Good day, and welcome, everyone, to the Lockheed Martin Second Quarter 2011 Earnings Results Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Mr. Jerry Kircher, Vice President of Investor Relations. Please go ahead, sir.

Jerry Kircher

Thank you, Saeed, and good morning, everyone. I'd like to welcome you to our second quarter 2011 earnings conference call. Joining me today on the call are Bob Stevens, our Chairman and Chief Executive Officer; and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of Federal Securities Law. Actual results may differ. Please see today's press release and our SEC filings for a description of some of the factors that may cause actual results to vary materially from anticipated results.

We have posted charts on our website today that we plan to address during the call to supplement our comments. Please access our website at www.lockheedmartin.com, and click on the Investor Relations link to view and follow the charts.

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

Bob Stevens

Thanks, Jerry. Good morning, everyone. Thanks for joining in the call today. In the second quarter, we continued the positive momentum we established at the beginning of the year. In the quarter, we achieved sales growth of 2%, grew earnings per share from continuing operations by 11% and generated $843 million in cash from operations. This performance enabled us to increase our full year guidance for segment operating profit earnings per share and operating cash. In the quarter, we also repurchased 13 million shares of stock and made dividend payments of $258 million. These actions continue to provide solid returns to shareholders while assuring we sustain appropriate investments in our business.

Since we were last together in April, the range of global security and economic challenges we described as we assessed our strategic landscape has not diminished, and the environment remains fluid, particularly with regard to debt ceiling deliberations. Domestically, the highest priority focus remains on assuring that our nation does not default on our debt obligations, that we develop a balanced plan that reduces deficits and liquidates our national debt, and we establish a foundation for economic growth. We are under no illusions about the difficulty of meeting these demands and continue to provide all encouragement to the administration and Congress as they undertake this work. As there is yet no clear long-term course of action, we will not attempt to predict what elements will emerge in the final approved plan. What we can do and what we are doing with the resources we have is to redouble our focus on execution across the company as we drive for greater efficiency.

This quarter, we implemented staffing reductions in 2 business areas: Space Systems and Aeronautics. As a number of our programs transition from development to production, we'll look to flatten organizations, tighten the span of control and drive affordability. While these staffing reductions are very difficult aspect of running our business, they are essential in responding to the new realities and changing economic conditions we face. Our customers are being asked to do more with less on a daily basis, and the demands on them are enormous. It's imperative that our cost structures be as low and efficient as possible to provide affordable solutions to meet their needs.

Looking at our largest customer, key leadership changes were effective this quarter with the retirement of Secretary Gates and the swearing-in of his successor, Secretary Panetta. The department continues a roles and missions evaluation to determine what programs and levels of resources are required for our national security and the President's fiscal year 2012 budget request of $671 billion. That's $553 billion in the base budget request and $118 billion for Overseas Contingency Operations. It's currently under Congressional Committee review.

Looking at the international environment, world economic conditions vary. The eurozone is showing considerable stress with areas of high unemployment, low economic growth and large national debt levels impacting countries such as Greece, Spain, Portugal, Ireland and Italy. Other market regions are more positive, and demand for our products remains strong in a number of countries, particularly in the Middle East and Pacific Rim. Future sales growth in these regions is expected in fighter aircraft, Missile Defense and cargo aircraft as we continue to work to expand the content of international revenues.

Despite domestic and international pressures, our portfolio of products is well positioned to provide assistance in support of critical national security requirements. Let me turn to key operational events that occurred this quarter and start with our largest program, the F-35 Joint Strike Fighter, where we achieved multiple noteworthy events and continued progress on both the development and production programs. On the development program, flight test activities continued ahead of plan for each aircraft variant. Through June year-to-date, 448 test flights were completed, which is 18% ahead of the 378 flights planned. Test point achievement remained 30% ahead of plan with 3,907 test points completed against the plan of 2,996. At midyear, we accomplished 51% of this year's planned flights and 58% of this year's planned test points.

Other development accomplishments included the successful delivery of 2 additional test aircraft to the Patuxent River Naval Air Station which completed deliveries of all carrier variant aircraft for the system design and development flight test program. One carrier variant was subsequently deployed to Lakehurst, New Jersey to conduct jet blast deflector ground testing, while a second carrier variant initiated Catapult hook up testing at the Pax River test site. Both of these events supported the expanded pace of Navy activities as we prepare for shipboard testing in 2013. The software development plan consists of 3 blocks of software with 2 releases in each block. The software that is flying today, release 1A, is performing well with respect to functionality and stability. The next release, 1B, is in the integration lab test phase and is looking to move to the flight test program. Release 2A is in initial system integration and release 2B has completed requirements definition and is in development.

Block 3, which provides enhanced war fighting capabilities is early in the requirements definition process. This software program has approximately 1 month of scheduled pressure, where we're focused on applying resources and mitigating impacts. Overall, we believe there are sufficient resources to accomplish this software program. The first full mission simulator was delivered to the schoolhouse at Eglin Air Force Base. This system will provide the next generation of F-35 pilots and maintainers with the most advanced training system in the world. Progress on production also continued. In the quarter, we delivered the first 2 production F-35 aircraft completing Lot 1 deliveries.

Beyond the quarter, momentum continues to build. The first 2 production airplanes from the second production lot were delivered to Eglin Air Force Base. These jets will be used for activities in concert with training pilots and maintainers at the new F-35 integrated training center. The next 4 conventional takeoff and landing jets are all in the final stages of acceptance flights and transfer. The next 6 jets are the Lot 2 STOVL aircraft, and we're working with our customers to mitigate any potential impact associated with the late delivery of STOVL propulsion systems. Of the 63 airplanes under contract, 46 are now in factory flow, 21 are in component assembly, 16 are in final assembly and 9 are on the flight line going through initial flight qualifications. And our fifth production lot proposal for 32 airplanes is being reviewed by the U.S. government.

On the international front, the Norwegian Pilot Unit unanimously supported funding for 4 F-35 training jets to begin fulfilling Norway's future air combat capability requirements. The Netherlands exercised its order for one test aircraft under the Lot 4 contract, and Australia and Italy are on track to participate in production Lot 6.

Because so many have raised questions, I want to take a minute and talk about 2 areas of cost on the F-35, the cost of the first 3 production lots and the estimated $1 trillion cost of sustainment. The first 3 production lots are up to 31 aircraft in total, including 3 for international customers, making the total U.S. government buy 28 aircraft. Each lot has a cost-type contract with an incentive fee provision and progressive cost-sharing responsibilities to assure that the industry team is focused on cost containment and owns a share of any cost growth. This formula was mutually agreed to during the negotiations because it appropriately recognized the inherent risk in starting a production program with new aircraft, particularly when the development and test program was running in parallel.

Earlier this month, the Joint Program Office released an estimate indicating the cost of these 28 aircraft might be as much as $900 million more than target. It's our understanding that this estimate assumes more conservative worst-case conditions and includes both estimated costs in excess of targets associated with our execution performance and estimated costs with revising the production aircraft in these early lots to include changes resulting from discovery in the test program, a risk seen in all aircraft programs generally known as concurrency. About 50% of the estimated cost growth is associated with execution performance and 50% with concurrency. We are absolutely committed to working with our industry team and our customers to reduce this cost pressure as much as possible.

