is that not part of the current planning? I was just curious of your thoughts on that, and then also when you expect the Qatar THAAD order to actually be booked.

Bruce L. Tanner - Lockheed Martin Corp.

I'll try that, Pete. So I think the Bahrain order, there's now at least consideration from a government-to-government discussion about the opportunity to make that an order. It's not finalized by any stretch of imagination. And none of the numbers that I talked about previously in terms of the growth going forward assume the Bahraini aircraft in the F-16 line. So right now it's not in there. Longer term for the F-16 firm-up, as I had teed up to Noah's question, I think it was relative to the growth going forward.

Right now, the F-16 line comes to an end in the middle of 2018 or thereabouts. If we were to get the Bahrain order, that would extend it probably another year or so. But you should think that the F-16 program has not gone away at all. In fact, if we look at 2017, I said 2018, I think the line comes to an end in 2017 – excuse me, I spoke a year off there. I think we have six aircraft deliveries in 2017. That's the wrap-up of the program from a build cycle versus 12 this year. and yet the sales on the F-16 program are higher next year than they are this yea. And in part that's because we have you should think of as three large international upgrade programs going on concurrently or pretty much concurrently. We've got the Singaporean, the Taiwanese, and a soon to be South Korean upgrade of their existing F-16 aircraft, which is actually as it turns out more than offsetting the production quantity aircraft drop-off next year, so hopefully a little more color there.

THAAD Qatar, we had hoped to close that this year, looking towards the end of this calendar year. That's in all likelihood not going to happen. We have it planned and expect to close that in 2017.

Operator

Thank you. Our next question comes from the line of Sam Pearlstein with Wells Fargo. Your line is open.

Samuel J. Pearlstein - Wells Fargo Securities LLC

Good morning.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning, Sam.

Marillyn A. Hewson - Lockheed Martin Corp.

Good morning.

Samuel J. Pearlstein - Wells Fargo Securities LLC

I was wondering if you could talk a little bit more just about Sikorsky. The purchase accounting changes, does that affect anything on a go-forward basis in terms of the GAAP earnings or loss on a run rate, and if you can at all size the favorable adjustment that you called out in the third quarter?

And somewhat related is another helicopter manufacturer talked about seeing a bottoming on the commercial side of the business. I'm wondering if you've seen anything similar or what you're thinking about the commercial helicopter business now.

Bruce L. Tanner - Lockheed Martin Corp.

So let's see. On the purchase accounting, Sam, I'd say that's a little bit of just housekeeping stuff, nothing hugely dramatic that occurred there, as some of these sorts of adjustments for things like inventory and so forth moved around a little bit, in part because of the timing of some of the deliveries associated with that inventory and just a better understanding of the business in total. All of the adjustments are required to be done one year after the purchase date, which I believe is November 6, so all those are required to be finalized in the fourth quarter.

The one benefit that you should see going forward is we are going to have a lightening up, if you will, of the total conforming accounting and purchase accounting adjustments on Sikorsky. I'm thinking about $150 million a year or so going forward. So from 2016 to 2017, that was what was always in the plan. The purchase accounting adjustments that we see happening this year really don't impact that much.

You just talked about opportunities relative to the bottoming out in the commercial marketplace and so forth. We're seeing opportunities pop up. I think Marillyn hit these pretty well in terms of the Polish BLACK HAWK deal, which would be actually built and delivered out of Poland from our facility there, is an interesting opportunity. We have other international opportunities, although they're coming in dribs and drabs, not huge orders, but they're still helping to fill the backlog.

As far as the commercial helo market, we don't expect to see that change. In fact, our projections and what we gave on the 7% increase next year essentially says we're flat to maybe a few less than in 2016. And we're hopeful and the numbers would plan and suggest that there's a slight uptick in 2018, but nothing huge. So we think this is a fairly slow recovery and not a spike by any stretch of imagination, but nothing between 2016 and 2017.

