Good day and welcome everyone to the Lockheed Martin portfolio shaping actions and second quarter 2015 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 Kircher

Thank you, Abigail, and good morning. I would like to welcome everyone to our second quarter 2015 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 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.

I would also note that we are extending the call duration till 12:30 today to enable adequate time for your questions on our financial results and strategic actions.

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

Marillyn Hewson

Thanks, Jerry. Good morning everyone and thank you all for adjusting your calendars and joining us on the call today. It's a day earlier than planned, so it's especially given the short notice we appreciate you joining us.

With today's press release outlining two strategic actions we are implementing to strengthen our competitive posture and position the corporation for profitable long term growth, we accelerated the call to enable timely discussion of our second quarter financial results and the portfolio shaping items.

Starting with our financial performance, we had a strong quarter operationally and financially, with all reported results exceeding our expectations, and we are progressing on achievement of full year financial objective. These results reflect the execution being achieved across the businesses as the Corporation operated at a very strong level in providing critical solutions to customers while returning value to stockholders.

The year-to-date financial performance also enabled us to again increase full year 2015 guidance for segment and consolidated operating profit and earnings per share. In addition to these increases to guidance, we reaffirmed our earlier outlook for full year orders, sales, and cash from operations. With these strong financial results, we continued to return value to stockholders in the areas of share repurchases and dividend repayments through cash deployment initiatives.

I would now like to discuss the two strategic actions we announced today, and then I'll ask Bruce to cover in more detail our second quarter financial results and increased 2015 guidance.

To assist our discussion, I would ask you to turn your attention to the charts we provided on our website. Starting on Chart 4, – reshaping our portfolio. The first strategic action we announced is our signing of a definitive agreement to purchase Sikorsky Aircraft. Sikorsky is a natural fit for Lockheed Martin and it complements our broad portfolio of world-class aerospace and defense products and technologies. This action will enable us to extend our core business into the $30 billion annual military and commercial rotary wing segment.

The second major action is the commencement of a strategic review of our government IT infrastructure services work at Information Systems & Global Solutions and of our technical services work at Missiles and Fire Control. The strategic review will address the changing market dynamics affecting these businesses and will help us determine how to best position them for future growth and is expected to result in a spinoff or sale of the businesses. These actions continue our practice of continuously shaping the portfolio to secure the highest value creation for customers and stockholders.

Turning to an overview of Sikorsky on Chart 5. Sikorsky is well known as a world leader in the design, manufacture, and support of military and commercial helicopters. Their international presence is wide-ranging with operations in 20 countries and their products are used in over 40 countries. Sikorsky's revenue composition is shown on the pie chart with approximately 75% of their work for military customers and the remaining 25% to commercial users. With approximately 50% of their annual revenue derived from international customers, they will aid us in moving forward on our goal to expand international revenues.

The acquisition rationale is outlined on Chart 6. Some of the important strategic benefits of this acquisition are that Sikorsky has familiar customers. This familiarity will assist the integration process through utilization of similar knowledge and interaction with common customers. They are also extraordinarily well-positioned with an established brand, and a robust backlog of future work. They also have a 40-year history as a frequent teammate of our mission systems and training business area, and today we collaborate on the VH-92 Presidential helicopter, combat rescue helicopter, and the Naval MH-60 Romeo helicopter.

Their strong aftermarket business is also expected to provide a long-term source of earnings to the Corporation and another lever of value creation. The opportunity to access capital in today's historically low interest rate environment is another significant contributor to the rationale and value creation of the acquisition.

Beyond the strategic benefits I outlined, another key element of the acquisition rationale is the Section 338(h)(10) tax election for the transaction which is expected to provide approximately $2 billion in net present value for our Corporation and stockholders.

Future growth prospects of the acquisition are outlined on Chart 7. One of the key elements of our strategic planning is to secure and extend our core defense business, and we feel confident that the addition of Sikorsky will contribute significantly to the growth objective. As the prime contractor for multiple current development helicopter programs such as the CH-53K, Presidential, and Combat Rescue, Sikorsky is well-positioned to grow as these programs transition into production scheduled in 2018. With their extensive presence around the world in over 40 countries, we see further expansion of our international operations as we will benefit from their international footprint and customer relationships.

Sikorsky's footprint in the commercial aviation segment is well-established with the extensive activities supporting the oil and gas industry. While this segment has been under recent pressure due to low oil prices, it is expected to recover in the future and add value to the Corporation. We believe these current pressures enable us to make this acquisition at a low point in the economic cycle. All of these elements indicate significant opportunities for growth in the future and value creation potential.

I'd now like to outline the transaction valuation on Chart 8. The agreement announced today outlined the purchase price of $9 billion and will be funded with a combination of new debt and available cash. It is important to note that our joint election of the 338(h)(10) tax benefit effectively brings the adjusted price of the transaction to slightly over $7 billion with an adjustment multiple of 10.3 times EBITDA. These metrics demonstrate that we are purchasing an active participant in one of the largest areas of DoD expenditures at an attractive price. I also want to reiterate that this transaction will not change our previously outlined plan to return cash to shareholders through dividends and stock repurchases between 2015 and 2017 and reducing our outstanding share count to below 300 million shares by the end of 2017.

An overview of synergy is shown on Chart 9. While there are multiple elements of synergy that we have identified from this transaction, the largest contribution will be from the approximately $2 billion that we will recognize through the election of the Section 338(h)(10) tax treatment.

In the area of cost synergies, we expect to achieve a steady-state level of around $150 million annually after integration actions are completed. In the area of revenue synergy, we see multiple opportunities by leveraging our relationships with international governments and our ability to match their security needs with a full spectrum of our security offerings. Sikorsky's products and capabilities will aid to our existing portfolio and enable us to offer an ever broader range of solutions to international customers.

