Good day, and welcome everyone to Lockheed Martin Fourth Quarter and Full-Year 2012 Earnings Results Conference Call. 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. Sir, please go ahead.

Jerry F. Kircher, III

Thank you, Karen, and good afternoon, everyone. I'd like to welcome you to our fourth quarter 2012 earnings conference call. Joining me today on the call are Marillyn Hewson, our Chief Executive Officer and President and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

I would remind you that 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 the actual results to vary materially from anticipated results. We have posted charts on our website today that we plan to address during the call to supplement our comments. Please access our website at www.lockheedmartin.com, and click on the Investor Relations link to view and follow the charts.

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

Marillyn A. Hewson

Thanks, Jerry. Good afternoon, everyone. Thank you for joining us on the call today. And I hope you've all had a good start to the New Year. Before I begin, I want to say that it's a pleasure to be here on my first earnings call and I look forward to working with you going forward. I hope you got a chance to review our press release outlining fourth quarter and full-year results. I am extraordinarily pleased and proud of our Lockheed Martin team.

We have continued to achieve strong program execution and focus in a challenging environment. These efforts enable the corporation to achieve exceptional operational and financial results in 2012. Let me begin with a brief summary of 2012. Strong order bookings in the fourth quarter resulted in our achieving a record annual level of almost $49 billion in new business awards from domestic and international customers.

Noteworthy awards included $4.4 billion on the F-35 Joint Strike Fighter program for additional production activities, $2 billion for two additional spacecraft on the Advanced EHF Military Communications program for the Air Force and $800 million for additional Patriot-3 missile defense components for the U.S. government and Taiwan.

These new orders enabled us to finish 2012 with a record backlog of over $82 billion. Our backlog of work provides a solid foundation for the future and is a direct indicator of the close alignment of our portfolio products with customers' strategic priorities and requirements, even in today's demanding fiscal climate.

Other record performance levels for the corporation included growing our earnings per share from continuing operations to $8.36, the highest EPS level we have ever achieved increasing our segment operating profit to almost $5.6 billion, $300 million above the 2011 level. Expanding our segment operating margin to a record 11.8%, an increase of 40 basis points above the 2011 level, and growing our sales to over $47 billion, despite a challenging budget environment.

These achievements reflect our commitment to affordability as our team drives for increased efficiencies and improved execution for our customers. We also continue to implement our cash deployment strategy to generate value to shareholders through dividend payments and share repurchases. In the fourth quarter, we paid $373 million in dividend and repurchased $286 million in shares. These actions brought our full-year total for cash return to shareholders to $2.4 billion reflecting dividend payments of $1.4 billion and share repurchases of $1 billion.

In addition to the cash returns in 2012, we generated 20% total shareholder return achieved by stock-price appreciation and dividend yield. These results reflect the quality of our work force, the strength of the corporation and the focus we all have on delivering value to our customers and shareholders. Thanks to everyone in the company for their contributions in driving the strong achievements.

In addition to these results, we also continued our strategic acquisitions under our String of Pearls strategy, with the purchase of two businesses in the quarter. Both of these acquisitions expand our offerings in support of our customers increased emphasis on advanced unmanned systems and are consistent with our goal to maintain a portfolio of technology advanced options that will generate value for customers and shareholders.

The first acquisition was for Chandler/May, a company that specializes in the design, manufacturing and support of unmanned aerial systems. The second acquisition was for CDL Systems, a software engineering firm that specializes in the development and licensing of vehicle control software for unmanned systems. These purchases following our acquisition early in 2012 of Procerus Technologies, and will be part of our mission systems and training business, where they will be integrated into our growing portfolio of unmanned systems and technologies.

Turning now to operational performance, our five business areas continue to execute with exceptional skill and focus in providing critical products and services to customers. While the quarter contain numerous accomplishments across the enterprise, I'd like to highlight two unprecedented successes in the ballistic missile defense test arena.

First, four of our five business areas provided equipment and support in the first ever integrated ballistic missile defense test of the Aegis, Patriot and THAAD systems. These systems work together to successfully detect, track and destroy multiple ballistic missile and cruise missile targets in a live fire test. This operational test was conducted by soldiers, sailors and airmen from multiple combatant commands and demonstrated the maturity and reliability of these essential missile defense systems.

It also demonstrated the benefits of layered, interoperable missile defense solutions that can provide protection to the U.S. and allies against the increasing proliferation of ballistic missiles. With the proven reliability and capabilities of our Aegis, Patriot and THAAD systems, we look forward to growing domestic and international customer demand for missile defense systems.