When we negotiated these lots, we did agree to stretch as far as we possibly could and accept the challenging cost targets. As we have executed the bill, we've been unable to meet all of the challenges that were undertaken, and we are sharing in any overrun. We take our responsibility for cost reduction and affordability seriously and believe we have identified about $200 million in cost-avoidance opportunities on these first 3 lots that our customer will evaluate.

We also recognize that the concurrency cost challenges will be completely extinguished with the conclusion of the test program and will not be a recurring element in the baseline cost of the aircraft. Even with the cost pressure that has been recognized, the cost of each production lot and each successive jet is declining. There can be no doubt that we're taking affordability challenges seriously not just in Aeronautics, but across the entire company. Over the last year or so, we've affected facilities consolidations, divestitures, a voluntary executive separation program, reducing senior ranks by 26%, expense and overhead reductions, salary freezes for senior executives, organizational changes to tighten our span of control and reductions in our work force. We'll continue this focus. The cost of the F-35 will continue to come down, and we will deliver a high-performance, effective and affordable solution.

Relating to sustainment, in an effort to understand the long-term ownership cost of the F-35, a U.S. government model was developed that attempted to estimate the cost of 2,443 aircraft in 107 squadrons at more than 50 sites worldwide through the year 2065. This 50-year model includes many assumptions about phasing, flight hours, training sites, personnel, wage rates, support equipment, spares, aircraft configuration, modifications, fuel costs, risk factors, inflation rates and many other elements of cost. The result was an estimate of $1 trillion. While much more work needs to be done in examining the details of this estimate over such a long half-century horizon, there are 3 early observations.

First, there is the issue of comparability or context. To my knowledge, the F-35 is the first and only program to undertake such an extensive estimate, spanning broad ranges of programmatic considerations over more than 5 decades. It's my sense that if other capabilities were to be estimated with the same assumptions over the same time horizon, the results would be similar, if not greater.

For example, if the fleet of legacy fighters that the F-35 will replace were to be similarly estimated, the cost of their sustainment would likely exceed that of the F-35 without achieving any of the significant aircraft admission systems benefits afforded with this fifth generation capability. It's important to remember that part of the value of the F-35 lies in its ability to enhance and leverage the performance of other systems, adding significantly to strategic flexibility and tactical responsiveness.

The second area is estimability. 50 years is a long time, and the estimate is in then year dollars. Assumptions about rates and factors that compound over decades have a profound effect on the resulting estimate. The third area is a very important one, acceptability. There is no one in our customer community and no one on the industry team who accepts this outcome, no one. I certainly will not. I have every confidence that we and our customers working together will substantially reduce the cost of sustainment to well below this estimate.

Finally, on the F-35, with the critical importance of this program to our customers and our corporation, I asked Orlando Carvalho, a talented and proven executive who formerly served as President of our Mission Systems &

Sensors business, to assist the current F-35 executive team by bringing his extensive background to strengthen our focus on remaining activities on the system design and develop a program. Orlando's expertise in managing large complex production programs as they transition from development will be invaluable.

Turning to the C-5M program, our team completed modernization and delivery of the second production Super Galaxy this quarter. This modernization program is demonstrating a new level of capability in strategic airlift, and the improvements in performance and efficiency validate the value of modernizing these proven and viable aircraft in an affordable way. To date, we've delivered 5 C-5M aircraft as we continue to work on our multiyear contracts to modernize 52 air lifters. The modernization activities being implemented on the C-5 program have been calculated by the Air Force to dramatically reduce operations and sustainment costs and yield a net savings of almost $9 billion when completed.

Moving to Electronic Systems. We had key new business awards and operational achievements this quarter. In the expanding area of Ballistic Missile Defense, we received a contract from the United States Army for hardware and services on the Patriot missile program. We continue to see strong interest in Patriot around the globe. In a test of our Aegis Ballistic Missile Defense system, we tracked and engaged an intermediate-range ballistic missile using data from our remote radar site. This successful test off the Coast of Hawaii marked the first engagement of the system against an intermediate-range ballistic missile, as well as the first use of a launch on remote capability. This challenging test and success to further improve the defense capabilities of our nation against the growing proliferation of ballistic missile threats.

Finally, in Electronics. We received a follow-on contract from the United States Army to produce 29 additional persistent threat detection systems or PTDS to support coalition forces in Afghanistan. This contract follows our completion of 28 systems that were delivered to the Army in 2010. PTDS is an affordable, highly effective, combat-proven, Aero staff-based surveillance reconnaissance and communication system in support of force protection and anti-IED missions. The system currently provides around-the-clock coverage and actionable intelligence that helps to protect our troops from a range of threats. This latest follow-on award, when fully exercised, will bring the inception to date PTDS total program awards value to over $1 billion. Since this Aero staff can accommodate a variety of sensor packages, we're exploring broader market applications for a proven low-cost capability.

Moving to Information Systems & Global Solutions. For the 17th consecutive year, Lockheed Martin was ranked #1 in the information technology provision to the federal government. This quarter, we established a teaming arrangement with Carnegie Melon University to pursue innovative solutions in the demanding world of cybersecurity. To facilitate collaboration, we opened a new cyberlab near the campus to enable joint research into concepts and technologies that will likely shape the future of cyber operations and generate solutions to the growing challenge for government agencies to protect their networks and infrastructure against adversaries. These efforts will be used to support the recently released cybersecurity initiatives outlined by the Pentagon to help protect critical information from loss to adversaries.

Closer to home, our own corporation continues to be a target for attempted cyber intrusion on a daily basis. This past quarter, we've been a target of a sophisticated and highly publicized cyber intrusion attempt. Our safeguards performed as designed, and no data was lost. But make no mistake, the cyber threat is real, pervasive and only growing in frequency and sophistication, requiring new and innovative solutions to stay ahead of threats.

In Space Systems, we were very gratified to see the successful launch and geosynchronous orbit insertion of the first space-based infrared system spacecraft followed by the commencement of first imagery transmission. SBIRS GEO-1 is the most technologically advanced military infrared satellite ever developed. It will vastly improve missile warning capabilities, while simultaneously improving missile defense, intelligence and battle space awareness for our nation and allies for years to come.

Taken as a portfolio, these operational accomplishments across our business highlight our corporate-wide focus on program execution that we regard as a critical component of our strategy. They reflect the quality and depth of our leadership and the commitment of our team to meet commitments while focusing on affordability and improving quality. Our portfolio of products remains exceptionally well positioned to provide solutions and products to satisfy the critical needs of domestic and international customers in the growing global security environment.

With all the pressures and challenges we all see on a daily basis, I'm optimistic about our future. Even with significant economic challenges, the global security environment remains complex and volatile, and advanced solutions will be needed. We have exceptional talent, expertise and the dedication of our workforce in helping solve the difficult problems faced by our customers. Their efforts will continue to be the foundation in providing customer and shareholder value.

I was particularly pleased in their evaluation of industry that Aviation Week & Space Technology recognized Lockheed Martin as the top performing company in our category for an unprecedented 4th consecutive year. This award belongs to our 126,000 employees and is a true testament to their focus on continuous improvement every day.

I'll turn the call over to Bruce now to provide additional detail on the second quarter financial results and our outlook on 2011, and then we'll turn to your questions. Bruce?