Before leaving Sikorsky, I also want to offer some additional perspectives on our new team members. We have similar cultures. We have a shared passion for innovation and a commitment to supporting the men and women who defend their freedom. Together, we will offer stronger portfolio of helicopter and systems engineering solutions to our global customers as we accelerate the pace of new technology. At the same time, our commitment to bring the best we have to offer to our work with our helicopter manufacturers is absolutely -- with other helicopter manufacturers is absolutely undiminished. I'm confident that Sikorsky will be an excellent fit within our mission systems and training business area and a strong contributor to the Corporation as we move forward together.

I will now turn to Chart 10 and speak to the second portfolio action we outlined today. The strategic review of IT and services work in our IS&GS and MFC business areas. Let me start by saying that we have a proud legacy as a world leading government IT services and technical services provider. However market dynamics and trends led us to believe that these businesses may potentially achieve greater growth which is good for our employees and create more value for our customers and stockholders by operating outside of Lockheed Martin. The metrics shown outlines the businesses within IS&GS and MFC that comprise the strategic review, as well as those that will be realigned under other existing business areas.

For your reference, the businesses under strategic review are expected to generate approximately $6 billion in annual revenue this year with mid-7%

margin. With the series of recent wins, the businesses under strategic review are well-positioned to generate value under an expected spinoff or sale.

As I summarize today's announcements on Chart 11, I'd like to conclude by reiterating that the two strategic actions we announced today represent powerful portfolio reshaping activities and provide strong opportunity for creating long-term to shareholders. We believe there are opportunities for significant synergies and are confident that the risk of execution is low. Both of today's actions will further position the Corporation for growth and value creation for investors and customers.

I'll now ask Bruce to go through our second-quarter financial performance and our increased 2015 guidance and then we'll open up the line for questions.

Bruce Tanner

Thanks, Marillyn. Good morning everyone. I will try to keep my remarks brief this morning so as to allow more time for questions during our session and my remarks relate to web charts addressing just the financial results for the quarter.

Beginning with Chart 14, we have an overview of our second-quarter results. Sales for the quarter were $11.6 billion and were ahead of our expectations. We will provide more color on our sales results on the next chart.

Our segment operating margin was also better-than-expected in the quarter at 12% and enabled us to achieve earnings-per-share of $2.94. We generated $1.3 billion in cash from operations, again a little better-than-expected and we will also discuss this further in a few charts.

Our cash deployment actions increased over the first quarter with $1.4 billion of cash returned to shareholders, including nearly 5 million shares repurchased for more than $900 million. And with our strong operational performance, we are increasing your full year outlook for both operating profit and earnings-per-share. So we feel good about how we ended the first half of the year and that positions us well for the remainder of the year.

On Chart 15, we compare our second-quarter sales results for 2015 with our results in 2014. Sales are higher by about 3% compared with the second quarter of last year and while most of the higher volume in the quarter was due to earlier than planned deliveries, we will be watching this closely over the next few months to see if the higher trend continues.

Chart 16 compares our segment operating margin this quarter with the second quarter of 2014. Segment operating margin was 40 basis points lower this quarter compared with the same period last year but as I said earlier this was higher than we had planned for the quarter and enabled us to increase our margin outlook for the year. Mission systems and training drove the higher-than-expected results with margin improving 250 basis points over the second quarter of last year. Better performance this year combined with the absence of performance issues last year led to this improvement.

Turning to Chart 17, we will compare our earnings-per-share results this quarter with our result from a year ago. Our EPS of $2.94 was 7% higher than the results from last year and enabled us to increase our EPS for the year.

Chart 18 provides details into share repurchase activity during the quarter. As we previously mentioned, we had significantly higher share repurchases in the quarter compared with the same period last year with $937 million spent. More importantly we're $300 million ahead of the year-to-date amount from a year ago and have reduced shares outstanding by more than 5 million shares and we are well on our way to achieving or exceeding the $2 billion repurchase target we established at the beginning of the year.

On Chart 19 we discuss our total cash return to stockholders for both the quarter and year-to-date with a $1.4 billion in cash returned to stockholders in the second quarter, we returned just over $2.5 billion on a year-to-date basis and in both the quarter and year-to-date we returned 131% of free cash flow to our stockholders.

On Chart 20 we provide our updated outlook for the year. We are leaving both orders and sales unchanged at this time. About 65% of our orders are planned for the second half of the year and while we think there is upside potential in our sales for the second half of the year we will have a much better feel for both of these metrics when we get to the third quarter call. We are increasing our segment operating profit by $75 million due to our strong performance through the first half of the year and as a result of our increasing profit, we are also increasing our earnings-per-share guidance by $0.15 to a new outlook of between $11 and $11.30 per share.

Finally, we are keeping our cash from operations guidance unchanged. We mentioned last quarter that our cash would be significantly weighted for the second half of the year and while that is still the case, our stronger second-quarter results have reduced that difference between the first and second half of the year.

On Chart 21, we have our sales outlook by business area. Again no change in our outlook at this time.

Chart 22 shows our outlook for segment operating profit. We have a higher profit outlook in two of our business areas this quarter, increasing Space Systems by $45 million and Mission Systems and Training by $30 million resulting in the total outlook increase of $75 million.

Finally Chart 23 provides our summary of the quarter. We had a good quarter building upon our results from the first quarter and positioning us well as we look forward to the rest of the year. Our cash deployment actions accelerated in the quarter and we remain committed to the actions we discussed earlier this year. Our program execution was very good in the quarter and we look forward to adding to our portfolio with some strategic wins in the second half of the year. And last but certainly not least our decisions to acquire Sikorsky Aircraft and conduct a strategic review of our government IT and technical services business makes this quarter strong from both the tactical and strategic perspective.

And with that, we are ready for your questions. Abigail?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of David Strauss with UBS.

David Strauss

Bruce, can you just give us – potentially give us some more metrics that you are thinking about around Sikorsky, potential leverage that you see, the deleveraging and then how you're thinking about intangible amortization and accretion from the deal as you look out?