Marillyn A. Hewson - Lockheed Martin Corp.

Primarily on the oil and gas helicopters in that regard. We are looking for other opportunities for commercial helicopters, search and rescue, paramilitary, and things of that nature. But as Bruce said, the bulk of commercial helicopter sales in the past have been in the oil and gas, and so we look for recovery further out.

Operator

Thank you. Our next question comes from the line of Howard Rubel with Jefferies. Your line is open.

Howard Alan Rubel - Jefferies

Thank you, two things. One is I've got to give Jerry a shout-out. I don't know whether you're going to be on the next call or not, but I think that's important.

Greg M. Gardner - Lockheed Martin Aeronautics Service, Inc.

It depends on how he does on this call, Jerry. It depends on how he does this call, Howard.

Howard Alan Rubel - Jefferies

Or it depends on whether he likes – whether Marillyn likes my question or not, you know. But in all seriousness, in the past you've done a nice job of usually having risk reduction items that work in your favor. And if I tallied the numbers this quarter, outside of missiles and space, most of them went against you to the tune of around $150 million. Is there anything there that you can point to that's systematic, or is it just one-off items?

Bruce L. Tanner - Lockheed Martin Corp.

Howard, I'll take that one on. As we look at the third quarter adjustments, there were ins and outs across the business area, but it's actually very close to where we were at the third quarter of last year. Second quarter was quite a bit lighter. I think that's just the sequencing of milestone events. That's the sequencing of performance improvements, and they're just by their nature lumpy. But I don't think – I think you asked a question is it systemic or not. I don't think there's anything systemic, and that's not what's driving the marketplace going forward.

As we're going to end the year, next quarter and for this year in 2016, at least as we sit here today, it looks pretty similar to what we did from planned step-ups in the fourth quarter versus 2013. We may end the year a little bit light, just relative to historical level, so probably in the lower 30%. I think last year we did 34-ish or thereabout percent. But we could have some improvement in the fourth quarter as well. So we'll tell you where we actually ended up at the end of the call in January. But I don't think, back to your original question, there was anything systemic there.

Operator

Thank you. Our next question comes from the line of Joe DeNardi with Stifel. Your line is open.

Joseph DeNardi - Stifel, Nicolaus & Co., Inc.

Thanks very much. Bruce, I think you mentioned either last call or the one before that that this year would be the bottom for Aeronautics margins and you start to get some improvement next year. I'm wondering if that's still your view. And then given the moving pieces in 2018 with F-16 and C-5 coming down, do Aero margins come back down, or is that level in 2017 something you can grow off of?

Bruce L. Tanner - Lockheed Martin Corp.

So let me try to address that, Joe. I actually, obviously I did say that. You've got a good memory. I think the wildcard here is when I said that, I didn't expect to have the significant amount of growth on the F-35 program, particularly the sustainment piece of the F-35 program going from 2016 to 2017. It's just amazing the growth that we are seeing on the sustainment program compared to what we previously thought or at least what I previously thought and what I was basing that margin comment on.

So the margin at Aero will likely be a little bit lighter in 2017 than it was in 2016. And most of that but maybe not all that is driven by the F-35 significant ramp up at again, what I always call the margin dilutive algebraic effect of just a lower margin program growing faster than the rest of the business area, and that has a dilutive effect on the margins. But as we look forward into 2018, and I did tee up the C-5 and the F-16, again, F-16 is not changing total sales volume all that much, although the aircraft quantities are coming down. C-5 is actually again a little bit dilutive to the overall margin. But because of the F-35 growth, it's occurring again between 2018 and 2017. I think the margins stay fairly constant probably as we look at this time for 2017 and 2018.

Jerry F. Kircher - Lockheed Martin Corp.

Andrea, this is Jerry. I know we're coming up on the hour. But because our comments were long today, I want people in the queue to not think they have to turn off here in the next two minutes. I think we have the ability to go another 15 minutes. So if we could, just extend it a little bit.

