Good day, and welcome everyone to the Lockheed Martin Second Quarter 2014 Earnings Results Conference Call.

Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the call over to Mr. Jerry Kircher, Vice President of Investor Relations. Please go ahead, sir.

Jerry Kircher

Thank you, Shannon, and good morning. I'd like to welcome everyone to our second quarter 2014 earnings conference call.

Joining me today on the call are Marillyn Hewson, our Chairman, President and Chief Executive Officer; and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

Statements made in today's call that are not historical facts are considered forward-looking 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 Web site today that we plan to address during the call to supplement our comments. Please access our Web site at www.lockheedmartin.com and click on the Investor Relations link to view and follow the charts.

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

Marillyn Hewson

Thanks, Jerry. Good morning, everyone, and thank you for joining us today. We're pleased to have the opportunity to review our second quarter results with you.

As today's release detailed, we had a strong quarter operationally and financially. All reported results exceeded our expectations, and we're progressing on achievement of our full year financial objectives.

These results reflect the execution being achieved across our businesses as the corporation operated at a very strong level in providing critical solutions to our customers while returning value to our stockholders. Our team continued to deliver broad-based results across the corporation, and I thank them for all that they do on a daily basis.

Our strong year-to-date financial performance also enabled us to again increase full year 2014 guidance for segment and consolidated operating profit, earnings per share, and cash from operations. Bruce will cover the financial results in detail later.

First, I want to congratulate our Mission Systems and Training team on their successful capture of three key new business awards this past quarter as well as recognize our Space Systems group for their capture of a multibillion extension on an essential National Security program.

One of the highlights of the quarter was Mission Systems and Training's competitive win of the Space Fence program. This contract will enable our corporation to provide a critical capability to our nation for tracking more than 200,000 orbiting space objects and increase the ability to prevent collisions with space-based debris.

MST was also notified of two significant helicopter new business events this quarter. With announcements from the U.S. Air Force on the Combat Search-and-Rescue Helicopter program award and from the Naval Air Systems Command with the award of the VXX Presidential Helicopter Replacement program. These awards will utilize our systems engineering expertise as we provide significant capabilities on these important helicopter recapitalization programs. Our role will be just to support Sikorsky, who is the prime contractor on both these programs.

Turning to Space Systems, our team was able to expand a key franchise program with a receipt of additional production lots for spacecraft 5 and 6 on the Space-Based Infrared System, SBIRS.

SBIRS spacecraft provide essential missile defense and warning capability to our nation and allies to counter the growing proliferation of offensive ballistic missiles around the world. These two awards expand our backlog at work and help position our corporation for long-term growth in core markets.

In addition to the notable new business awards, we also announced two strategic acquisitions in closely aligned core business areas. To expand our portfolio satellite launch preparation services, we acquired Astrotech Space Operations. Their addition compliments our existing capabilities in satellite design, production and integration.

We also announced the acquisition of Zeta Associates to further strengthen our national security capabilities in the areas of collection, processing, safeguarding and dissemination of critical information for intelligence and defense communities. Closing of both of these acquisitions is expected to occur in the third quarter, and they will be managed by our Space System business area.

I'd like to move to F-35 Joint Strike Fighter and provide a summary status of the program. New business support of the program continues to grow with announcements in this quarter from two of our cooperative partner countries to procure the F-35 for their future fighter needs.

Australia announced their decision to purchase 58 additional F-35 aircraft, bringing their total current procurement level to 72 aircraft.

Additionally, Turkey finalized their commitment to procure their initial buy of F-35 fighters, reflecting their confidence in the program to provide fifth generation fighter capability to their nation.

It's exciting to see expanding levels of international and domestic procurement of the aircraft as we work to deliver these revolutionary assets to our nation and allies. But we had numerous accomplishments on the development program this past quarter, we were obviously disappointed with the necessary grounding of the aircraft fleet in response to an engine fire and damage to an Air Force jet at Eglin Air Force Base on June 23rd.

Subsequent engineering and safety analysis, including an inspection of the entire F-35 aircraft fleet have been completed. Flight operations were allowed to resume last week, but there were some limitations until final root cause of the engine failure and identification of any corrective actions is completed.

I'd like to turn to some of the accomplishment achieved this quarter on the development program. That included achieving over 17,000 cumulative flight hours on program, demonstrating air-to-air combat capability and completing the first flight test with Version 3I software.

Another significant accomplishment was the successful landing of a carrier variant aircraft at the maximum test speed and drop rate. This success further paved us the way to conducting carrier landings at sea later this year.

In the software arena, we're conducting final checkout in testing of the Version 2B software, and are confident of being ready for initial operating capability of this turbo aircraft in 2015 for the U.S. Marine Corps.

We're also progressing well on Version 3I software that will achieve the planned IOC for the Air Force variant aircraft in 2016.

Before leaving the F-35, I'd like to briefly outline our recently announced Blueprint for Affordability agreement with the Department of Defense on the Joint Strike Fighter program. This agreement is designed to reduce the price of a new F-35 to under $80 million and then-year dollars by 2019 at a level at or below the price of the fourth generation fighters.