Bruce Tanner

Yeah, sure David. So as we look to finance this deal as Marillyn said, we expect to use some cash off the balance sheet but also obviously the vast majority of it in the form of debt. Currently, we are thinking that looks somewhere around $1 billion off of the balance sheet in terms of cash use and $8 billion worth of debt. We think just from sort of -- just to give you a lot of metrics maybe at once here. We think that the debt -- the average coupon for the multiple maturities that we would do, including potentially a little bit of commercial paper in the mix, would be about a 3.5% coupon. So you should think of that as somewhere in the order of $280-ish million a year of interest and on an aftertax basis something like $180 million a year rounding.

Intangible amortization, I think was your other question. As we look at this right now, we're probably looking at about $3.5 billion worth of intangible costs, think of that as sort of trade name, customer relationships as the biggest drivers of that intangible level, and that would equate to about $250 million of expense a year. So again think of the $180 million after-tax interest, intangible amortization around $215 million a year. Then on the positive side, obviously the 338(h)(10), as Marillyn said, almost $2 billion worth of present value, you should think of that as being about $450 million a year sort of tax deduction associated with the step-up in assets that equates to about $160 million a year benefit going forward. And then as Marillyn said also, we're expecting somewhere in a steady-state run rate of about $150 million a year in additional earnings. So if you add all those up together, a lot of moving pieces there, I realize that your final question was sort of accretion and when does that happen. So our intent is to integrate this business as quickly as possible. Marillyn said, we expect to close somewhere in the end of 2016 or excuse me, end of 2015, early 2016. So we would expect to have the integration cost spent in large part in 2016. We want to get the integration done as quickly as possible in order to generate the synergies that come from that. So we would be GAAP dilutive, if you will, in 2016. We expect to be marginally GAAP accretive from an earnings perspective starting in 2017, and then to grow from that point forward. Just one, maybe last comment on the – that's okay. I will leave it there and see if there is another question on it.

Operator

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

Finbar Sheehy

It's Finbar Sheehy for Doug. Turning to the other side of your strategic announcement this morning on the services and IT businesses, can you talk a little more about the criteria you'll use to decide which ones you will keep and which ones you will divest? And as you talk about that, you mentioned that you have the opportunity to acquire Sikorsky at the bottom of the cycle and some of these IT and services businesses have been hurt by the budget controlled active sequestration. So how do you avoid, if you like, divesting these businesses at the bottom of their market?

Marillyn Hewson

So just to speak to the portfolio, the way that we've gone at, we've been looking at our IT infrastructure services and technical services business for some time now, and then quite a bit of analysis trying inside the Corporation to figure out how we can make it as competitive as we can. As you know, there is a lot more competitors that have come into the marketplace and our customers' priorities are changing in what they're looking at more – they're much more price-sensitive and so the elements of our business predominantly will be in the work that we're doing for civil agencies, IT-infrastructure type services.

Well if you can think about enterprise IT services that are done for various agencies, that is the type of work that we fall into this and then the technical services work that has been our Missiles and Fire Control business. In terms of -- we certainly want to create value through this process. So what we believe is if we move it out from under the business structure in Lockheed Martin, that will allow us to thrive and grow –will allow us to have a business structure that allows it to thrive and grow, and so we are willing to separate those businesses to create that value going forward. We think it's a very strong business, we have a strong legacy of being the top IT provider for the US government for the past 21 years, and this is a business that has strong performance and strong programs, and we've had some recent wins this year and we've had some acquisitions in that business. So we think what we have is a premier asset, and we think if we can stand it up as a standalone company or if it's attractive to buyout when we can get the right price for it, that's the best for that business to go forward.

Operator

Thank you. Our next question comes from the line of Richard Safran with Buckingham Research.

Richard Safran

Marillyn, Bruce, I wanted to know if you think you could be a better owner and operator of Sikorsky than United Technologies was. If possible, I'd like to know on how you might be looking at operating the business differently than UTX did, how you might think that might be a benefit?

Marillyn Hewson

Well I will start out first and then Bruce, you can add to my comments. I think if you look at what is our core business, our core business is doing business with governments and its platform and systems integration. So that is the predominance of our business and I think in that sense bringing Sikorsky into our business is just a natural fit for us and it's ability for us to bring or strengthen and running programs and government contracting and all of that expertise through the Sikorsky business. We also look forward to the opportunity to create value on the international side of our business from their footprint that they have around the world and the work that they're doing in a number of countries. So I think if you look at the potential synergies, we do think we are an excellent owner and a better owner for this business because not only do we bring our expertise, they're bringing in their footprint and their capability around the world has value that we can create as well. Bruce, do you want to add some –

Bruce Tanner

Just a thought, Rich, so in terms of adding value greater than the parent, this is a business that's been successful for however long it's been in business, 90 something plus years. So they obviously are a national icon in terms of the capabilities that they bring to the rotary marketplace. So they do a lot of things well already. Where I think we can create value, I mean first off, we think this deal has pretty low execution risk from us. I mean I'd like to think of this as we're buying a portfolio of programs versus sort of a new business model and new marketplaces and new customers that we've never dealt with before. This is all very very familiar with us and I'd like to think of this as having sort of a power and backing of a $45 million business focused on government contracting versus one which was less focused perhaps in total than just on the piece of the Sikorsky business. I do think there are areas we can improve the business, particularly on the contracting side and maybe the focus a little bit on the cash flow side. I think in particular the international sales market is an interesting one for us where we – through the combination of our portfolios coming in having a discussion about the security needs of our international customers whether it's F-35 Littoral Combat Ships, now Sikorsky helicopters is a much much more powerful discussion than what I believe the current parent could have in terms of bundling products and services together to go into the international marketplace.

So I think all of those really add to our ability to help us better position this business going forward. We're happy to have this business. We think it fits well into our portfolio and this is what we do, and this is our core knitting.

Operator

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

Myles Walton

Marillyn, have you had a chance to get initial feedback from the DoD in the proposed acquisition particularly as it applies to broader consolidation in the industrial base realizing the Army is not a huge customer proportionally to Lockheed Martin, maybe that's not as much but at the DoD there may be some issue?