Operator

Absolutely. Our next question comes from George Shapiro with Shapiro Research. Your line is open.

George D. Shapiro - Shapiro Research LLC

Bruce, I wanted to pursue the F-35 a little bit more. Deliveries this quarter were less than last year's quarter, and actually year to date I think you're one behind. I was thinking, if you could, just comment on what that is causing that and what it will be in the fourth quarter.

And on that score, if I just look at your guidance, it implies over $5 billion of revenues in Aeronautics in the fourth quarter, which is usually a strong quarter, but the step up is much more than what we've seen in the past. So if you could discuss that.

And then last, if I look at the $300 million of higher F-35 sales you called out, profit only up $25 million, so an 8.3% implied margin. That's a little lower than what we've seen in the past, so maybe you could comment on that. Thanks.

Bruce L. Tanner - Lockheed Martin Corp.

George, you got your money's worth there, good job. So F-35 deliveries, and I should remind you, this is a POC cost-to-cost contract, so the revenue is not impacted by deliveries. But you did make the right observation, George. The deliveries were light, lighter than the third quarter than we'd otherwise suggest. And this is primarily because, and I know you guys have read about this, but we have these insulation tubes that affected a number of our aircraft in the field as well as the aircraft being produced. And while we have the fix for that issue in place, think of this as a supplier-driven item that we had an out-of-spec delivery that was installed in the aircraft.

And as we go through and fix those for the aircraft in the field, we're also going back and fixing the aircraft that are effective with those lines in production, and that is going to cause us to end up a little lighter in F-35 deliveries this year than what we previously had said. We think we know the solution for that, as I said, and we think we recover such that by the end of 2017, we're back on contractual schedule and hopefully sooner than the end of 2017. But that's the expectation right now.

The other thing you talked about was the F-35 being greater than $5 billion in the quarter or Aeronautics being greater than $5 billion in the quarter. That will be the highest quarter I think in the history of Aeronautics. But that's tracking, George, to what we expect the annual run rate to look like in 2017. Years ago, we had talked about the Aeronautics business area being about a $20 billion per year revenue business in 2015. It turns out we were close, but that's likely going to happen now in 2017 as opposed to 2015. So that's tracking right with our expectations.

And then the last question on the $300 million in sales and the risk retirements and I think you said eight-point-something percent profit, that's in line with what we've done. We've had quarters previous to this year that were higher, but that's because we had some of the risk retirements that we were talking to Howard about earlier that occurred in previous quarters. When we have those risk retirements, we get a spike in the margin. We just didn't have as many this quarter, so the run rates you're seeing there is about the run rate without risk retirements in the quarter.

Operator

Thank you. Our next question comes from Rob Spingarn with Credit Suisse. Your line is open.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Hi there.

Jerry F. Kircher - Lockheed Martin Corp.

Hi, Rob.

Bruce L. Tanner - Lockheed Martin Corp.

Good morning.

Marillyn A. Hewson - Lockheed Martin Corp.

Good morning.

Robert M. Spingarn - Credit Suisse Securities (USA) LLC (Broker)

Bruce, I wanted to go back to Rich's question on the three-year goal back on slide 14. But if I understand it correctly, you're going into these next three years with the same cash flow goal, maybe a little higher, despite a $3 billion to $4 billion headwind from pension contributions, if we take 2018 and 2019 and add that together, if I heard that right. And so you talked about F-35 and Sikorsky providing some revenue and earnings growth as an offset. How much more is coming from CAS reimbursement? In other words, when we think about this, what is the underlying revenue increase, and how do the margins trend with that revenue?

Bruce L. Tanner - Lockheed Martin Corp.

So first comment, Rob, is you did hear it right. That is what we said, and I think you got the math to all that correct. And honestly, that's an interesting question because actually the CAS recovery or the pension recovery associated with CAS is diminishing going forward. So again, we talked about 2015 to 2017 having a pension holiday. That means we're not going to make pension contributions, so a significant level of pension recovery because of that.