Achievement of cost reductions will enable domestic and international customers to buy a fifth generation fighter with its far more advanced technology and capabilities as they capitalize their fighter fleets. The need to replace fourth generation fighters is becoming even more acute due to the aging of the current fleet and increased strategic thrust to the aircraft.

The agreement calls for our corporation and key subcontractors, Northrop Grumman and BAE Systems to make total combined investments of up to $170 million in affordability initiatives from 2014 to 2016.

Recoupment of our investments with an accessible return is included in the agreement after achievement of reduced cost of F-35 aircraft in future years. Our focus on cost reductions and affordability will be aided by this agreement as we strive to produce the F-35 for our customers at the lowest possible price.

Beyond the F-35, I was in the United Kingdom last week at the Royal International Air Tattoo at Fairford and also the Farnborough International Air Show where I had the opportunity to meet with many current and potential customers.

My impression from those meetings is that the demand for our portfolio of products is strong and growing. We see broad-based customer interest in areas ranging from fighter and cargo aircraft to missile defense systems, tactical missiles, C4ISR and IT solutions. Customers are very interested in our evolving technologies, focus areas, where we're working to extend and expand the value and capabilities of our core programs.

One item that I'd highlight is the demonstration of our focus on providing innovative and different capabilities to an existing program. We're seeing on our LM-100J commercial airlifter program. The LM-100J is the civil version of our proven and cost-effective C-130J Super Hercules aircraft, and build upon the legacy of the airlifter for its new commercial customers.

We were particularly pleased to announce that we secured a letter of intent for our new LM-100J commercial airlifter. This customer has the opportunity to purchase up to 10 aircrafts, and we believe the potential demand for this airlifter will only grow in the future.

The final topic I'd like to speak briefly about is the decision we made this past quarter outlining revisions in our defined-benefit pension plan for salaried employees. We took actions to freeze certain of our qualified and non-qualified defined-benefit pension plans in a two-phased approach and transition the effected employees to an enhanced defined contribution retirement savings plan.

Taking these actions will allow us to better manage our financial obligations at a more predictable weight, while still providing valuable retirement savings to employees. Our goal is to offer competitive benefits that align with our global security and aerospace peers, while also attracting and retaining the talent that is so vital to our success.

These changes will provide current and future employees with an employee retirement savings plan that is very competitive in the marketplace, while positioning our pension expenses on a more affordable and sustainable level for the corporation.

I'll now ask Bruce to go through the details of second quarter financial performance and our increased 2014 guidance. And then we'll open up the line for your questions. Bruce?

Bruce Tanner

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

Let's start with Chart three, an overview of the quarter. Sales in the quarter were $11.3 billion, down slightly from last year, but actually a little ahead of our expectations.

Segment operating profit was strong at $1.4 billion, and this performance along with the improvement in our FAS/CAS pension adjustment increased net earnings by 3%, and increased earnings per share to $2.76.

We had a stronger cash quarter than expected generating $977 million in cash from operations. And we increased our full year outlook for operating profit, EPS and cash from operations. So I think we had a strong quarter and first half of the year.

Turning to chart four, and then comparing our sales and segment operating profit results for the second quarter this year versus last year, sales were down slightly compared with last year, but as I just noted this was ahead of our expectations. Segment operating profit was about $100 million lower than the same period last year. The last year we had the benefits of contractual resolutions that were not repeated this year. Adjusting for these favorable items, our segment operating performance was comparable to last, and again was broad based across our business areas.

Chart five shows that earnings per share increased by $0.12 or 5% over last year. EPS grew despite the lower segment operating profit due to the change in the FAS/CAS pension adjustment from an expense last year to income this year.

On chart six, we will compare our cash from operations for the second quarter of last year. Cash generated was just under $1 billion in the quarter or 57% higher than the second quarter last year. The strong performance in the second quarter led to an increase in our outlook for the year as we will discuss on the next chart.

Chart seven, provided our current outlook compared with what we've provided in the first quarter. We are maintaining our orders outlook at between $41.50 billion and $43 billion, but we are actually ahead of our planned order level through the first six months. We have the large C-130 multiyear order planned for late in the fourth quarter. And with the size of that order we believe it's prudent to leave the order outlook unchanged.

Similarly for sales we are tracking nicely to our current guidance. We are increasing outlook for segment operating profit by $125 million reflecting the strong performance to the first half of the year. With the changes we announced this quarter to freeze our pension plan, we were required to re-measure our pension plan assets and benefit obligations.

In addition to the freeze, the re-measurement incorporated a new longevity estimate along with a lower discount rate and the net effect of these changes was $100 million increase in our FAS/CAS pension income for the next six months. We increased our operating profit outlook by $225 million to recognize both the segment operating profit and FAS/CAS pension income increases.

We also increased our earnings per share guidance by $0.35 and we will discuss this in more detail in a couple of charts. Finally, we increased cash from operations by $100 million to greater than or equal to $4.8 billion.

On chart eight, we have our sales outlook for the year by business area which remains unchanged.