Marillyn Hewson

Well as we would do on any acquisition we contacted our customers. So I got an opportunity to speak with senior levels in the Department of Defense and have offered to them to provide whatever additional information they needed, they assessed it. They have been consistent through any acquisition of this type to say that they will assess and ask their questions and give it a detailed review, and so we stand ready to support them through that process. I do think if you look at this acquisition we are not reducing the number of competitors at all in this segment, in the helicopter segment. And so in that sense – there shouldn't be a concern and our portfolio is very complementary. There is very little overlap between our two portfolios. So in that sense, that I will expect that, that would not be a concern of theirs going forward.

In terms of the services business, there are many, many competitors out in the IT services arena. So the fact that we are trying to position this business where it can be more competitive in that arena, I think they would view this positively. So between those two elements, it's very positive. The other thing that our view is -- there's some concern about consolidation making one entity bigger than another, when you look at these two strategic actions that we're taking, UTC has reported that they see the sales for Sikorsky to be $6.5 billion this year in 2015 and the piece of business that we are looking at during a strategic review to spin or sell was about $6 billion. So we may find at the end of the day that we are roughly the same size, maybe even a little smaller, maybe a little bigger but basically roughly the same size with both of these strategic actions. So I don't think there is more concentration at Lockheed Martin in that sense.

Operator

Thank you. Our next question comes from the line of Rob Spingarn with Credit Suisse.

Rob Spingarn

Just two quick clarification questions. One on what Marillyn just spoke of but with regard to the strategic evaluation at IT, the question there is you're talking about this as a single $6 billion business, or at least that's my interpretation. Bt might you consider doing different things with different pieces selling some and spinning the other? And then for Bruce, is the $150 million in synergies net of things like profit on profit?

Marillyn Hewson

So to your question, first of all, this could be – there is a number of possible scenarios. That's why we want to go through this process between now and the end of the year to really give a strategic review on what is the best option -- strategic options for these elements of the business. To your point it could result in one or more transactions and our key is how do we deliver more value to our customers, how do we deliver more value to our shareholders through this process. The strategic review has got to determine what the ultimate outcome and it could be more than one transactions.

Bruce Tanner

Rob, the second part of your question, $150 million steady state going forward, that is considered to be net of fee on fee or profit on profit if you will, just to give you – not to confuse your perhaps but just to give you some insight. The level of sales that we see, the overlap that would need to be adjusted out, if you will, once Sikorsky becomes part of the portfolio for our business that's being conducted within mission systems and training. You should think of that being about $150 million a year. I mean there is obviously price business right now that carries on for some period of time for things like our work on the combat rescue helicopter or the Presidential helicopter, that wouldn't have a negative profit impact in the near-term but we eliminate the sales obviously of that going forward. And then so sneak – think of them when we get to the steady state, that is net if you will of that consideration of fee on fee.

Operator

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

Pete Skibitski

Congrats, guys, on some bold moves. Guys, how do you think about the strategic fit of Sikorsky's commercial helicopter business?

Marillyn Hewson

Well, I think for us it's a nice bid in the sense that as I mentioned in my remarks at the outset, it's predominantly in the oil and gas side which is not an area that we are in. And while we've got some near-term pressure there just because of what's happened with oil prices, we see an opportunity in a few years for that to turn and so real opportunity for growth there as we move forward. And then the other side would be -- on the commercial side would be on the sustainment. There is commercial aircraft that are already in the base among these 40 countries that I mentioned have to be maintained and sustained, so that's a good strong healthy business.

When you look at it from a Lockheed Martin standpoint, I mean we sell our products and services to heads of countries, so they buy both military and commercial platforms and systems and sustainment activities, so I think that that is a nice fit where we bring all of that together in our customer relationships around the world.

Operator

Thank you. Our next question comes from the line of George Shapiro with Shapiro Research.

George Shapiro

Yes, Bruce, I just want a little more clarification. You have commented about Sikorsky. So you're saying in terms of the profit on profit that you're going to be getting for the programs as if you’re subcontractor to Sikorsky, that's about $150 million currently or that's what it's going to be?

Bruce Tanner

No, George, that was revenue. Profits are a much, much smaller number.

George Shapiro

Okay. And that's because a lot of their programs that you're a subcontracted to really haven't started to ramp up yet.

Bruce Tanner

That’s correct, George but I will tell you the absolute dollars on our side don’t deviate a whole lot from that number for the work that we are doing today and for the near future.

George Shapiro

And then similar subject, Bruce, how much subcontract work do you do for other helicopter manufacturers that might be at risk since they may not want to deal with a competitor?

Bruce Tanner

So we do quite a bit of work, George, actually as we sell direct to the US government, a lot of the work is not directly to the helo manufacturer themselves. So a lot of our integration activities is actually done direct to the government as opposed to direct to the other helo manufacturers if you will. We have relationships with everyone domestically and internationally in the helo marketplace. Our intention is to maintain those relationships going forward That's something that we would obviously have to consider relative to our discussions with the DoD as far as going forward this incorporation of the business, and that's something that we would intend to do just out of a pure economics perfect nothing else, but that's just right thing for us to do going forward.

Operator

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

Howard Rubel

Hi, thank you. I'm going to turn to the boring things of talking about the business for a moment, Marillyn. You had a couple of nice positive developments in terms of operations. Were there some things that you could address both in space and, frankly, in aircraft that either you brought to bear to change the profit trajectory?