Bruce Tanner

Thanks, Bob. Good morning, everyone. As I highlight our key financial accomplishments, I would encourage you to follow along with the web charts that we've included today.

Let's begin with Chart 3 and an overview of our first quarter. We grew sales for the company by 2%, which was in line with our expectations. Our earnings per share from continuing operations grew by 11% compared to last year, driven by higher sales volume and segment margins and a net benefit of a tax matter that we discussed last quarter more than offsetting almost $100 million in severance charges from announced reductions in both our Aeronautics and Space businesses. The impact of the severance charges was an $0.18 reduction to our quarterly EPS.

We generated almost $850 million in cash from operations, a higher level than we had expected when we discussed our outlook last quarter. And we repurchased 13 million shares for $1 billion, which we will discuss in greater detail in later charts. So overall, we had a strong second quarter and solid results for the first half of 2011.

Turning to Chart 4. We'll look at our sales by the 4 business areas. As in the first quarter, 2 of the 4 business areas grew this quarter led by Aeronautics with 9% growth and Electronic Systems with 6% growth. Aeronautics growth was driven primarily by the F-35 and air mobility programs, including the C-130 and C-5 programs, while Electronic Systems growth was driven primarily by Missiles & Fire Control.

Both IS&GS and Space had lower sales in the quarter with IS&GS again reflecting the absence of the U.S. Census activity that finished last year. Space Systems was lower due to reduced activity on the Orion crew exploration vehicle and lower sales for the External Tank program, resulting from the end of shuttle operations.

Moving to Chart 5 and our earnings per share in the quarter. Our earnings from continuing operations grew 11% over last year's level. And if you adjust EPS in both periods to add back the negative effect of the FAS/CAS impact, our EPS grew by more than 20% as shown on the chart. As I said earlier, this EPS growth was driven by a higher sales volume, a 40 basis point improvement in segment operating margin and the net benefit of tax matters versus the severance charges.

If you'll now turn to Chart 6. We'll discuss our share repurchase activity in more detail. During the quarter, we repurchased 13 million shares, significantly higher than during the first quarter when the threat of a government shutdown lowered our repurchase activity. As a result of our repurchases, we reduced our outstanding share count by more than 3% in the second quarter.

Continuing with our share repurchases on Chart 7, you can see that the second quarter of this year was higher than last year and that our year-to-date repurchases of 16.5 million shares in 2011 is higher than at this same point last year.

Chart 8 shows our year-to-date cash from operations. So far this year, we've generated over $2.5 billion in cash from operations and almost $2.3 billion in free cash flow. On the right side of the chart, we show the amount of free cash flow returned to our shareholders in the first half of the year. With a $1.3 billion of share repurchases, along with a $0.5 billion in dividends, we've returned about 80% of our free cash flow thus far.

If you'll turn to Chart 9. We'll discuss provisions to our sales outlook this quarter, and I should say that all the outlook changes we'll provide assume a resolution of the debt ceiling discussion without an impact to the DoD spend level in 2011. For the overall company, we tied the sales range while leaving the midpoint of the range unchanged. Within the business areas, we increased Electronic Systems, reflecting its strong performance thus far while we lowered the ranges for both Space Systems and IS&GS given some of the pressures we've seen this year. For Aeronautics, we simply tightened the range to reflect increased revenue visibility for the remainder of the year.

On Chart 10, we showed the revision to our segment operating profit outlook. Overall, we increased the low end of the range by $100 million and increased the upper end of the range by $50 million, resulting in a $75 million increase at the midpoint. You can see that we substantially increased both the low end and high end of Electronic Systems range and maintained a high end for both Space Systems and IS&GS, while increasing the low end for both businesses. And again, for Aeronautics, we narrowed the range while maintaining the high end of our guidance.

Moving to Chart 11. We show our earnings per share from continuing operations guidance changes in the quarter. As a reminder, we increased our EPS guidance for the year during the first quarter call to reflect the expected resolution of prior year tax matters that actually occurred in the second quarter. This quarter, we see higher segment operating profit for the year, lower corporate expenses, a lower tax rate and share count offsetting the severance charge in the quarter. As a result, we increased our EPS outlook by $0.40 at the lower end of the range and $0.30 at the upper end, reflecting our increased confidence in the year.

On Chart 12, you can see that we also increased our cash from operations for the year by $100 million to a new outlook of greater than or equal to $4.2 billion. This increase in cash reflects the higher operating profit mentioned previously.

Finally and just to summarize on Chart 13, we've had a strong start for the first half of 2011 and expect that performance to continue for the rest of the year. We believe that the results we're seeing this year reflect the actions taken over the past year or so to remain competitive and efficient, and we continue to return value to our shareholders even during challenging times. And I think, due to the expanded prepared remarks today, we'll continue the call beyond the planned hour duration to try to accommodate any open callers in the queue.

And with that, Saeed, we're ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Jason Gursky from Citi.

Jason Gursky - Citigroup Inc

Just a quick question about some of the language in your release itself with regard to the severance actions, particularly in Aeronautics. You suggested that part of it was to reduce -- due to reduced expectations around spending levels, particularly globally. I was wondering if you could just talk a little bit more about what you see in some of the out years with regard to demand for Aeronautics and whether this is signaling some sort of change that you see on programs outside the F-35.

Bob Stevens

Jason, this is Bob Stevens. We envision that the strength of our portfolio in Aeronautics will have a good reception in the out years both domestically and internationally. You mentioned the F-35, and I think that we expect to see based upon our continued ability to execute good levels of demand domestically and internationally on the F-35. On the F-16 program, we've already, I think, commented with real transparency and clarity not only to you, but to our international customers that we're getting to the end of that F-16 line. We have worked to rephase the balance of our production deliveries on the F-16 that allows us to bridge program performance to the end of 2013. And we have, at the same time, advised that if we don't receive firm commitments for additional F-16s on or about the end of this year, then the line will certainly begin to shutdown, if not, have a significant gap. And I think that's caused a number of our global customers to evaluate their inventory needs. As we look at the F-16 specifically relative to future opportunities, both the Omanis and the Iraqis have expressed interest in purchasing additional F-16s. And we were advised as you were earlier this month that the United States government will likely make an up-down decision on whether or not our government will release new F-16s to Taiwan. So there are certainly elements of interest here being expressed in the prospect for future F-16s, and we'll keep you posted. We expect the C-130 program to do well domestically and internationally. It's a strong and proven performer, and I think the strength of that demonstrated performance matters a lot in an environment where uncertainty is increasing. And we were certain that we'll see growth on the C-5 program. So our initiative to engage in a reduction in force is part of a broader initiative to drive levels of affordability in this company. And it's not uniquely associated with our expectations in Aeronautics on international markets.

Operator

And our next question comes from Rich Safran from Buckingham Research.

Richard Safran - Buckingham Research Group, Inc.

Bob, I wanted to, if I could, follow up on your F-16 comments for a second. There's been some chatter about an F-16 upgrade program for the U.S. due to F-35 delays, and I want to know if you could give some comment on that program? I'd be interested to know if you think an F-16 upgrade program for the U.S. would be real? If you think there'd actually be money for it, and if it might come at the expense, for example, the F-35 program.