Chart nine shows our updated guidance for segment operating profit. We increased outlook for operating profit by $105 million for space system and by $20 million for aeronautics. For Space Systems this reflects strong performance to-date along with growing confidence that two large delivery events planned for the second half of the year will both happen this year. The increase in profit for aeronautics recognizes the performance to the first half of the year being ahead of our expectations.

Moving on to chart 10, we will discuss the increase on our earnings per share guidance. The $125 million increase in segment operating profit raised our outlook by $0.25 per share while the $100 million increase in FAS/CAS pension income raised the outlook by another $.20 per share.

In addition, we reevaluated certain tax reserve positions resulting in an increase in tax expense in the second quarter. Netting all of these changes our new earnings per share guidance increased a total of $0.35 for the year to a new range of between $10.85 and $11.15 per share.

On chart 11, we thought it will be helpful to describe how the pension changes we made will affect our expectations for FAS/CAS income and pension funding and recovery over the next few years. As with all these projections it's important to remember that they are all based on current regulations and include our June 2014 assumptions for discount rate at 4.25% which is 50 basis points lower than what we used at the end of last year.

The projections also incorporate new longevity assumptions, our long-term asset return of 8% and demographics holding constant or as I'd like to say current course and speed. We expect lower FAS expense in the future and that would make our FAS/CAS income in 2015 about twice the 2014 level and increasing the 2016 level about a half a billion dollars above the 2015 level.

For pension funding and recovery, we'd expect our contributions to the pension trust over the next few years to be similar to are lower than the 2014 level, and the future benefits associated with the roughly $10 billion we have funded but not yet recovered would remain in tact.

Recoveries in 2015 and 2016 are expected to be sequentially higher than 2014 and essentially keeping pace with the increases in FAS/CAS income over the next two years.

Finally, chart 12 provides our summary for the quarter. We are pleased with the performance with the first half of the year as it results from continued strong program execution along with taking proactive measures and the benefits of a portfolio of programs that is second to none.

We expect to resume discretionary share repurchases in the third quarter and this leaves us well positioned to achieve the higher outlooks that we provided today.

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

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Our first question is from Sam Pearlstein at Wells Fargo. You may begin.

Sam Pearlstein - Wells Fargo

Good morning.

Bruce Tanner

Good morning, Sam.

Marillyn Hewson

Good morning.

Sam Pearlstein - Wells Fargo

I'm wondering if you could talk a little bit more about the investments you're making in terms of the F-35 to reduce the cost. I guess I'm wondering does it impact your booking margin on the program, and how much is it shared amongst your partners, because it would seem like near-term it should have a downward effect even if you can then recover it on the backend? So I'm just trying to understand how the mechanics of that work.

Marillyn Hewson

Bruce, why don't you take that?

Bruce Tanner

Yeah. Sam, I'll jump in there. So, we're calling this the Blueprint for Affordability. As Marillyn said, the overall objective is to put our money where our mouth is, quite frankly, because we think there are investments that could be made that will reduce the cost of the aircrafts over the next few years below what it could otherwise track to.

So the thought is, as Marillyn said, about $170 million up to $170 million spread over a couple of years. You could think of that, Sam, as sort of proportional in terms of the investment contributions to the work share of our partners. So, Lockheed Martin, Northrop Grumman and BAE would be expected -- although it's not required because not all the investments frankly will fall along that line, but for planning purposes you should expect just kind of proportional to the work share that we each have there.

The recovery of that is tied to achieving those cost reductions. And as Marillyn said, we would expect to recover that investment plus an appropriate return on that investment. So, Sam, to your question on booking rate impact, I don't expect this to have any negative impact on the booking rates for those lots affected unless we are unable to achieve the cost reductions that we are projecting in the basis for those investments. So if we do what we say we can do then you would see no impact on booking rates as a result of that.

Marillyn Hewson

I just want to add to it. This really is an exciting acquisition reform type of an initiative. We think it's groundbreaking in terms of bringing this F-35 program. We've been working closely with the Department of Defense for the past year to come up with this agreement, and it lines right up with Frank Kendall's blueprint. He has a better eye power of 2.0. And where they have asked us to come up with innovative ways to drive down cost has boosted, just volume will bring the cost down. We expect that probably 75% to 80% of the cost reduction comes through just ramping up production.

So the numbers that I started around bringing the cost of the aircraft down will depend first and foremost on that volume reduction, but at the same time we will remake these investments and cost reduction initiatives. That will be the balance of it to bring it down to a fourth generation priced aircraft by 2019 in then-year dollars. So we're very excited about -- and we've already got projects underway.

Operator

Thank you. Our next question is from Rob Spingarn of Credit Suisse. You may begin.

Rob Spingarn - Credit Suisse

Good morning.

Bruce Tanner

Good morning.

Marillyn Hewson

Good morning.

Rob Spingarn - Credit Suisse

Bruce, could you walk through some of the puts and takes in the pension numbers, headwinds and tailwinds, obviously the discount rate we have that from the K, but the mortality and then the upside from the freeze?

Bruce Tanner

Yeah. So you're talking about sort of FAS/CAS income change for the next six months?

Rob Spingarn - Credit Suisse

Yeah. All the details, you have netted the number to a positive 100 billion.