Marillyn Hewson

Well this is B2 our major program, BF-35, we've made really good progress over the past quarter on that program. I had the opportunity to attend the CEO conference in Norway for the F-35 program, we are all international partners participate in that secretary, candle and we have strong support for the program itself and the fact that secretary kindle after that to discuss a potential block buy for the program which would be for at least 450 to maybe 500 aircraft in FY8, FY120 we are the strong statement about the tortoise of the game and the outlook for the program forward. If you think on that, if you been tracking the performance in program toward the marine corps initial operating capability, the marines have finished their operationally readiness, they are now in the midst of their assessment of their operational readiness and is on track. They appear to be on track to announce their IOC this month and we look forward to that. That's a huge milestone, this program – there is first service to come to declare that aircraft combat ready I think send a strong message to everyone that this program is on track. We delivered 11 aircraft in the second quarter, we're on track to deliver 45 in 2015 and we've gotten long lead for LRIP 10, so that's for 94 aircraft. So program is ramping up in that sense. I think it's well supported in a budget proposals that are out there. So in that sense production is ramping up, software completion and all those things are on track and so that's what I would say on the 35. You mentioned the space program, I mean they are performing well on our government satellites and NEOs, for example, just launch the third NEO satellite and that program is moving forward and then you've seen the reports out that we have put forward a more cost effectives approach going forward and was greatly embraced by US government on diversions. So we will continue our path along them.

And then in the missile defense arena, I hope you saw that Germany has announced their intent to – they selected MEADS for their air defense system and that's truly a strategic win for us. I mean legacy systems are aging and they need replacement, they went through a very thorough assessment of what system would best fit their needs and they selected MEADS and I think it sets the tone for other countries, we will be looking at this important selection by Germany and we expect other countries to look at MEADS as their choice for the most modern and most capable missile defense system for their countries.

Operator

Thank you. Our next question comes from the line of Joseph DeNardi with Stifel.

Joseph DeNardi

Hey, thanks. Good morning. Bruce, I'm wondering if you could talk about -- I guess it may be tough to talk about -- but the proceeds from the spin or the sale at this point, is that additive to your capital deployment plans or should we think about that as going towards the balance sheet?

Bruce Tanner

So you are right, it is hard to predict, I mean those are obviously two completely different scenarios in terms of the cash that we would receive from that versus spin versus a sale. Spin obviously being a lot less, we've got a fairly low tax basis in that business, at least as we look at it, not unlike what UTC was probably looking with Sikorsky, now you've got a low tax basis, so your ability to get cash out on the spin basis is limited from a tax free basis – or tax free perspective to what that is in terms of the tax-free dividend. So we get a lot more cash back from a sale perspective. I hate to speculate what that could be and we will get into further detail as we get into the latter part of this year and early part of next year as far as when we sort of close on our decision as to which path we go down. I would suspect in terms of cash deployment, the near term cash deployment would probably be paying off, some of that I mentioned as far as some of the debt that we are doing to do the Sikorsky deal would likely come in the form of commercial paper. We'd probably pay that off pretty frequently and bring debt down, and then the rest, Joseph, we will wait and see what we've got and what needs we have at that time and as usual try to be opportunistic in all our cash deployment actions as we always are.

Operator

Thank you. Our next question comes from the line of Peter Arment with Sterne Agee CRT.

Peter Arment

Yes, thank you. Congratulations, Marillyn and Bruce. I want a clarification. Sikorsky, will that be an independent segment or are you going to have it on a standalone basis or will it be folded in as part of aeronautics or one of the other segments? And then if you could also give us, Bruce, just regarding the quarter, Marillyn mentioned that you're going to be delivering 45 F-35s this year. Can you give us a run down or just kind of the planning for deliveries for this year and maybe a sneak peak on how that looks for next year? Thanks.

Marillyn Hewson

In terms of Sikorsky, our intent is for that business to report directly into mission systems and training. That's our business where Dale Bennett is the executive vice president, so he will be a director for a line of business in that business and we intend to maintain its name and its brand, so we will preserve that brand identity, we think it is very strong for Sikorsky and so we will continue forward with that. So whether it will be Sikorsky or Lockheed Martin company, we will report into mission systems and training. Now our plan is to move forward. Bruce?

Bruce Tanner

So Peter, just talk about deliveries, as you said 45 this year, that's about what we are expecting to have for the year. I think we've delivered 19 year to date basis, so obviously that ramp rate picks up in the second half of the year. Just going down the entire portfolio, the C-130, again we talked in the past about that being a very steady build rate of about 24 aircraft a year. We had 10 deliveries in the first half of the year which would obviously imply 14 in the second half. Right now those are more weighted just for FYI purposes towards the fourth quarter than they are for the third quarter. I'd like to think there is some potential to move some of those aircraft into the third quarter although that's actually making our sales if we just were to profile our sales for the rest of the year, it makes our fourth quarter look a little bit bigger than I think it actually is going to be as we sit here today. C-5 deliveries, we have expected about 9 for the year, we had 5 on a year to date basis. So 4, for the rest of the year, unless we pull in one for next year, and these aircraft are getting to be a very good pattern from a performance perspective. We were actually earlier on the deliveries all throughout the first half of this year. So we are going to be watching that but that's not within our current plan, it's not within our current guidance.

Next year, I don't have the numbers off the top of my head, Peter but definitely the aircraft deliveries on F-35 are going up. I am sorry, let me back up for a second. I didn't talk F-16, I apologize. F-16, 11, 12 aircraft in the year, we did 6 in the first half of the year, 5, 6 in the second half. So let me maybe start with the easy ones. C-130J, 24 next year, F-16 similar levels of sales in terms of quantities next year. F-35, greater than the 45, now I don't have that number off the top of my head but it's a pretty good increase, Peter, from what I've got in my memory there. And then C-5s a very similar number to what we are seeing in 2015. Hopefully that helps with the question now.

Operator

Thank you. Our next question comes from the line of Ron Epstein with BofA Merrill Lynch.

Ron Epstein

Hey, good morning, guys. If you could just quickly go through, if possible, in a little more detail where you expect to pick up the $150 million of cost synergies. Are you going to be moving facilities, is it just back office take out? How are you thinking about that, Bruce?