Bob Stevens

It's just a little, I think, early to make a forceful determination about that. I know that there are always ongoing evaluations in the Pentagon about the need, desire and practicability of service life extension programs on airframes and, really, other platforms. And I do believe that's occurring in an evaluation of the F-16. But I don't think any final decisions have been undertaken. And I think as we examine the environment in which activities are unfolding in the Pentagon, there is currently an ongoing roles and missions evaluation. There is an ongoing strategic assessment. As you know, there are ongoing budget deliberations, and I think the confluence of those examinations will likely need to mature a little bit before we'll all get greater clarity on what an F-16 service flight extension program may be looking at. You added, I think, a thought about the F-35 program. We're certainly applying all our energies to assure that we deliver the best F-35 possible in the most affordable way. The F-35s that are flying are performing well. The feedback that we're getting is very good. That, which we're discovering and learning in the test program, it changes or additional action is needed. We're taking the appropriate action. So generally, I think there's a positive view of the F-35 relative to its performance in the test program, and we're focusing with all our energy, along with our partners and suppliers, to make sure the costs can be contained, and that we'll have an affordable program here. And I think overall, the F-35 will prove to be a very good performing airplane.

Operator

And our next question comes from Doug Harned from Sanford Bernstein.

Douglas Harned - Sanford C. Bernstein & Co., Inc.

On the F-35, could you talk a little bit about LRIP 4 and LRIP 5? And in particular, you had mentioned costs have been coming down per unit as you've gone through each of the blocks. My understanding is LRIP 5 is a little bit more expensive than LRIP 4, and then on top of that, we've had this seminar on services committee, most in their amendment to put that under a firm fixed price contract. Can you talk about how you're looking at LRIP 4 and LRIP 5 and also how progress is going on LRIP 4?

Bob Stevens

Sure. Well, the way we're looking at LRIP 4 is head down focused on execution, building the momentum off Lots 2 and 3 and driving the costs and assuring the quality and cycling the production line, which I honestly believe, Doug, is everything everybody wants us to do. So it's a very head down, day-to-day focus on getting the supply chain to cycle in an appropriate way that feeds the production line and then driving efficiencies through that production line and assuring quality of the products that are done. I think as you know in the early production lots, there is a development program running in parallel. There are discoveries that are occurring in that development program that get fed into the line. So part of the challenge in the early lots is doing that, incorporating those changes with efficiency, and we're working hard to do that well. Lot 5 has not yet been negotiated. We submitted our proposal, which is a fixed-price incentive-type contract proposal basis in April. The government is undertaking a new should-cost approach. We haven't had any feedback from the should-cost evaluation. We think that's likely to be forthcoming perhaps next month. And with that, we believe we'll be able to engage in a very good dialogue as we attempt to negotiate a Lot 5 position that is both affordable and realistic and reasonable. But we don't want to leave it there. We intend to work with our customers to drive the incremental costs of Lots 6 and 7 and beyond out of this airplane and have confidence that over the long run, if we do our jobs effectively and well and if the preconditions that are necessary in the architecture of the program exist, that are amenable to high-quality and affordable produceability of the jets, we'll have a very competitive, very high performing airplane here in the F-35. Relative to the Senate Armed Services Committee language and commentary on the program, I'm quite confident the Senate and I'll extend this to the whole entirety of the U.S. Congress, they want to see affordable systems. They want to see cost control. And in a program like the F-35, they want to see and need to see that over time with the increase in production volume that the costs will come down such that we will have an affordable and competitive airplane. I will tell you that everyone we talk with in the Department of Defense wants exactly the same thing, and I hope and trust you know that we and our industry partners want the same thing. That's how you have a successful program that meets the expectations that we not only have for ourselves, but that our customers have for us because we take very seriously the responsibility we have here to provide the kind of capabilities that the U.S. military needs and our friends and allies demand in a world where there's increasing instability in the global security environment. So we're very focused in this regard, and we will continue to drive with all our energy to get a high-performing, low-cost, very affordable F-35.

Operator

Our next question comes from Joe Campbell from Barclays Capital.

Joseph Campbell - Barclays Capital

The IS&GS backlog of $8.6 billion, one of the lowest we've seen since this segment was created down, it looks like a little over $1 billion since year end. And less than 1x the forecast sales, which you took $100 million to $200 million out of. And I wondered if you could just share with us some of the dynamics of what's happening here. I wasn't sure whether this order intake was coming in a segment that was more sensitive to the CR. Maybe some of the divestitures affected the numbers in ways that made them look different than I was thinking. And last quarter, you noted that the intel was trending down. So I wondered whether this was continuing? And just in general, a little more color on this.

Bruce Tanner

Joe, this is Bruce. I'll take that one on. You threw a lot of things out there, so let me try to address maybe several of them sequentially here. I think IS&GS of all 4 of our business areas is probably the one that is most sensitive to the CRs because it is sort of a hand-to-mouth kind of business relative to some of our other business areas in terms of orders converting to sales. So I think there was some of that in the early first quarter associated with the CR, IS&GS typically always has a large fourth quarter in terms of orders being awarded in that particular quarter as the first quarter obviously, of the government fiscal year. We expect to see that same trend happen this year. So you'll see a bit of a spike, at least we're expecting to see a bit of a spike in the fourth quarter for our orders. You talked about security, and there's several phenomenon going on kind of concurrently within IS&GS, and part of it is within our Intelligence business there. We went through several years of some fairly large a big-ticket implementations of IT systems, if you will, and we're now seeing a number of much smaller sort of modern sustainment activities as opposed to large developmental activities there. And frankly, a lot of the developmental activities that the agencies need to get done have been done to this point. So I think that's some of what's happening on in Intelligence. Elsewhere in just the government IT business in general, we continue to see downward pressure associated with the fiscal environment that the government is facing. And that is manifesting itself in terms of downward spend on the IT budgets of the federal agencies that we deal with. We've seen that fairly much across the board in terms of agencies that we've dealt with for a long time that are simply reducing the amount of IT budget for activities that we've been supporting for a number of years. So I think that's sort of some of the pressures we've talked about within IS&GS. That's why again, we took the sales down in the guidance that we did. Overall for the corporation, I don't think the outlook or the results that happened in the second quarter surprised me. I tried to keep it up in the first quarter that we would see a sequential reduction between first and second. And again, I expect to see a sequential reduction between second and third. Third is almost always historically our lowest level for orders in the corporation. And I still expect that at the end of the year, we'll get back somewhere close to where we start the year 2011 somewhere in the $78 billion range.

Operator

Our next question comes from Howard Rubel from Jefferies.

Howard Rubel - Jefferies & Company, Inc.

Bob and Bruce, you may want to forgive me a little bit for the historical context, but the last time you went through one of these things, Bob, I think was CFO, and you were very successful in implementing a lot of restructuring charges and changes. And I'm sort of trying to understand where you think the right size of Lockheed Martin will be as you look out as the changing environment. And then second, related to that from an accounting point of view, why are you taking some of the charges now? I thought you'd normally be able to capitalize some of those and recoup them over either some contracts or another period of time.