Bruce Tanner

Yeah. Let me give you the pieces, and I should point out, Rob, what I'm going to talk to you today is also going to be in the Q that you will see, the 10-Q that you will see filed tomorrow.

So we started off with an expectation of FAS/CAS pension income of about $345 million for the year. You should think of the design change that we are incorporating, so that comes in sort of two stages. We have freezing of the salary benefits effective 01-01-2016, and then we have the services benefit will freeze at 01-01 of 2020. That will be essentially a full freeze of the pension plan at that point in time.

The results of those amendment changes, if you will, is an improvement of about $435 million compared to what we otherwise would have had without that. We actually had a positive through the first six months of the year that we recognized when we were required to re-measure assets and benefit obligations. We did better -- our long-term assumption for the rate of return on assets is 8%. So if we just break that into two six months chinks, you would have said, the first six months should have been about 4% return, we actually did better than that. And that better return resulted in $85 million net improvement.

The increased longevity impact for the year is about $265 million negative impact to the income that would otherwise have occurred this year. And then the discount rate reduction again about 50 bips as I said earlier is about $155 million. So hopefully if my math is right that locks us from the $345 million to the $445 million pension income and that's the net $100 million benefit there.

Rob Spingarn - Credit Suisse

Does that work with that?

Bruce Tanner

I'll say yes.

Operator

Thank you. Our next question is from Cai von Rumohr of Cowen and Company. You may begin.

Cai von Rumohr – Cowen

Yes. Thank you. I think you've just answered my question. Thanks.

Bruce Tanner

Thanks, Cai.

Operator

Thank you. Our next question is from Howard Rubel of Jefferies. You may begin.

Howard Rubel – Jefferies

Thank you very much. Marillyn, your focus on affordability is notable, I think, because of the Pentagon I guess and the navy called out two of your business units forgetting Top Chairman Awards. How important is that and what does that say about how are you going to push the rest of the business units to capture those achievements?

Marillyn Hewson

Howard, thank you for your question and thanks for the recognition for the folks that are doing the right thing that the navy and others have focused on our performance. So we are excited about that. Frankly, affordability is a daily focus for us across the entire corporation. Every one of our business areas is tracking to drive cost out of the business and look at how they can bring innovation forward into to some of their products in order to make them more affordable for the customer.

So it isn't just those that happened to get the recognition from our customers which we highly value and appreciate. But it is across the business that we are doing this. I know if you look back at what we've done in terms of reducing our footprint with our square footage reductions, shutting down some of our facilities, things that we are doing across our overhead structure and our expenditures. And at the same time, how we are looking at making sure that we are performing on a daily basis, so that if you look at our operational execution this quarter and for the past several quarters, I've never seen our programs performing better by putting off quality products on time, under budget and meeting the commitments of our customers.

The recognition that you highlighted was from the navy and not all other business areas work with the navy. So we would seek similar recognition from other services whereas warranted because we are across the board working on affordability. Thanks for the question.

Operator

Thank you. Our next question is from George Shapiro of Shapiro Research. You may begin.

George Shapiro – Shapiro Research

Good morning.

Marillyn Hewson

Good morning.

Bruce Tanner

Hi, George.

George Shapiro – Shapiro Research

Bruce, I wondered if there is still a little bit more in aeronautics. I mean you basically have a lot of puts and takes there like you get 40 million more F-22 sales and pick up 35 million profits. The R&D programs explained by -- you took the charge last year; F-35 sales were up 210 million, but no change in the profit. So is that an issue of where you are in the LRIP program. So kind of you just explained some of those comments.

Bruce Tanner

Yes. So maybe I'll just hit all the moving pieces in aeronautics, George. And hopefully I'll capture the intent of your question there. So collectively, I think, let's see we were up about 135 sales in aeronautics, almost $450 million about in line with what our expectations were. We said all along that we expect to have aeronautics be really the only business area that has any significant growth to speak of. That of course was led by the F-35 program.

You mentioned about $210 million of that came from the production program. The total F-35 program was just under $300 million with the difference coming on SDD contract. Most of that increase on the SDD coming because we don't have the negative profit adjustment that was taken in the same quarter of last year.

C-130s were up about $75 million or so, really it was just one additional aircraft this year versus last. C-5 a similar story, one additional aircraft and a partial -- was up about $45 million. That is attributable to one additional aircraft that was partially offset because of a little bit of lower support in spares this year compared to last. As you said, the F-22 is about $40 million, almost all of that F-22 sales volume resulted from the higher risk retirements on a number of programs within the F-35 program that we are about $35 million of that 40 in total.

You talked about the, I think, your question was the F-35 production program up about $210 million while the profit level was flat, and what that really results from, George, is just as you speculated, we did have a number of higher risk retirements in the second quarter of last year that were not repeated this year. I think that's just a facing of when those events occurred. It's not something that's causing a long-term concern on my part. And I think we are performing actually very well and the production programs, we are at large as we sit here today.

Operator

Thank you. Our next question is from Jason Gursky of Citi. You may begin.