Going forward, this is what I was trying to convey in my remarks. While we have pension contributions at the level that you just described, the CAS recovery is also increasing pretty significantly and stays fairly high throughout this entire timeframe. And that's again essentially – not essentially, but a good chunk of that is recovering that $7 billion of prefund credit that we have at the end of this year. So that has to come back at some point in the CAS billings that we had with the government. That's what sustains us over that time. Even though the net cash for pension is coming down, the offset is due to operational cash going up.

Operator

Thank you. Our next question comes from the line of David Strauss with UBS. Your line is open.

David E. Strauss - UBS Securities LLC

Thanks, good afternoon now.

Jerry F. Kircher - Lockheed Martin Corp.

Hi, David.

David E. Strauss - UBS Securities LLC

Bruce, to follow up on that question and then another question, the CAS recovery, which I think in 2016 is $2 billion, I think you've said $2.3 billion in 2017 previously, what does that grow to out in by 2019?

And then my other question on Sikorsky performing better than I think your initial guidance for this year, I think you talked about intangibles coming down next year. I thought it was more around integration costs coming down. But if you could, just give us an idea of what operating profit out of Sikorsky or margins might look out of Sikorsky on an all-in basis next year. Thanks.

Bruce L. Tanner - Lockheed Martin Corp.

Thank you, David. So on the CAS side, you've got the numbers right for both 2016 and 2017. And rather than give you a precise for 2018 and 2019, I would just say that CAS increases in 2018 over 2017, and it increases again in 2019 over 2018. You should think of those as several hundred millions of dollars levels between each year there. And that's again, back to Rob's question, that's one thing that's driving the cash recovery over that period of time.

Sikorsky is doing better than we had expected, at least through the first three quarters of this year. I think we started off with probably a little more conservative view of Sikorsky, just a little bit of not knowing the business as well as I think we do now. And so we've seen some performance improvements or some risk retirements, I should say, in the third quarter that translate into better performance than we were seeing in the first two quarters of the year.

I think you also talked about the changes in intangible, and I might have misspoken. I think I was talking about conforming accounting and intangible amortization all rolled up into one, and there are definitely some reductions in some of the conforming accounting adjustments. As well as I think one of things that I've teed up in the January call is there was about $30 million or $40 million of severance costs left over in 2016 from a severance action that was taken in the middle of 2015 that does not repeat itself in 2017. That along with lower integration costs in 2017 compared to 2016 is what's driving the improvements that I talked about.

Operator

Thank you. Our next question comes from the line of Doug Harned with Bernstein. Your line is open.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

Hello, good afternoon.

Bruce L. Tanner - Lockheed Martin Corp.

Hi, Doug.

Marillyn A. Hewson - Lockheed Martin Corp.

Good afternoon.

Douglas Stuart Harned - Sanford C. Bernstein & Co. LLC

On F-35, I wanted to go back to what you said before about performance being ahead of your expectations, and particularly around sustainment. I'm curious as to, first, why was it is surprise that sustainment was larger than you thought? And then second, when you look forward, how does this larger amount of sustainment work? How do you see that going forward? Does that change the way that you look at the margin trajectory for the F-35 over the next few years?

Bruce L. Tanner - Lockheed Martin Corp.

Good questions, Doug. I'll take that one on. So the performance – you described it as performance, I would not necessarily characterize it as performance. It's just the growth in sustainment activity that we see. And why the surprise or why did it seem like a surprise, I think to a certain extent, this was a little bit – I won't say out of our control entirely, but it is dependent upon when the government establishes the base setups for the induction of F-35 aircraft and what level of support those bases need in order to be ready to take on operational F-35 aircraft.