Bob Stevens

I'll take the first part, Howard and I'll have Bruce cover the second part on the accounting treatment. When you think about the long-term right size for Lockheed Martin, that's going to be dependent and a function of a number of ongoing deliberations, not just domestically but around the globe. Domestically, we're going to have to work our way through the increase of the debt ceiling discussions and deliberations. But I look at that as really the first and honestly initial part of a discussion that must include longer-term planning for deficit reduction and the long-term liquidation of $14.3 trillion in national debt, followed by a third companion initiative that looks to establish a better foundation for economic growth and expansion in the United States. This is a big set of demands. So it's not clear to me what the content of that planning will be at this point. So as to preclude some more definitive judgment about exactly what size we should have and structure and content would be best aligned. But I can tell you, we surely see the vector. We know where the general direction is going, and we're not going to hesitate to move out crisply and effectively in reducing our cost structure while improving our spans of control and our ability to navigate in an environment where the velocity of events is greater and the volatility of those events is broadening, we know we have to be more responsive and more agile, and we're working to do that. So all the actions that we have outlined to take really constitute a portfolio of initiatives that are going to put us in the right place at the right time. The future conclusions that are reached in the planning process will tell us whether we need to accelerate in some areas or whether we're about where we need to be in some areas. But I hope you have a feel for the general direction and the commitment that we have to be in the right place at the right time to assure the overall and long-term vitality of this company. And I'll ask Bruce to comment on the accounting.

Bruce Tanner

Yes, Howard. If you just think of the charges that we took, there's a $97 million split between Aeronautics and Space Systems Company, GAAP really requires us because of the size of the charge to establish a provision for the severance charges themselves. And our reported GAAP earnings per share on the government accounting side, and I think your question was actually more related to the government accounting or the PCA's side. We do expect to recover most of these charges in our contracts going for it. If you just think of the nature of the contracts in each of those 2 business areas, Space Systems companies mostly cost plus environment and again, we would expect to recover it in that environment. On the Aeronautics business, it has a greater proportion of its overall sales that are fixed priced and fixed price incentive, that even in the Aeronautics side, we still expect to recover the vast majority of those charges in the -- going forward with our customer. I mean, simplistically, I'll just try to make this as simple as possible. If you think of the cost of the severance, the lower cost that will result from these head count reductions sort of offsets the severance charges at about 6 months' time frame. So it doesn't take long for sort of that cost to get mitigated and such that it doesn't have an impact on the contracts going forward. Hopefully, that makes sense to you, Howard.

Operator

Our next question comes from George Shapiro from Access 342.

George Shapiro - Citi

Bruce, I had a question on the Aeronautics margin. You gave a lot of information this time around. I have 2 questions on it. One, it doesn't seem like you would have changed the margin on the F-35 R&D program or the production program. I just wanted to know whether that was an accurate statement? And then second, if you have any updates on the $600-million-plus of incentive fees as to whatever is going to happen to those?

Bruce Tanner

Yes. Let me try to address those, George. You're correct on the F-35. We did nothing on either the development program or the production program in the quarter. So you're insight is six-spot on there. The one thing that I'll point out that maybe was embedded in your question is that in the second quarter, we had a pretty good adjustment positively on the C-130 program that really reflects that we delivered the last multiyear aircraft on our C-130 multiyear program in the second quarter. So if you think of all the risk retirements that we sort of plan out towards the end of the program, that is now sort of consummated itself at the end of the quarter. So we took quite a larger pickup in the second quarter simply because of that event. That likely will not be repeated going forward on the C-130 for the rest of this year. The roughly $600 million that you're talking about, it's actually less than that because there were some events in the late 2010 time frame that reduced that value some $35 million or so. So think of it as around the $575 million, $580 million number. The most near-term events that we're watching there, and that's really all we can talk about because we really haven't scheduled out anything beyond 2011 quite frankly. But there are 5 near-term events that sort of all happened in the fourth quarter of this year worth collectively a little over $50 million or kind of equally split. Think of that $50 million being equally split over those 5 items, and we're watching those closely. We think we are performing well on the vast majority of them. A couple of them are kind of close. We're working to sort of address those in an efficient manner as we could possibly do. So I don't think we'll have much more to report to you even in the third quarter call, George, but definitely, the fourth quarter call, we'll have a good idea. Actually, we should have a great idea because I should be completed by that point in time, and I can tell you then what actually happened.

Operator

Our next question comes from Myles Walton from Deutsche Bank.

Myles Walton - Deutsche Bank AG

Bob, I was hoping you could comment a bit on the F-22 with the grounding situation there. I would imagine there's not much in terms of materiality impact because of the percentage completion accounting. But if you could comment on how you're working with the customers all the situation and the feedback you're getting and kind of lessons on how you're feeding that into other aspects. And also, Bruce, could you comment on the outlook for 2012 on the F-16? Is it still looking to be 40 16s or you are kind of level loading given the uncertainty on the long-term outlook there?

Bob Stevens

Yes, Myles, I'll start on the onboard oxygen generating system issue. Sometimes it's referred to as OBOGS because everything here has an acronym. The environment here is that some pilots, but not all pilots have experienced hypoxia-like symptoms. And it's sort of important to go through a little detail of that because hypoxia in the cockpit environment has a very specific definition. And what's being experienced is hypoxia-like but has not been established at this time as a failure of that onboard oxygen generating system. So at this juncture, there really hasn't been an obvious or apparent cause of what are intermittent symptoms that some pilots are experiencing. So the Air Force quite rightly has stood the airplanes down and commenced an incredibly thorough and detailed review to see if we can get to the root cause together of what this cause might be. As of our conversation today, we collectively have been unable to replicate the conditions. But again, I think the Air Force quite prudently has taken an F-22 and added some very sophisticated instrumentation and is flying that instrumented airplane to see if those conditions exist, and if the conditions can be observed, then if we can trace backwards together so as to the root cause. So the U.S. government has believed the cause is really unclear at this time. I should tell you this phenomenon has occurred on other jets from time to time. So I have every confidence the Air Force has all the expertise to create the conditions where this phenomenon can be appropriately examined. It's not a financial issue to us at all, and we are doing all we know how to do to support our customer. So that they can get to the bottom of what this condition is and how we can fix this condition and how they can fly these jets with confidence. And I think they and we have confidence that we will get to the bottom of it. It's just one of those frustrating circumstances now where we haven't been able to determine root cause as of this time. But we'll continue to work with the Air Force on that initiative.

Bruce Tanner

Myles, this is Bruce. You asked about the F-16 quantities as we look out to 2012 time frame. We are still thinking in numbers of about 40 aircraft or so for 2012. One of the reasons for that, frankly, is because a good portion of those aircraft are actually Turkish aircraft that are being delivered off of an assembly line in Turkey as opposed to the assembly line at Fort Worth. So those aircraft are going to happen in accordance with the Turkish needs unfettered. The other thing that may be behind your question though is and Bob kind of said in his remarks, but I'll just echo a little bit there. We have adjusted some of our future deliveries in the 2013 time frame. I think in some earlier discussions that I've had with several of you, we were looking at sort of a mid-year or actually maybe even closer to the early part of the year end of the F-16 line, we have renegotiated with a couple of our international customers to extend that now to the end of the 2013 time frame. But specifically answering your question, next year's deliveries we still expect to be around the 40 number.

Operator

Our next question comes from Heidi Wood from Morgan Stanley.