Jason Gursky – Citi

Hi, good morning. I just wanted to ask a question on missile defense and MEADS versus Patriot. Can you just describe a little bit on where we are today with MEADS from a revenue perspective? And if we don't get any additional fuel sign there when does that revenue stream trail off? And then maybe just talk a little bit about the competitive environment, the MEADS versus Patriot and how much you care either way, which direction this all goes?

Marillyn Hewson

Well, you take the revenue question and I'll talk about the competitive environment.

Bruce Tanner

Good. I get the same thoughts on there, Marillyn. So I was trying to write those down as you were talking, Jason. So revenue stream and what's the current …

Jason Gursky – Citi

Yeah …

Bruce Tanner

Yeah, current revenue level; you should think of it as fairly minimal right now. And that primarily because the development program that has been undergoing for the better part is, I don't know, five, six, seven years or so that is now sort of wound down to the end. The actual sales or revenue that is being generated by the program is not all that consequential. When that would falloff is sort of when the development program finishes which is -- it's not close to the end of this year, maybe a little bit into early next year. But that's sort of the profile you should think in terms of the revenue profile that we are looking at.

What we are always trying to do is now convert this from this program that is sort of finished at the end of this development into a production contract. That's what we are trying to do. That's what we are trying to do in Poland. I think the next opportunity is probably going to come up in Germany. I'll let Marillyn maybe discuss the more strategic views of Meads versus Patriot.

Marillyn Hewson

Sure. Thanks, Bruce. We are continuing MEADS, frankly, I will just say right upfront we are disappointed the Polish government announced that they are down selected to two offerings and MEADS didn't make that down select. Because we really believe that offers the best capability is the most modern mobile unit that's 360 degree capability open architecture. It has got all of the things that we think was a very good offering for the Polish government. At the same time as you know iterating Germany have invested a significant amount of their funds into the program collectively reviewed as government.

The next opportunity for us is to continue to work with Germany and Italy on developing their future here in missile defense system. Germany will be making the decision later in this year. We feel very good about how MEADS will stack up in that competition. As I said they have made a significant investment, they understand the capabilities. So we expect that to be strong. The program itself, as Bruce said, we are going to continue through the development phase on it and we also expect that the U.S. army will continue to review it and figure out how they can harvest some of the technology from MEADS.

Also just to highlight for you, we still benefit as well from the Patriot system, because there as you saw the recent opportunity with Cutter being announced and others, we are on the Patriot system with our missile with the PAC-3. So both systems will have an opportunity for that we are front and center in the marketplace with MEADS and expect that Germany and Italy will look seriously in, there are other countries as well.

Operator

Thank you. Our next question is from Doug Harned of Sanford Bernstein. You may begin.

Doug Harned - Sanford Bernstein

Yes, good morning.

Bruce Tanner

Hi, Doug.

Marillyn Hewson

Good morning.

Doug Harned - Sanford Bernstein

Staying on this area, missiles and fire control, all of these were lighter than normal during the quarter. I wonder if you could give us a sense of how you're looking at the outlook for that group in terms of order flow. Obviously PAC-3, those are important parts of that, so maybe you could give us a sense of where the international opportunities are and how do you see that unit moving over time?

Bruce Tanner

Yes, I will take that one on, Doug. So I think the biggest near-term international order for missile and fire control is probably the PAC-3 for Cutter. Marillyn mentioned that as well just a second ago. That's probably one that we are looking for. Hopefully, I think we had a signing ceremony in the Pentagon here in the last couple of weeks that will lead to a contract award to us hopefully some time in the third quarter.

One that may not be on your scope, Doug, that's a big sized order for us, and it's one that's worth discussing is potentially about a 1 billion order for the scout fighting vehicle in the U.K., this is basically putting a new churn and new capabilities on an existing fighting vehicle, combat fighting vehicle in the U.K., and that's being operated -- are performed by our LMUK operation. So that's a fairly sizable opportunity that we are very excited about. We think that actually has some export potential even beyond the U.K. for that vehicle.

Those are two, the bigger ones that we are looking at in terms of international orders. But I'll just say looking at the rest of the year expectation for missile and fire controls, we are trying to get back to about the similar level of backlog is where we ended the year at 2013. And of course we always have the fourth quarter of our calendar year being the first quarter of the new fiscal year and we tend to get a lot of our domestic orders in that quarter and I would expect that will happen again this year.

Operator

Thank you. Our next question is from Yair Reiner of Oppenheimer. You may begin.

Yair Reiner - Oppenheimer

Okay, thank you. For Space Systems you mentioned that the EBIT upside relative to prior guidance is going to come from two deliveries now happening at the back half. Why didn't that impact the sales guidance as well?

Bruce Tanner

It's a good question, Yair. And let me just say there is probably -- I'll say, maybe like three moving pieces that are going out in the space guidance, and I'll address the sales as well here. So first and foremost, we've had better performance year-to-date. Some of that has come on the back on the United Launch Alliance. That sort of hired to-date performance is going to carryout for the rest of the year. So that's part of the increase there.