The second significant ballistic missile defense event was achieved by our Medium Extended Air Defense or MEAD, successfully tracking and intercepting a target in its first ever intercept flight test. MEADs is a next-generation air and missile defense system that incorporates full parameter 360° defense and provide eight times the coverage area of current legacy systems, while dramatically reducing operational and support cost. With this intercept demonstrating the maturity, next-generation capabilities and cost effectiveness of MEAD, we urge Congress to provide future funding for the program.

Moving to F-35 Joint Strike Fighter program, our aeronautics team continued their momentum in this quarter through significant advances on the development program and achieving an increasing tempo on production programs.

On the development program, key achievements included accomplishment of test flights for the year that were 18% ahead of goal, and accomplishment of test points for the year that were 10% ahead of the goal. The aircraft also surpassed 5000 flight hours and achieved the first aerial weapons release for CTOL and STOVL aircraft and maximum high angle of attack fight on CTOL aircraft.

In addition to the test flight success, I had the pleasure to attend the official delivery ceremony of the first operational STOVL aircraft to Marine Corp Air

Station in Yuma, Arizona in November. The ceremony marked the handover of the jets to the service and with the receipt of these aircraft, the base will start tactical operational training on this critical asset for the Marine Crop.

Also in the area of training, the 33rd fighter wing at Eglin Air Force Base completed the requirements allowing their wing to begin pilot training in 2013. These events in Arizona and Florida demonstrate the increasing tempo and maturity of the training programs, as we work to get these assets to the services.

Turning to production activities, we continue to make progress on our production tempo with delivery of 13 aircraft in the fourth quarter. This brought our full year deliveries to 30 aircraft more than double the aircraft deliveries achieved in 2011. Significant contractual progress was also achieved this quarter, with completion and negotiations on the LRIP 5 contract, awarded an undefinitized contract action LRIP 6 and long-lead for LRIP 7. These contracts provides significant stability to the program, as we work with our partners to provide these critical aircraft to domestic, and international customers. These latest contract awards bring our F-35 production backlog at year-end to 88 aircraft. Our maturing production lines, operational base stand up and expanded pilot training are all strong indicators of the F-35 programs positive trajectory.

Beyond the operational program accomplishments we continue to take additional actions to drive affordability across the corporations, and to increase customer alignment. Along with the perviously announced reorganization of our electronics systems business area and to two new business areas, Missiles and Fire Control's and Mission Systems & Training, effective December 31, 2012. We also announced consolidation of several corporate functions at our headquarters designed to streamline and tighten the corporate staff.

These actions will improve collaboration and coordination across the enterprise, increase efficiency and achieve greater synergy. It will also focus us on the actions that best position the company for success and growth in a demanding and dynamic environment.

I would like to turn now to the status of DoD budgets, and the continuing levels of uncertainty for fiscal year '13 and beyond funding levels. Currently the DoD is operating under a continuing resolution through at least March 27, for FY 2013 with funding constraint to prior FY 2012 levels. This limitation will cause funds to run short in some accounts and we'll continue last year's dated priorities that don't necessarily reflect the new defense strategy, because of this, and other limitations associated with the full-year

CR, we are strongly urging Congress to pass the defense appropriations bill in March and not extend the CR for the remainder of the year.

The second area, budget uncertainty is associated with the pending threat of sequestration or automatic budget cut. Since our October call, some encouraging action was undertaken by Congress and the White House to avoid implementation of these across the board budget reductions. In early January, the President timed the generation, the deferred implementation of approximately $1.2 trillion in automatic federal budget reductions for two months until March 1. However, if sequestration is allowed to happen on March 1, it's still result in cuts of $0.5 trillion each in defense and non-defense accounts over nine years.

For defense, that's an additional $0.5 trillion in cuts beyond the $487 billion already imposed by the Budget Control Act of 2011, while we recognized the both parties are strongly imposed to allowing sequestration to happen. We remain deeply concerned that sequestration could occur as the default outcome, if negotiations failed to produce an agreement.

As the Joint Chiefs of Staff just explained in a powerful January 14 letter, sequestration is not only puts a risk our defense industrial base, it also forms military readiness, and would quickly hollow out our military forces. In the weeks ahead, we'll continue to work with our government leaders to encourage a more effective solution to our nation's fiscal challenges.

Despite the continuing uncertainty on U.S. defense budget, it is absolutely clear that there is a growing need for security solutions in a challenging global landscape. Events this past quarter, such as the successful North Korean multistage missile launch, coupled with the continued rise in China's military strength, ongoing instability in the Middle East, and the expansion of terrorist activity in Africa, only highlight the complexity and volatility embedded in the mission of maintaining global security.