Heidi Wood - Morgan Stanley

Bob, I have 2 questions for you. One is as we look ahead into this budget debate, if this budget debate results and cuts to the carrier force levels, there is a potential that added savings of needing fewer air carrier air wings. So can you help us -- how should we think about the impact of fewer F-35 fees on the price of the F-35? Does this have a potential domino effect on the affordability for international customers? Or would a narrowing build be far off a way that it wouldn't affect the next few years?

Bob Stevens

Well, Heidi, the direct answer to that question is it all depends. And it will largely depend on what the total buy ultimately looks like. And in our view, how we accelerate through the production lots and how we might phase any changes in inventory, whether that's variant by variant, the F-35 C, which is the Navy variant or any of the other variants. It is simply, in our judgment, too early to determine what the budget deliberations will ultimately look like. I think we hold a pretty general model in our minds of knowing that the overall discretionary spending accounts, whether that's for defense or non-defense purposes, are going to come down as a part of a broad-based deficit and debt reduction program that includes actions on entitlement programs like Medicare, Medicaid and Social Security, the discretionary accounts and some discussions about revenue. And we're watching that unfold on a daily basis, and I won't comment on that. We also know that quite apart from the budget deliberations, there are strategic evaluations occurring about the quality and character of the global security environment. I think every observation that has been shared with us about that environment suggests that it is more complex. It is very demanding. It is highly volatile and uncertain. And as a result, we have to try to be as prepared as we possibly can be for lots of eventualities in the future. Some of the observations from those strategic assessments, and as I mentioned earlier, the yet-to-be-concluded roles and missions evaluation is that carriers are going to be an important element in the 21st century when you think about spheres of influence for our nation relative to assuring trade, access to routes, security issues in a shared and cooperative way. We have talked a lot about Afghanistan and Iraq, and they are important because we have forces deployed there. But we also think in terms of instability in the Korean Peninsula, lots of discussion about resource claims in the South China Sea, freedom of navigation there, Iran, the Middle East and other parts of the world that suggest to us that there will be a demand for a blue water navy, and there will be a demand for carriers. I cannot comment on exactly how many carriers, but I think the demands on the security side will be sustained. And it will be our collective jobs to determine at the intersection of the strategy and the budget availability what the right mix of force structure is. So, it's just very hard to handicap that. We know and believe and think history strongly supports that when you plan to build 200 Joint Strike Fighters a year and you facilitize to do that, if you build fewer than that, the cost of those jets will be more because we simply don't have degrees of freedom left in how we would amortize the cost that we have. We think that the tactical aircraft fleet needs to be recapitalized over the long term. We think that the proliferation of technologies around the globe strongly support the need for fifth generation capabilities that are already designed and embedded in the F-35 through a process that's now unfolded over 15 years of investment by this nation in this capability that the smartest and best things we can do with our industry team is put our head down and focus on execution and continue to drive this program forward in cooperation with our customers. And then we and they together will look at the changing strategic landscape and budget landscape and try to make the right decisions at the margin.

Heidi Wood - Morgan Stanley

Terrific. And can I ask a second question?

Bob Stevens

Yes, you may.

Heidi Wood - Morgan Stanley

You referred to it actually in your answer. You remarked about global security strategy and I wonder if you would update us on your thinking and the top initiatives that you're embarking on to really flush out that strategy more broadly? And perhaps in your answer, Bob, to help us understand how you're defining global security. Do you mean via TACAIR cargo and Missile Defense? Or are you looking into growth and new initiatives and if so, can you give us color on those?

Bob Stevens

Yes, I'm going to try to be brief because we could talk for 2 hours, Heidi, without exaggeration, and I've been known to do that, but I promise I won't. The definition of global security is getting broader from our point of view. And you mentioned some immediate focus areas that tend to be in the military application of security interests, and we have really very high quality core program capabilities here in those areas. But we've had a lot of discussion recently about cybersecurity. We'll have growing discussion about energy security, and that is not a U.S. phenomenon. It's a global phenomenon. We will talk more about how governments can provide continuing effective services for citizens in a more efficient way because their stress on government is at every level of government, and that's not unique to the United States either. We think we can play a very strong role in information technology applications in a variety of domains, in the cybersecurity domain, in the energy security domain, as well as in the humanitarian relief aspects of our program portfolio, the Intelligence component and the military component. So my sense is that the demands around the globe are only growing. And when we do a region-by-region, country-by-country assessment, the volatility of events and the demands there are really considerably increasing. And those demands are actually exacerbated by the state of world economic conditions that, I think, generally if you took them in total are showing more signs of stress so that there'll be fewer economic resources available to meet the growing set of security demands. We want to play a role there. We think we've been effective at doing that historically. We intend to make the adaptations in our company that are necessary to assure that we can meet our customers at that intersection of fulfilling their security responsibilities in an affordable and effective way. And, Heidi, let me say this to be brief in my comments. We'll make sure as we move forward together we comment more clearly on our views of global security and the responses that we're taking to that changing global landscape.

Operator

And our next question comes from Joe Nadol from JPMorgan.

Joseph Nadol - JP Morgan Chase & Co

I have a couple of what might be more mundane questions, but just on the Electronics segment where you raised revenue guidance, I was wondering what the driver was? Was it the PTDS follow on or was there something else there? And then I was wondering if you could just be more specific, or maybe I missed this, the corporate staffing reductions that you just announced, I think, last week, are those embedded in this guidance or not? And if not, what can we -- how can we think about it?

Bruce Tanner

Joe, I'll try to take both of those. On the Electronic Systems' revenue guidance. The bigger driver there as opposed to PTDS is more Missiles & Fire Control volume up, but also just the entirety of MS2. The PTDS order that Bob talked about, the additional 29 units will have some sales in 2011, but it's not what's driving the increase actually. Most of those sales because of the time it takes to develop those systems will actually occur in 2012. So the bigger driver again is primarily Missiles & Fire Control and MS2. On the corporate voluntary reduction as we sit here today, Joe, I don't think that the numbers we're expecting to see from the number of people who will take the voluntary lay off are going to amount to a large enough number that'll move the needle very much at all this year, at least that's our expectations as we sit here today.

Operator

And our next question comes from Robert Spingarn from Credit Suisse.

Robert Spingarn - Crédit Suisse AG

You've done a very nice job of holding and actually raising your operating profit forecast this year despite retaining the midpoint of the sales forecast. But notwithstanding, looks like the margins will decline at least a bit in the second half. Can you talk about the trends by segment as we go from H1 to H2? What was one time in the second quarter, which, of course, is quite strong and which of these 2 halves are better indication for margins next year?