Secondly, recall probably both the fourth quarter call of last and the first quarter call this year. I talked about some continuing restructuring charges particularly as we are shutting down some facilities and relocating operations from those facilities elsewhere within the space system's portfolio. So those charges have actually turned out to be a little lighter than we expected that they would be when we set the guidance for this year. Importantly to note they are still back half loaded in the year, but the total year is expected to be lower than what we initially envisioned in the -- when we gave the guidance for 2014.

Then specifically to your point on the two launch vehicles, we probably had a little more contingency or conservatism in our profit guidance associated with those items only because our profit guidance range is pretty narrow frankly for Space Systems Company. I think it was at $30 million or so from the low end to the high end. These are items that are probably event sized at least collectively. Whereas the sales are probably contained within the $300 million range that we give already for the sales guidance. So while I recognize why that could seem like a disconnect I think it's because of the size of the ranges per sales versus the size of ranges for earnings.

Operator

Thank you. Our next question is from Noah Poponak of Goldman Sachs. You may begin.

Noah Poponak - Goldman Sachs

Hi. Good morning, everyone.

Bruce Tanner

Good morning.

Marillyn Hewson

Good morning.

Noah Poponak - Goldman Sachs

Bruce, I wanted to get a capital deployment update from you. On M&A you guys have been kind of doing smaller things in areas of growth. Others in the space have suggested M&A could pick up. I wonder if you think that's possible. What's the probability that that annual number for LOCKHEED moves into the billions rather than hundreds of millions. Then on the share repurchase any color you could give on the anticipated pace at which that picks back up since you mentioned that's going to happen?

Bruce Tanner

Yes. I'll jump in a little bit on the M&A question. I'll see that if Marillyn has any maybe overarching thoughts than I provide. I think the short answer that your question, if I could repeat, it was sort of you have done some smaller acquisitions and what's the potential that we could end up with maybe more than $1 billion in a year instead of spend a several hundred millions of dollars in a year. I think the short answer to that is that it's opportunistic. It's what we see with -- we've always at least since I've been in this job, we look heck of a lot more opportunities for M&A than we ever execute on. That's because we don't think all that makes sense obviously. So if we find more deals that makes sense for us both strategically, financially and operationally, then we'll close that. There is not a certain number if you go that we are trying to stay below or trying to exceed and getting that number.

I think historically -- if you take a look at our capital deployment and our share repurchase plan, we ended the year last year at about $2.6 billion of cash on the balance sheet. We've grown that. I think we are at about $3.4 billion or so today. I think I said on the last call that we would probably try to get to a share repurchase that will bring us about in line with where we ended last year with cash on the balance sheet, and you can probably solve for that number better than I can, frankly. But that's probably my best indication of what the remaining expectation at least on our part is for share repurchases to the rest of the year. I'll ask and see if Marillyn has any different thoughts on the M&A question.

Marillyn Hewson

Not different, Bruce. I think you covered it well. I mean we will continue to look at selective acquisitions that really makes sense for us. We were looking at things that give us new access to end markets or some unique technology or capability or things that did with our core or that are very near to our core, just as the ones that we've done in the past quarter line up very well with our core business. We recently -- in the previous quarter we bought industrial defender, which is a leading provider for cyber security solutions. So you can look at the things that we're buying and if they create value and they're strategically and operationally lineup with what we want to do, then we're going to continue to look for those opportunities.

As you can tell from what Bruce has described, I mean we have a lot of capability on our balance sheet to do what we think makes sense. We're just going to go along our normal process of assessing and determining if it's a good bid for us.

Operator

Thank you. Our next question is from Rob Stallard of RBC Capital Markets. You may begin.

Rob Stallard - RBC

Hi, thanks very much. Good morning.

Bruce Tanner

Hi, Rob.

Marillyn Hewson

Good morning.

Rob Stallard - RBC

First, just a couple of quick guidance questions; what do you expect the full year tax rate to be? And also, what are the factors that you see weighing on the aeronautic margin in the second half? Thank you.

Bruce Tanner

Yes. Thanks, Rob. So, I think it will be somewhere in the -- I think of it probably in the 32% range, maybe a little bit lower than that as we sit here today. So, one wildcard obviously is whether or not we have the R&D tax credit between now and the end of the year and/or I believe will ultimately get R&D tax credit at some point in the future whether it happens this year, but we had the retroactive event like happened last year. I hate to predict that. But that's not included in the tax numbers that I just gave to you, Rob.

And the second question was on the aeronautic, sort of the second half of the year. So, as we sit here today we've actually had very good performance in the first six months for aeronautics as I said probably repeatedly in the opening remarks better than our expectations. As we look today at the guidance that we're providing that would suggest that we're going to have lower margins in the second half of the year than the first half of the year. Not hugely lower, but that's the result of our lower planned risk retirements as we sit here today, and I think of how we're planning for those risk retirements in the future.

The first half had the benefit of some of those exceeding our expectations, and I think there is some potential upside that we could exceed our expectations of what we have planned for those second half risk retirements today.

The other piece that has a negative push on margins in the second half is obviously the rising volume of the F-35 program at the lower margins on the overall aeronautics margin. That will continue to happen in the second half of the year as well.

Operator

Thank you. Our next question is from Myles Walton of Deutsche Bank. You may begin.