Our portfolio of products and capabilities remain in direct alignment with this global security mission, and we look forward to help in domestic and international customers, secure solutions to their most critical defense and security requirements. While no one can precisely predict the impacts of sequestration, where events that will unfold in the global security environment, there is one thing I know for certain, every one of our 120,000 employees stands ready to take on, whatever challenges emerge.

Focusing internally, I want to reiterate the priorities that I have reinforced with the team since assuming my new role as CEO. These priorities are consistent and unchanged from those that I helped to formulate as the member of the Executive Office, and working with Bob Stevens in my prior role. I thought it useful to outline those priorities on the call today.

My direction to our team is to grow the business with key drivers being fighter fleet recapitalization from the F-35, missile defense in Aegis, THAAD and Patriot, cargo aircraft fleet expansion with C-5M and C-130J, littoral combat ships, fleet expansion and C4ISR, achieve higher levels of program performance, and execution excellence to satisfy customer requirements, and provide financial returns to shareholders, pursue a strategy to secure and expand our core business, and expand and to closely align adjacent markets such as cyber security, grow international revenues to at least 20% of total corporate assets in the next few years. Continue to return at least 50% of annual free cash to shareholders through dividends and share repurchases. Invest for growth, through renovation, product evolution, and strategic acquisitions under our String of Pearls strategy.

Finally, and importantly, continue our strong focus on talent development and employee engagement. I believe achievement of these priorities will enable our corporation to continue to provide superior performance to our customers and shareholders as we move forward.

Before I ask Bruce to give you some color and detail on our performance, I want to highlight two organizational changes approved by our Board yesterday. First, Joanne Maguire, Executive Vice President of our Space Systems business advised of her plan to retire from our company after a distinguished career. Since taking over the leadership role in Space Systems in 2006, she has grown the business, while streamlining the cost structure for our customers and expanding returns to shareholders. Under her leadership and drive for innovation, Space Systems achieved a remarkable track record of mission success and continues to provide broader array of advanced technology systems for national security, civil and commercial customers. Effective April 1, Rick Ambrose will assume responsibility as Executive Vice President of our Space Systems business replacing Joanne.

Rick brings over 33 years of experience in the aerospace and defense industry, and has currently been serving as Vice President and Deputy for Space Systems reporting to Joanne. Rick's vivid background within System Systems, leading our intelligence business in IS&GS, and his leadership roles in our former Mission Systems and Sensors business will be extremely valuable experience, as we move the space business forward for our customers and employees.

Secondly, Linda Gooden, Executive Vice President of Information Systems & Global Solutions has also advised of her plan to retire after more than 32 years with corporation. Linda assumed the leadership role at IS&GS in 2007, and has managed over 30,000 professionals, who provide integrated, information technology solutions, systems and support for worldwide missions to civil, defense, intelligence, and other government customers. Her customer knowledge and leadership have been key catalyst enabling IS&GS to maintain its leading position as the largest IT provider to the U.S. government for the past 18 years. Effective April 1, Sondra Barbour will assume responsibility as Executive Vice President of IS&GS replacing Linda.

Sondra is currently serving as our Senior Vice President, Enterprise Business Services and Chief Information Officer, for the Corporation. As CIO, Sondra is responsible for leading our internal IT operations including the protection of ours and our customers infrastructure and information from cyber threats. She was also instrumental in defining and launching our new government and commercial cyber security business. Sondra's knowledge of IT systems coupled with 20 years experience in IS&GS, where she served in program management and as CIO and Vice President of Operations, demonstrated her strong leadership and track record that have prepared her well for her new role to lead IS&GS.

Both Joanne and Linda have had exceptional carriers and are exceptional executives in every respect through their dedication and professionalism; I really want to thank them for their leadership and service to corporation over their carriers, these retirements and their succession by proven leaders highlight, why we've invested so much energy and time in our talent management and leadership development programs.

Our succession planning process is vitally important to the future of the corporation and provides the outstanding cadre of highly qualified executives ready to assume additional responsibility, and take our business forward. Both Rick and Sondra represent the depth and breadth of talent in our company and bring proven leadership track records. Each has decades of experience gained by working in diversified assignments. They are leaders who have built superb teams in prior assignments, and I look forward to their ongoing contributions as they assume their new role.

I will now ask Bruce to go through some of the details of our performance, and then we'll open up the line for questions. Bruce?

Bruce L. Tanner

Thanks Marillyn and good afternoon everyone. As I highlight our key financial accomplishments, please follow along with the web charts we included with our earnings release today. Let's start with chart three; an overview of the year. We grew sales for the year to $47.2 billion, exceeding the guidance that we provided in October. I'll discuss sales in greater detail in the next few charts.