Bruce Tanner

I'll try that one also. I'll just maybe just go around the horn for all 4 business areas and talk in margins there. I think if we start, maybe, with Electronic Systems to begin with, I think margins in Electronic Systems are probably going to follow a somewhat similar pattern to what we saw in 2010, which also experienced a higher first half of the year than the second half. Currently, I'm looking -- I still think we're going to be in the 12% range next year, and my guess would be going forward that, that's a good assumption for 2012 as well. IS&GS margins in the first half, actually, we think are probably a little lower than what we're going to see in the second half of the year. We think as we sit here today that the margins for IS&GS are probably going to end up being slightly above 9%. And same comment for IS&GS as I just made for Electronic Systems. I think IS&GS is kind of a 9%, low 9% business in 2012 as well. Aeronautics business area, we would expect the margins to be a little lower in the second half of the year. Again, I've tried to tee up with George's question the notion that we did have a fairly good-sized pickup on the C-130 program as a result of delivering the final multi-year aircraft in the second quarter. That won't be replicated in the second half, so I would expect those margins to be slightly lower. And I would expect the Aeronautics differing than the Electronic Systems or IS&GS to be lower in 2012 than it is in 2011 primarily as I've tried to tip numerous times because of the continued growth of the F-35 program offset by, in particular, lower sales on the F-22 program in 2012. And then finally, in Space. Space had a very high quarter, 13% quarter. That's not the run rate that we will see in Space. That was mostly due to the timing, phasing some of our equity earnings primarily in our United Launch Alliance having to do with the phasing of some of the launched vehicles themselves. That's not a change in our outlook for the year for Space, but it did happen earlier than we were expecting it to, and that's what caused the spike in the second quarter. Because of that spike, I would expect the second half to be lower than that. And as far as the run rate for Space, I think it might be slightly lower than this year, but still in the 11%, 11-plus percent level is what I would expect to see in 2012.

Operator

Our next question comes from Rob Stallard from Royal Bank of Canada.

Robert Stallard - RBC Capital Markets, LLC

Bob, a question on cash deployment. You talked in the past about a balanced cash deployment strategy. But clearly, at the moment, you're spending a large amount on the buyback. Do you think there will be a benefit or not from, maybe, proportionately putting more into the dividend versus the buyback?

Bob Stevens

Well, we like the cash deployment philosophy that we've had, Rob. Let me say it that way. We've had a commitment now for many years of assuring that we return at least 50% of our free cash flow to investors. And I think history is probably not only instructive but informative about how we look at the world and what we are likely to do going forward. We wanted to have what we regarded as a good and competitive dividend position. I like what we have done there. And I think in September, we'll give the value of dividends full consideration, and we'll make a decision there. And we've been opportunistic with our share repurchases. And I'm quite confident we'll continue that kind of approach to a share repurchase program. The good news, I think, is that and I'm very proud of our leadership team and the professionalism demonstrated throughout the company in focusing on cash generation. They have been able to do that very effectively and very well through now a variety of quite different market conditions. They've been focused on cash generation. So we're able to produce that level of operating cash and then equivalently, the leadership team here has been very prudent in how we invest in the business assuring we're investing in the right things at adequate levels of investment but not a $0.01 more. And as a result of that, we've been able to, I think, engage in the kind of value-generation activities that you and others might well regard. And dividends and share repurchases play a very big role in that. They have historically, and I think they will as we look forward together.

Operator

Our next question comes from Cai Von Rumohr from Cowen and Company.

Cai Von Rumohr - Cowen and Company, LLC

Could you give us an update on pension in terms of your performance year-to-date kind of what you now see contributing this year and next year? What's happening with CAS Harmonization and kind of what the numbers might look like if we close the year with the interest with the Moody's and kind of some of those interest rates about where they are?

Bruce Tanner

I'll also take that one on also. Where to begin? I think on U.S. where we stand from a sort of performance today, I'd want to say we're tracking pretty closely to the overall equity return of the global equity market. So think of that as I want to say somewhere in the 4-ish, 4.5 percentage range, something like that. Not at the 8.5% that we have for the year, but we're not through with the year yet either. Discount rate-wise, if we were to pick it today, actually I think the data I just looked at that not too long ago, but I think today would actually indicate it's fairly close to where we close the end of the year in 2010. So I wouldn't expect to see much movement if we were to draw a line in the sand today as to what we would select for that discount rate. And then I'd say the other -- yes, just the outlook going forward. I think CAS expenditures I think we've described that as $1.3 billion this year. We have an expectation that the CAS number in terms of what needs to be contributed relative to CAS will increase next year. You asked about CAS Harmonization. I'm not sure where that's going to end up quite honestly at the end of this year. It is still our expectation and our numbers are kind of based on that becoming effective in 2012. I think rough order of magnitude if CAS Harmonization were not to occur in 2012, you should think of that as lowering our CAS cost estimates by about $150 million or so. So the FAS/CAS swing will get worse by that $150 million, if you will. And then maybe the final point, Cai, I'm not sure if this was in your question or not, but we sort of measure our CAS performance on sort of end of May to end of May time frame as we sit here today because that period of time, obviously, has closed out. We actually finish that period of time for CAS measurement and greater than 8.5% return versus our 8.5% assumption on the asset side. So that element's locked down. We're still looking at sort of some of the actuarial data for the population along with the CAS Harmonization we'll give you a better of indication of where we sit there likely in the third quarter.

Jerry Kircher

Saeed, this is Jerry. I know we're over -- as long as there's still some people in queue, I guess I'd ask you, how many are still in the queue? Because I would like to try and catch a few remaining ones.

Operator

I'm showing 9 more in queue.

Jerry Kircher

All right, we'll keep going. If people want to have the time, we've got the time here. So we'll go to the next question.

Operator

And our next question comes from Noah Poponak from Goldman Sachs.

Noah Poponak - Goldman Sachs Group Inc.

I apologize for repeating, but I'm just very curious on this topic, which a caller just asked about the buyback versus the dividend. And if I look over the past couple of years, you've spent 2x to 4x on buyback versus dividend. And it's been several years since buyback has been an incredibly fruitful effort just given what the stock has done. And a lot of that is out of your control. And I guess, I wonder going forward, you guys have spent a lot of time talking about the macro environment, which in a lot of ways is completely out of your control. Why wouldn't you look at making a major change in almost flipping that ratio of dividend to buyback such that you're giving the cash straight to the investor to do as they wish with it versus reinvesting in something where as we've discussed here a lot of the drivers are completely out of your control?

Bob Stevens

Yes, I appreciate the call and the comment and the straightforward nature of the recommendation. We like a balanced approach that gives us flexibility as we look forward. I can tell you that we don't have an algorithm that says 2:1 or any such thing. Your comments will certainly be taken under advisement. We really value assembling the points of view that get offered to us with opportunities like this on the call and in other discussions that we have. With respect to the share repurchase, we intend to be opportunistic. We do absolutely see dividends as an important and vital mechanism through which to directly convey value to shareholders. I don't know if I was sufficiently clear in my response to the prior question, but coming up here in the third quarter in September, we will make our determination about movement on the dividend. And we will certainly take your views and the views of others in full consideration when we make that determination. But the point that you're making is clear to us, and I appreciate you making it.

Operator

And our next question comes from David Strauss from UBS.

David Strauss - UBS Investment Bank

This might be more of a question for Bruce. The F-35, the cost overruns on LRIP 1 through 3 that, Bob, you spoke about and the potential for you all to accommodate some of those, how does that work mechanically in terms of your booking rate? Is that something you already accounted for in terms of how you're booking the program today? Does this just relate to incentive fee no longer being there? If you could just walk through the mechanics. And then as a follow-up, Bruce, I don't think you specifically have stated what your guidance now has baked in for share repurchase and tax rate for the year.