And I'll say we were probably a little conservative or maybe a lot conservative in our forecast as far as thinking that the level of – if you just think of all the things that have to be at a base day one when you start delivering the aircraft to that base and all of the alternate mission equipment, all the support equipment and things to pull aircraft around, ladders to get on the aircraft, you can just imagine all the stuff that has to go into a base. And I'll say we were probably pretty light on that forecast until we had some of those bases under our belt. And now we have some of those bases under our belt and we have a better understanding of what the average needs are of the aircraft going forward. And so that's what we're projecting going forward. And I think we've got a much better handle on that going forward than we've had in the past. That's all good news as far as I'm concerned.

Looking forward, you asked about the margin trajectory. I wouldn't expect to see huge swings in margin associated with sustainment. We typically get margins on sustainment, and they're negotiated concurrently with the aircraft burden. They're negotiated at about similar levels of profitability. So I wouldn't expect to see a swing either way because of production or sustainment. I might remind you that over time, the development program, the SDD contract is winding down over time. And again that will end eventually unless we continue to put development efforts on there, but that's going down next year. That's one of the things that's helping to mitigate some of the Aeronautics ROS dilution from the F-35 program.

Operator

Thank you. Our next question comes from the line Carter Copeland with Barclays. Your line is open.

Carter Copeland - Barclays Capital, Inc.

Hey, good afternoon. And I'd also like to extend a thanks to Jerry should you choose to ride off into the Florida sunshine before next quarter. You've been a real force for our world, so thanks a lot.

Jerry F. Kircher - Lockheed Martin Corp.

Thank you.

Carter Copeland - Barclays Capital, Inc.

Look, just a couple of clarifications in the interest of time. One, Bruce, the pension contribution of 1.5% to 2% you mentioned for 2018 and 2019, correct me if I'm wrong. I thought that used to be 1.5%. If that changed, I wondered if you could just tell us what drove that.

And the second one is on the profit delta on the C-130 that you called out in the release. It looks like that's 1,200 basis points lower. How much of that should we think is difference in booking rate under the new contract versus adjustments unrelated to volume that are different year over year? Thanks a lot.

Bruce L. Tanner - Lockheed Martin Corp.

Thanks, Carter, for the question. So I teed up the $1.5 billion I think a while back. I gave a range today, as you no doubt picked up, from $1.5 billion to $2 billion. You should think of that as just asset returns compounding and whether or not we're probably getting a little leeway there as far as we've assumed 8% returns going forward. We've assumed about a 5% return on assets in 2017. The underperformance of the 8% has a compounding effect that says you have to have higher CAS contributions going forward, and that's simplistically the reason for the range we're giving today is simply the asset returns.

C-130, previous years we did have some pretty good size pickups or step-ups or risk retirements relative to the third quarter last year. But you're also seeing, as you described it, the lower booking rate on the newly negotiated multiyear contract that has an effect of having a lower profit rate than we've seen in the past years on the C-130 program.

Jerry F. Kircher - Lockheed Martin Corp.

Andrea, I think we're coming up on the extra end of the 15 minutes, maybe final comments here my Marillyn.

Marillyn A. Hewson - Lockheed Martin Corp.

Thanks, Jerry. As we conclude the call today, I'd like to end by reiterating that the corporation completed an excellent quarter, and we continue to build on our momentum. We have a robust backlog. And as we look at an increasing DOD budget, we're well positioned for top line growth and strong cash flows in the future.

Before we leave the call today, I also want to take a moment to recognize that this is Jerry's last earnings call before he retires at the end of this year. Jerry, thank you for everything that you've done for me and for the corporation. You're truly the consummate IR professional and you will be missed, as you've heard from some of your colleagues on the phone today. And let me at this time also welcome Greg Gardner, who is Jerry's successor. Most of you have known Greg for several years. Jerry and Greg will work over the next few months to ensure that there's a smooth transition.

So again, thank you for joining us on the call today. We look forward to speaking to you on the next earnings call in January, when we will review our 2016 full-year results and provide our formal 2017 guidance. Andrea, that concludes the call for today.