Bruce Tanner

So it's a combination of probably all the things that you would think would happen in this sort of transaction. So some of the bigger abilities to – so we believe get some long term synergies are in the supply chain particularly with the overlap of the procurement activities, especially within our aeronautics business activities but also within MST as well in terms of systems overlap there. So you should think of the synergies coming in the form of supply chain synergies, a little bit of facilities perhaps rationalization and some headcount rationalization as you would expect as well. And collectively that adds up to more than 150, we think the 150 is sort of what sticks to the bottom line after consideration of price business and disclosing under cost and pricing data on our government business. The thing that interested me or that caught my attention when we looked at this business is more of it stays with us longer term, I think because this probably has a longer tail of price business than I would have expected before we went into the diligence phase. I mean about $16 billion worth of price business, so obviously you get to keep it on that part of the business and also the commercial and the sustainment particularly on the supply chain savings, the headcount savings and the like, obviously those are less cost base driven in terms of pricing and more of the synergy you get from a cost side there stay for longer as well. So that's how I think about those three buckets facilities, supply chain, headcount and for the reasons I just said they stay with us for longer than you might otherwise think.

Operator

Thank you. Our next question comes from the line of Hunter Keay with Wolfe Research.

Hunter Keay

Thanks for taking my question. As we think about the evolution of Lockheed here over the next 12 months, how should we think about how IRAD will maybe move around a little bit, getting rid of some of the short-cycle stuff, and laying in Sikorsky already in a little bit of an upward trajectory year over year. Should we think about maybe R&D trending at or above the 2% of sales level once everything gets done with?

Bruce Tanner

So I will take that, Hunter. So it's an interesting swap. Marillyn talked earlier about a sort of big picture perspective where we are losing $6 billion worth of business on our IT tech services side which you should think of being much much, much significantly lower IRAD intensive than the rest of the business, and this I think speaks to the need for that business to have as cost efficient structure as is possible in order to survive in the environment that we are currently operating in there. Sikorsky operates in a much more IRAD intensive environment but not unlike what the rest of the portfolio of Lockheed Martin looks like when you exclude the IS&GS and the tech services piece. So I can actually try to do some quick math myself, Hunter, I think we get close to 2% or so of R&D when you kind of get to the new sales level of the combined company minus that which is spun or sold and you add in the IRAD for all the remaining businesses plus Sikorsky, it's actually probably a little bit north of 2%.

Operator

Thank you. Our question comes from the line of Robert Stallard with Royal Bank of Canada.

Robert Stallard

Bruce, you mentioned there was some franchise wins you were looking to achieve in the second half of this year. I was wondering if you could give us an update on those and which ones you think your chance are best at.

Bruce Tanner

Sure, Rob. So when I talked franchise wins in the second half of the year, I am really talking the long range strike bomber and JLTV. We are watching as are our partners, I am certain Boeing watching very closely, the expectation that, that will probably be decided sometime in the August, September timeframe. We still like our offering there and we feel good about that. We've had lots of discussions, I think we are good partners for each other, we bring very very capable collaborative skill sets to the fray. And so that's the first one that we are looking at, Rob and again I think we like where we sit there.

JLTV is the other one. JLTV is maybe in some people's views a little bit tougher putt because they don't necessarily associate Lockheed Martin with being in the combat vehicle business but I think we've got a tremendous offering there. And it would put us into a new segment within the DoD that we don't have a lot of business, other than sort of putting some of our weapon systems on top of combat vehicle. This would be actually building the contract of the combat vehicle itself. So it's sort of exciting to be able to have that opportunity. Again we think we've got a great offering. They look different in terms of the orders this year, the bomber would be a bigger order, initially the JLTV would be a much, much smaller order initially in the current year. Both of them have very long, think of as decades long sort of production track once you get past the development side.

In terms of just sheer dollars that we are looking for, not so much in the franchise wins, that we've got big dollars associated with primarily two aeronautics programs that we are needing to close and definitize those contracts on finally the C-130J multi-year and 9 for the F-35 program, both of those are big dollars in the second half of the year in terms of orders. As I still sort of look out for the rest of the year, even though we are light, and I know there was an earlier question about where we are sort of in orders from a year to date basis, but I still think we are marching towards about the $80 billion that we set at the start of the year given all the puts and takes we see going forward.

Operator

Thank you. Our next question comes from the line of Cai von Rumohr with Cowen and Company.

Cai von Rumohr

Yes thank you and congratulations on the Sikorsky transaction. So a question, I was surprised that you only have 150 million of intercompany sales given your participation on the CRH Naval Hawk, Presidential and combat and rescue. So could you give us a sense as to where that number goes in the future, and then maybe give us two sort of nitty questions on what the cash flow of Sikorsky looks like given they have a very heavy near term development mix and whether you expect to use contract liability amortization for accounting of the Canadian maritime helicopter?

Bruce Tanner

What a mouthful, Cai. You've got your money's worth to say the least. So yes, we're talking back to the $150 million of intercompany – it’s not quite intercompany yet. I will remind you of that. But that's primarily for the combat rescue helicopter and the Presidential helicopter. That's about -- you shouldn't think of that as this is starting off low and it's going to grow to some larger number, that’s a fairly consistent number. I'm trying to do this from recall, but that’s a consistent number going out every year not just the near-term but the long-term as well. I think maybe where some of the confusion is on the MH 60 helo, that’s the Romeo work that we do there, and there we sort of think of as co-primes on that. We do not subcontract under Sikorsky for that work. That is actually two prime contracts. So that may be where some of the confusion is. So think of this again, as CRH and the Presidential helicopter are VXX related. And those just aren't as large maybe as people think they are in terms of our size of the business there.

Cash flow for Sikorsky I think you hit it right. I think at least for a couple of years, you should think of them adding some inventory buildup. And by the way, I shouldn't get into disclosing going forward Sikorsky sales but what I'm expecting to see is inventory buildup, some working capital buildup for some of the new programs that I just talked about, both the combat rescue helicopter and the presidential helicopter. I know they've also got a loss contract on the Canadian maritime helicopter contract which obviously can't be strong for cash flow. So I wouldn't expect near-term cash to just knock our socks off. I mean this is a long-term business, we're not buying this business for the next three years, we are buying this business for the next three decades in that very much the way that we look at in terms of a long-term acquisition cycle for us.