Myles Walton - Deutsche Bank

Thanks, good morning. First, just a clarification where you gave us ton of moving parts in the pension, but can you give us what the FAS and the CAS components were, but the actual question is more on space, where this is the fourth year in a row where you put up or you're going to put up 13%, maybe better margins, it looks like there are even some conservatism up in the second half. Is this 13% margin business on a go-forward basis?

Bruce Tanner

Myles, it surprised me a little bit. So, space has the benefit obviously -- I'm going to answer your second question first, I guess, and I'll come back to the FAS/CAS. So, space has the benefit of getting quite a significant portion of equity earnings associated with our 50-50 joint venture in United Launch Alliance. So, the actual margins on the rest of space is business, because we're recognizing the profit, but not recognizing the sales, has a boost in the profit that's not inherent in the rest of the portfolio.

We also have a joint venture in the U.K., where we're also accounting for it with equity earnings with the atomic weapons establishment, although it's a much lower piece of it. You think of the two of those as adding a pretty good boost, the margins of space. And those have increased over the past few years over what they were, say, three, four, five years ago.

We also had the transition in space of having a number of programs in concurrent development. And almost every single one of those programs is now in full rate production as much as I can say full rate production for space which is usually small quantities of spacecraft. So, programs like SBIRS, Advanced EHF, even to a certain extent the GPS III were on the tail end or hopefully completed with the development of a lot of those satellites and we're now in production. And you'd expect to see higher margins during that performance.

Also, I'll just say the performance on other special programs activities within space has been outstanding, both from a capabilities perspective as well as the financial performance there. So, whether or not we can continue that, Myles, I think we've got a little bit of actually negative as I talked about earlier in terms of the restructuring costs that eventually will go away.

You should also think though that we have about $40 million a year I think associated with the formation of ULA that is a recurring benefit, that I think expires in 2016 or 2017, I've lost track with. So, that's associated with the game we had on the contribution to form United Launch Alliance, I guess spread over 10 years.

So, will those offset the restructuring charges going away in the end of that recurring benefit at the end of the 10 years, that's the challenge for us and to see whether or not we can maintain that streak?

So I think you asked specifically, what are the FAS/CAS numbers, so I gave you the net at $445 million. But CAS does not change. So, I still think of it roughly some billion, six, and the FAS expense, and I'm rounding some numbers here, I think FAS expense changes to about $1150 million for the year, and I think that probably nets the 450, but that's kind of the close to the pin math.

Operator

Thank you. Our next question is from Joe Nadol of JP Morgan. You may begin.

Joe Nadol - JP Morgan

Good morning. Why don't you drill a little bit into the Mission Systems and Training segment? First of all, just if you could give a little color on the reserves you recorded on the programs in the quarter. And then just secondly, maybe higher level, I think this was the first quarter where you had a negative profit adjustment since you started giving all that level of detail over the last three years. And I know you had a tough compare with the settlement of presidential helicopter from last year, but higher level -- what's the momentum in terms of performance in this segment that it's been so good over the last couple of years? Thanks.

Bruce Tanner

Yeah. So, I'll try just the moving pieces there, Joe. Thanks for the question. So, most of the reserve -- I guess all the reserve that we took in the quarter is really associated with the training and logistic solutions part of the business. This is a part of business that really serves the variety of customers including the U.S. government international customers as well as commercial customers.

And you should think of this business at least in large part, you have to have products developed and ready for the market in order to be able to be competitive in this marketplace, which means to me that you have to sometimes make best in terms of sort of the configurations, the capabilities and the quantities of these new products.

We probably didn't make all the right bets here, and so we established some reserves in the case that some of the risk associated with some of the inventory that's on the balance sheet today simply doesn't find a home in the long-term.

You talk about this being the first quarter of sort of the negative hit there, and you're right. What I'm pleased with is, is essentially even with that reserve that we established for the training logistic solutions business, there were offsetting step ups or risk retirements that mitigated essentially to the full extent that reserve that was established, such that the net change for the quarter-over-quarter was really just the change in the contractual resolutions that happened last year that didn't happened this year. So, that's the way I think of it.

Well, the big reserve that was established, we also have big risk retirements that were planned in the quarter that helped to mitigate that. I'll say that the second half step ups that are planned at least from a risk retirement perspective in the second half of the year are probably going to be comparable to what we saw on the second half of 2013, and always say that's sort of the current planning, the current thinking as we sit here today. So, that's your question.

Operator

Thank you. Our next question is from John Godyn of Morgan Stanley. You may begin.

John Godyn - Morgan Stanley

Hey, thank you for taking my question. Bruce, just two clarifications a little bit separate; first, on international revenue as a percentage, it looks like you're going to hit your 20% target this year. I'm curious if there is another target that we should be thinking about years in the future and then separately on pensions. You presented some very good detail on FAS/CAS and prepayments. One of the areas of pushback that I sometimes hear is that you do have a lot of contributions coming that will eat into what the cash windfall might look like. I was hoping that you could perhaps offer some detail on that point. Thanks.