Bruce Tanner

On the first one, I think the short answer is on the F-35 LRIP 1 through 3 growth numbers that were reported, this is not new news. These numbers have been tossed around for quite some time. They were currently considered in numerous CAPE analyses, had to be considered in a number of sort of certification, the technology baseline reviews. So our booking rates have considered that for some time, and we would not expect to see a change because of -- it is depressed, but that's not a change to our expectations from where they've been for a while. The second question was relative to our planned share repurchase activity for the second half of the year. Essentially, David, what we have assumed is that we're going to maintain the current share count, which essentially says we will offset any sort of share accrete from option exercises or shares put in our retirement plans and the like. So now that's what the guidance is based on. We'll obviously, as Bob said, be opportunistic in the second half as we always are that says typically what we assume we started the year with $1 billion share repurchase embedded in the numbers. We felt confident we were going to get there. The current number assumes nothing beyond the 1.3, I guess it's the simple way to say it. And then as far as the effective tax rate for the year with all the improvements we've seen to date, the effective tax rate should be in the -- I'm guessing about the 27% range for the year in total.

Operator

Our next question comes from Peter Arment from Gleacher & Company.

Peter Arment - Gleacher & Company, Inc.

Yes, Bob, I guess could you give us your thoughts on a need for maybe more portfolio shaping given, I think, the expectation that we're going to see kind of a nose down direction in future budgets or maybe conversely using some of your robust free cash flow to adding into some of these target adjacencies that you've kind of laid out, given your global security framework? I mean, is there an opportunity there to -- an economic critical mass basis versus just kind of some of the relationships you just started such as the Carnegie Mellon one?

Bob Stevens

Yes, Peter, certainly. We absolutely invest ourselves fully on this strategic assessment. The portfolio we have today we've shaped with care. And so we have what we want and we are today where we want to be, and we are making appropriate but limited investments internally to strengthen that portfolio to make sure that it's rigorous and can meet these changing demands that we see from customers and assuring that we can be agile and responsive in those areas. On the acquisition front, which is one of the facets of cash deployment that we didn't talk about when we talked about dividends and the share repurchase contribution to value generation. On the acquisition front, we followed a string-of-pearls approach that has been effective for us and we like, and that is the mechanism, Peter, that we have used to as you, I think, very appropriately described it. In an accelerated way, build some critical mass in areas that are important to us. Some of the features in that environment, I think, will be obvious to you. There are some things we like that just aren't valued very well, and we are not going to be unmindful of the responsibility that we have to you to make acquisitions at a value level that allows us to return the value to you and not put all the value in the acquisition. And that is a tighter and narrower market. And I think sometimes we see, in our judgment, companies that we think should be at a certain value level a little overheated because of the commentary or the interest in the market, and we want to be judicious in how we do that. So we are examining actually quite a number of areas of interest in that regard. But we are not going to lower the screen for selectivity. And I think historically, there's probably been pressure on the members of our industry when we are at an inflection point and see pressures on the budgets for our core markets to maybe get a little more adventurous there. And we are mindful of the need to have real discipline and real rigor in our evaluations of these future prospects and to be selective, and we think that will pay off in the long run. So we're careful in assessing the portfolio that we have in house today. Those reviews are really ongoing. And I say ongoing without exaggeration because the pace of events around the globe has accelerated to the point where you really can't do like a strategic plan a year or the durability doesn't last a year. Conditions really do change, and we don't want to fall behind the value prospects associated with varying conditions. And we'll continue to survey the marketplace to see if there are acquisitions that would make sense but we'd be prudent in the way we go about it.

Operator

Our next question comes from Eric Hugel from Stephens.

Eric Hugel - Stephens Inc.

Bob, from a big picture standpoint, can you discuss sort of, I guess, the current level of company funded R&D investment and how do you believe this trends over the next couple of years amid sort of all the heightened budget uncertainty, but again, balanced against the growth needs of the business?

Bob Stevens

Yes, Eric. We are looking on the company-funded side of about $800 million a year or so. I think we're going to sustain that level of R&D. When I mentioned the word uncertainty in the environment and everybody's desire to see uncertainty reduced, I think we can parse out that uncertainty in a variety of domains. One of the levels of uncertainty is what will the industrial base be called upon to provide in a changing global security landscape? Probably 5 years ago, we weren't talking a lot about cybersecurity. I can assure you, we're talking a lot about it today. We don't think that there are going to be a significant number of let me describe it as large program new starts. So here again, we want to take real care in not simply labeling on resources to do exploratory research and development where there wouldn't be a highly valued application that the nation and our customers will need. So we're spending a fair amount of time trying to work with customers around the globe in gaining a good understanding of the challenges that they see through their eyes and where we can bridge our core competencies and capabilities today and where it would be smart to augment those capabilities through the application of research and development to get a broader portfolio of very highly-valued systems or products or services that they would find really good utility from. And, of course, the other challenge is we have to do that in an environment where we're also driving for efficiency, and we think that efficiency argument probably costs both ways. We have to get our cost structure down here. But if we can make investments through the research and development pipeline that afford greater levels of efficiency for our customers, then we're really helping them meet their mission demands in an effective way. One thought here is on the Joint Strike Fighter, and I know we almost always talk about the Joint Strike

Fighter in terms of immediate program execution performance and so forth, and all of that is appropriate. But there are bigger opportunities on the Joint Strike Fighter beyond those discussions that include the application of research and development funds to improve the intelligence, surveillance and reconnaissance capability of the airplane to essentially build upon the extraordinary computer capability, intelligence capability, sensor capability, communications capability that's already designed into this airplane in an embedded and seamless way. In this respect, the Joint Strike Fighter really is very, very different than any other airplane that anybody has built, including the airplanes that we have built. And that is by design and working with our customers. So we also think in terms of how do we take our existing product portfolio like the Joint Strike Fighter and extend it into areas where you can get real leverage for our customers if you can do multiple missions effectively and well at quality levels and at least comparable to other systems that exist today or better. And you can do that while flying other missions simultaneously, we've really leveraged the use of this incredibly high-performing asset. So some of our R&D is going into those avenues as well.

Jerry Kircher

Saeed, this is Jerry. I think we're coming up on the half hour here, and we've run in some other half hour beyond the original. Can we do one last question, please?

Operator

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

Troy Lahr - Stifel, Nicolaus & Co., Inc.

As budget is tightening up, are you noticing any material changes to the competitive landscape, both on services and hardware? Is anybody getting irrational or trying to come into your markets?

Bob Stevens

Well, Troy, I'll say it's from our point of view, this has always felt like a pretty competitive marketplace. And there may be at the margin companies who may not have the financial capacity that we have. They not have the durability or the capital structure that we have. They may not have the quality of the core portfolio that we have that may make some moves in that area. We're trying to make sure that we don't sit back and allow any thinking to seep into our judgment like incumbency is a particularly safe place and a comfortable place to be. I think that part of the world is changing, and that's why we're assuring that we focus on every program, every opportunity, every customer, every day because in this climate, very much embedded in your question, you can't become complacent. You have to take a look at that. So I don't think we've seen any dramatic expressions of that kind of behavior yet. We're looking forward as you are, and we're absolutely trying to make sure that we don't participate in that. We want to deliver real value in a real sense, and I think we will be able to do that. Saeed, first, let me thank you for your help on the call today. You've been patient. I know we've gone longer. From our point of view, there certainly is uncertainty in the environment that we face, but we're very focused in our company on growth, on execution and on returns to our customers and certainly to you. And we're very much looking forward to updating you at the end of the third quarter. Thanks for your patience with us today, and we'll sign off here, Saeed. Thank you.