I think your last question was you asked about the accounting treatment on the Canadian helicopter. We will go with the convention of Lockheed Martin, I mean this will all get settled out in the conforming accounting, in the purchase accounting adjustments and, whatever loss we think is there will be reflected at the time of the acquisition, and that will be reflected behind us if you will, and essentially zero going forward from an accounting perspective.

Marillyn Hewson

I’ll just add, the structure that we have as I said we are going to integrate the Sikorsky business into mission systems and training, that will be a standalone line of business and we like that model. We like that kind of a co-prime model like we have on MH-60 Romeo as a good approach going forward.

Operator

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

Sam Pearlstein

I'm going to see if I can sneak two in also. The first one is just, Bruce, can you talk about what the cost will be to extract that $150 million in savings, especially in 2016? And then, secondly, on the IT side, I just wanted to understand what's changed. It seems like some of the areas, like commercial cyber, you were still making acquisitions last year. You made healthcare IT Systems Made Simple acquisition late last year. Is it have to do with Sikorsky that you are now looking at other parts of the portfolio, or did something else change about the business that forces it now?

Bruce Tanner

So Sam, let me try the first one. And I may take a shot at the second one, but Marillyn correct me later on. So the cost to extract in 2016, if we close the deal at the end of this year, obviously I'd like to think of the cost here as sort of transaction costs, integration costs, you've got the intangible amortization, you got interest on net debt. I think I've talked most of those but I haven't necessarily talked the integration costs. So, if the deal gets closed by the end of this year, obviously hopefully most of the transaction costs will be behind us in 2015 whenever it does close ‘15, or ‘16 that's when the bulk of the transaction costs will hit. As I said earlier, we intend to rapidly integrate Sikorsky into our business that would require some acceleration maybe from what you're thinking in terms of the integration costs. I don't know that we've got those totally nailed down at this point in time, Sam but you should think of those 80, $100 million a year kind of level in 2016 as just the integration costs there. Again hopefully it gets that behind us, gets them integrated and enables us to have the synergy impacts having that much quicker.

The second question as far as the IT and what’s changed. You know, it's funny I think as you continually go through a process of competing for new business, even after we acquired some of the companies we acquired, for instance, SMS, some of the new competition that SMS were competing for, we saw some different acts on the behalf of some of our customers than we had been expecting. Things like splitting out parts of the contract, things like splitting out procured costs from the contract that frankly were another sort of twist to that business going forward that was sort of a culmination over a number of years of how that business, and the dynamics of that business has changed.

You know when Sikorksy became available, and when we looked at that and said that's the business that's probably more down the middle of what the rest of the Corporation is, frankly we didn't think again just to reiterate what Marillyn said that we could necessarily compete in the environment and with the sorts of expectations that customers had in the IT and government services business successfully. And in the interest of creating value for the Corporation and actually giving our employees the greatest chance for growth in the business that they love. That's the reason for the separation. So I'd say it's not one or the other, it's probably the combination of the two that led to that.

Marillyn Hewson

The other thing that I would add to that is we've looked at -- what we're putting under strategic review we've looked at very closely relative to the rest of what's in IS&GS for example, and recognize that what we're putting under strategic review is work that is just increasingly difficult for us to be competitive in, and under our standard business model it's not, I mean the work that they are doing is good work for our customers, it's important work that they are doing every day, that it's just our standard business model, it's difficult for us to compete. And then the commercial cyber would be an example in what area it operates in. We are not exiting the cyber security business that we do for the US government and for governments around the world. That's an important element of business, it's an element that we bring a value to, it's with our robust multilayer cyber defense capability, and we provide some of the most advanced cyber security solutions.

So, in that regard, we are staying in those businesses that we think really fit well with – that it's our core market, and that we can be competitive in much of the business that we are looking at or all of the business that we are looking at putting a strategic review has become extremely price-sensitive. And our customers will – we may be performing at the top of the heap on the work we're doing. But if somebody comes in with a lower price and then re-compete, they will move to a new player, a new untested player. And that's just the environment we are operating in.

Operator

Thank you. Our next question comes from the line of Seth Seifman with JPMorgan.

Seth Seifman

Thanks very much. Good morning. As you guys have mentioned, Sikorsky is one in a number of key DoD programs that should support sales growth in the future. But maybe and I know this might be a little difficult to do -- but if you could just lay out a back of the envelope trajectory because you do have those new programs but at the same time you have some pressure on legacy programs and a new multi-year contract coming up on Black Hawk. So maybe the trajectory over the next few years from an earnings standpoint, where things kind of bottom out and then how the drivers come in to push that up as we head into the end of the decade?

Bruce Tanner

Seth, welcome to the call by the way. Just a couple of thoughts there and I will probably talk more top line and say – and lets you figure out maybe what’s happening on the bottom line there. But top line, in terms of sort of valuation, the way we look at this business and as I mentioned before, the commercial helo market associated with the oil and gas industry is really not just for Sikorsky business but for the market at large has really gone down quite a bit. So from where the peak in 2014 of sales to where we expect going forward, we think that number is going to drop just on the commercial sales, I don’t have these numbers exactly committed to memory but I think they did $1.5 billion or so worth of commercial helo work in 2014 or so. I don’t know what the expectation is in ’15 off the top of my head but I do know in the valuation that we put going forward, we think that number comes closer to sort of $0.75 billion worth of business, that’s our view. So you should think of that as creating some top line pressure at least in our view on the current level of revenue from ’16 going forward for a couple of years, and the commercial market obviously is the more profitable market as well. So that puts pressure on the bottom line there.

Where we see that starting to turn around is some trickling of the commercial market getting better and the oil and gas market getting better, say in the late ’18, ’19 timeframe and that’s also coincidentally when we see the transition from a lot of these developmental firms into production, particularly the 53K, so that’s when we would expect to see sort of a rebound on the other side both from a top line as well as the bottom line and the margins kind of sort out the way that they will depending on the commercial market but that’s just the way we should be in our judgement.