Bruce Tanner

Thank you. So, first question, John, on the international revenue and where we're going, I think when I look around, I think we did right at or just under 20% in the quarter. So, you're right. We're hitting our number. The goal is clearly to be higher. One thing frame of reference-wise is if we do what we believe we'll do from an order perspective this year and we end up at the backlog level that we're hoping for, probably 30% of that backlog could be international business.

So, I'll probably defer to Marillyn as setting the new goal for the company, but I'd like the thing that if we haven't has the 20%, we're real close, and I'd think that there –- just by virtue of the backlog that we expect to have, we should have a higher number than that in the years to come.

Probably the best time for us to describe that is in October when we give you trend information for next year. And frankly we're kind of smacked in the middle of our planning process right now. So, I probably hesitate to pick the number directly until we've had a chance to take a look at that planning information and get back to you in the October timeframe.

I think your second question was on the contributions coming, is that ahead. So, I'll try to give you some visibility into that as far as the future contributions that we have planned in '15 and '16 at least, where I said they'd either be equal to or lower than the 2014 level. That's probably about as much insight as I want to give right now. I think the important part is the net cash, at least as I like to think about that. And net cash is going to be increasing pretty substantially. I may have spoken a little bit of code when I gave you that information, but hopefully you follow the information that we were providing there.

And that is expecting to continue, and the flipside that I like to always remind people is -- and I've talked about this in the earlier March. We have this $10 billion or so of advanced funding, but it's yet to be recovered just a year ago or so, that was $9 billion. Those assets are sitting in our pension trust today and they're accruing interests at the same rate as our asset return is making. And so, one different way to think about possibly is we're doing a whole lot better with those assets invested in our pension trust, and if they were doing nothing, but sitting on the balance sheet.

And so, I don't think it's a bad use of that cash. And as long as we can continue to satisfy the constituents in terms of dividends repurchases to our shareholders, doing the investments we need to make with our customers, I think that's a good use of our overall cash deployment as we sit here today.

Marillyn Hewson

I'd just like to add to Bruce's comments on the international side, well, we're not going to give you a specific number today. I mean aspirationally we're going to continue to grow in our international area. We're very much focused on that expansion of our business. It is where the growth opportunities are for us. We think we're extraordinarily well positioned with our portfolio for growth.

F-35 certainly is one area, because we see in the next five years almost 50% of the orders are going to come from the international arena, but in addition to that as we talked about, missile defense, there was outstanding demand for that around the world. We see a lot of opportunities and a full range of our capabilities. And we're going to continue to grow. We even realigned our organization such that we have more leadership and focus and resources from an enterprise standpoint so that we can win in that marketplace, and I think that's a good thought, Bruce, that we come back in the fall and given that a new target, but believe me, it will be about 20%.

Operator

Thank you. Our next question is from Carter Copeland of Barclays. You may begin.

Carter Copeland - Barclays

Hi, good morning, almost good afternoon. Just -- I wondered if you could expand a little bit on this pension piece, the delta in the FAS number would most likely relate to the actuarial amortization, not service and interest cost I'd assume since those aren't changing and the benefits until 2016 and 2020, where does that bring the plan now that you've re-measured from a funded status on a PBO basis, and then when you look out longer term, is that substantially lower? Does that have a materials impact on the longer term cash reimbursements you'd expect to see as these prepayment credits are then collected and then you look beyond that?

Bruce Tanner

You got your money's worth for the question, Carter. So …

Carter Copeland - Barclays

I'm trying my glass …

Bruce Tanner

I think I'll answer your second question first. So, on a FAS basis, amazingly enough, our funded level ends up about the same point as end of the year last year about 78% with all the moving pieces on an Arista reserve basis, which is obviously more important one, because that actually determines our funding level. We stayed about the 90% level just as again as where we ended the year last year.

I'm not sure I follow frankly the first part of your question, Carter, but I'll say that -- I'll just go back to the details that I gave. I can't remember who I provided that to, frankly, but the pieces of the $100 million and the various components of that in terms of pension change. So there were -- the real estimates that we took are affecting both service costs and actuarial losses to use the, speak of the FASB and the 10-K and the 10-Q disclosure. So, those did affect both the service cost and the actuarial losses this year. And they affected it just for the last six months of the year.

So, you should think of those as increasing in future years only because there will be a full year worth of cost versus our service benefits versus half years for the same items there.

And I think your last question had to do with how does this affect recovery? What I'll try to convey is that I think our recovery remain strong. And I think I gave some insight as to what that will look like, and clearly relative to this $10 billion that we keep talking about in terms of pre-funding or funding advance of the requirements, that is going to continue to drive our overall cash collections for the next decade or so, and you're starting to see that materialize now and in the not too distant future.

Shannon, I think that's getting us on top of the hour here, maybe, Marillyn, some final thoughts or …

Marillyn Hewson

Sure. Let me wrap up. I just want to conclude today's call by reiterating that we had another excellent quarter, and we, in my view, continue to be very well positioned to deliver even higher value to our customers and our stockholders in 2014.

So, we want to thank you again for joining us on the call today. And we look forward to speaking to you at our next earnings call in October.

Shannon, that concludes our call today.