Operator

[Operator Instructions] Our next question comes from the line of David Strauss with UBS.

David Strauss

Thanks for taking my question again. Bruce and Marillyn, you've talked about this Sikorsky deal, seen as relatively low execution risk. But obviously Sikorsky has run into some problems with CMH, with 53K. Can you just talk about your comfort with the execution risk that you are taking on here?

Marillyn Hewson

So I would say as Bruce commented earlier, I mean we run government programs, we run platform and systems programs across our entity. I have never seen our company performing better in terms of how – of the programs that we are operating on today and so in that sense, similarly Sikorsky has a long track record of success and in new development programs there are times when any company, if it’s the complexity of it is going – we are going to have some challenges on the front end but I think we bring to this strong program management expertise and coupling that with Sikorsky performance and their innovative technology, that’s where we think this is a low risk. I mean it is right in our core market, we know how to build, we both design and build platforms and so it fits right in our sweet spot.

Bruce Tanner

The only thing I would add, David, is this is nothing new. I mean what I believe – I am not there on the ground obviously but there is no technical show stoppers that we saw, this is just a hardcore fact of going from development into production. We have all companies probably emphasized with that more than anyone else on the planet probably. But it’s how you look at what we have done in our history, where we are finally on the F-35 program going from development to production, where we have taken the fad from an infant position of trying to figure out this hit to kill air missile defense at the levels we are talking about actually work or not, to where it’s now a production fielded facility or application, just taking the PAC 3 missile to its next generation of the MSC, taking satellites, MUOS advanced DHF, SBIRS from development to production, we’ve got the scars, we know what this is like, so this is not a surprise to us and look, we think when we get Sikorsky into the fold, we are people who’ve sort of been through this a lot of different ways, who can help with that process and we have really, really good production people and not to say that Sikorsky does not, because we are very impressed by the production team there, now we think we have some synergies coming out there as well.

Operator

Our next question comes from the line of Myles Walton with Deutsche Bank.

Myles Walton

Thanks. Just a follow-up on the overall long term. You mentioned you're buying over three decades. You're on the joint multi-role helo effort today with Bell, and then Sikorsky is on the team with Boeing. Is there anything, when the companies are combined, that's going to preclude you from being on both teams, or is this effectively improving your odds obviously?

Marillyn Hewson

Well our intention is to the relationships that we have today on those programs. We have – we want to bring the best solution to our customers, we have some good partnerships that we are working on, we intend to continue those partnerships going forward.

Bruce Tanner

Myles, the other thing I would add is that program, especially the JLTV – the future vertical lift, not JLTV. Future vertical lift is so far out in the future, you tell me when it's going to happen, the quantities and so forth, there is a lot of chance between now and then for people to change ideas, thoughts, requirements et cetera. So whether that ends up being the program that we think it is today or not, is anyone's guess. And so it's hard for me to get just too excited about where we sit today with something that's probably not going to come at the full rate production for 15 or 20 years.

Operator

Our next question comes from the line of George Shapiro with Shapiro Research.

George Shapiro

Bruce, on the F-35, was there a margin pick up there? Because you mentioned that you had $30 million higher profit on about $280 million in sales, which obviously would be a higher margin than what you're currently booking on that program.

Bruce Tanner

Yes, George there was. This is a second straight quarter where we've grown up booking rate on some of our LRIP contracts. I think this is just recognizing the progression we are going through, I believe this one – I am trying to think, recall from memory, George, I believe this was on LRIB 6 and you should think of that as being associated with the completion of deliveries over this period of time. So we are starting to get a cadence there. I like to think, I mean I think 6 is on an uptick, was on an uptick, I think 7 is also on uptick, we need to see that cadence sort of continue going forward but I feel really good about where we are on the production, back to my earlier comment going from transitioning from development firms to production we are right there and I think we are doing pretty well on that right now.

George Shapiro

And on the C-5, Bruce, you've been booking near zero with your comment that deliveries seem to be running a little better than expected. What's the outlook for getting better profitability on that program?

Bruce Tanner

So George, we have a planned step up in the second half of the year reflecting the good performance that we are seeing today. I hope that, that's something that we are going to actually do better even than what we had planned in the outlook there. And I know you and I have talked specifically, George, about the potentiality of a claim associated with the over and above work we have on the C-5 program, that's still just to be clear, it's still not considered within anything that I have talked about at this point in time. And again that's something we feel very very strongly about in terms of entitlement and we will see how that plays out down the road but that's not a factor in anything that I just said earlier.

Operator

Our next question comes from the line of Ron Epstein with BofA Merrill Lynch.

Ron Epstein

Bruce, just a real quick accounting question for you. The $2 billion in tax savings that you guys get, is that just straight line over 15 years?

Bruce Tanner

It is, Ron. It's a high degree of certainty, because the tax benefits can be used for the combined company. So those are take them home, I mean those are benefits that are going to accrue the corporation.

Operator

Our next question comes from the line of Peter Skibitski with Drexel Hamilton.

Peter Skibitski

I'm going to miss this, guys, but with all the puts and takes on the Sikorsky deal, are you expecting it to be free cash flow accretive in 2016?

Bruce Tanner

Yes, it’s going to be a little bit neutral is probably the way I would describe it in 2016 as our expectation, Pete and then we’ll probably get plenty of time to start talking about the years thereafter but I think for near term purposes and like obviously some of that depends on whether it happens at the end of this year, early next year, little bit later but I think if it were for the whole year we think of it as being fairly neutral for us next year.

End of Q&A

Operator

I am showing no further questions at this time. I’d like to turn the call back to management for further remarks.

Marillyn Hewson

Thank you. Well let me just conclude. I appreciate all of you being on the today and I will just conclude by saying we had a strong quarter of financial results and the strategic actions that we’ve announced are expected to position the corporation to deliver even higher value to our customers and stockholders in the future. So thanks again for joining us on the call today. We look forward to speaking with you in October in our next earnings call. Abigail, that concludes our call today.