We increased our segment operating margins to 11.8% or 40 basis points higher than our 2011 margin. Our earnings per share were $8.36; we generated $1.6 billion in cash from operations after making $3.6 billion of pension contributions. I'll explain the reasons for the additional contribution amount in subsequent charts.

And our backlog finished very strong, at over $82 billion. We had said throughout 2012 that we expect the backlog to end the year at about the same level as we began, but this obviously exceeded our expectations.

Chart four, shows our sales trend for the past four years, $47.2 billion represents the highest level of sales in our history, and I'm pleased that we've been able to grow about 8%, since 2009 a period with significant economic and budgetary pressures.

Moving to chart five, and looking at our new alignment of five business areas, three of our five business areas grew sales during the year including MST, aeronautics, and space while missiles and fire control sales were comparable to 2011. As expected, IS&GS showed a reduction in sales versus 2011, reflecting both the overall decline in the federal IT budget, and the effects of the continuing resolution in the fourth quarter.

Turning to chart six, in segment operating results, we grew consolidated segment operating profit by over $300 million, with one quarter of the growth due to the higher sales volume mentioned previously. The remaining increase results from the 40 basis point margin improvement to 11.8%, reflecting the strong performance and proactive cost measures taken during the year.

So turn to chart seven, you see each of the business areas margins in 2012 compared with 2011. Three of our five business areas improve margins in the year including aeronautics, MST and missiles and fire control. And space was comparable with the prior year reflecting the breadth of our execution and cost improvement actions.

On chart eight, we will discuss the earnings per share for the year. We grew EPS by more than 6% over the 2011 amount, and this represents the first time, we've exceeded the $8 per share level. Our pension adjusted EPS grew to just below $10 per share.

On chart nine, we will reconcile our actual 2012 EPS versus our last guidance range. In October we gave our EPS guidance as $8.20 to $8.40 resulting in a midpoint of $8.30 per share. Our fourth quarter results yielded $150 million more in segment operating profits than was contemplated in the EPS midpoint resulting in a $0.31 improvement. We had other items that reduced EPS by $0.25 including a non-operational tax item worth $0.18 and special item in the quarter related to headcount reductions in our aeronautics business that was worth $0.05. Overall the fourth quarter changes netted to the $0.06 increase over our October mid point guidance.

The non-operational tax item was due to our $2.5 billion discretionary pension contribution in the fourth quarter which caused our taxable income to be lower than the level planned in the first three quarters of the year. This required a true up in the fourth quarter reducing the manufacturing deduction for the year and lowering EPS by $0.18. Future year's taxable income will be higher as a result of the accelerated pension contributions end of 2012 and we expect to capture most of the reduced manufacturing deduction over the next two years.

We've [weighed] [ph] the contributions for several reasons. First, with the possibility of Corporate Tax Reform, this contribution locks in our pension deduction at the current statutory rate of 35% and should the rate be reduced to 25% as has been discussed, this benefit will be worth $250 million. Second, earlier contributions to our pension plans allow the assets to grow quicker also lowering future required contributions.

Next we have the cash on hand to make the contributions which otherwise would yield minimal interest income and finally the acceleration into 2012 increases operating cash in the future providing a fairly quick payback and a very low interest-rate environment.

Chart 10, shows our operating cash results prior to the discretionary pension contribution. Our guidance in October was that our cash from operations will be greater than or equal to $4 billion prior to the pension contribution, our cash from operations was $4.1 billion, slightly higher than expected.

On chart 11, we'll discuss our backlog trends for the past few years. We've grown our backlog since 2009 by $5 billion more than our sales growth over the same time frame. And the $82.3 billion at year end 2012 represents our highest ever backlog level. As you can see our book-to-bill ratio has exceeded 1.0 in each of the last three years.

Chart 12, provides the assumption embedded in our 2013 guidance, importantly our guidance for the year assumes a continuum resolution through the current date of March 27 and it does not assume the sequestration reductions are implemented. Our fast cash pension adjustment of $485 million is based on a 4% discount rate, and long-term asset return of 8%, consistent with our assumptions in October. And our planned contribution level in 2013, is $1.5 billion equal to the level of cash recovery in the year.

The expected earnings from the $2.5 billion pension contribution reduces our 2013 FAS expense by $200 million at the assumed 8% return levels. 2013, will include both the 2012 and 2013 benefit of the R&D tax credit legislation passed earlier this year. As a result of that legislation being passed in January, the 2012 benefit will be recognized entirely in the first quarter, as well one quarter of the 2013 credits. We expect this benefit to amount to $45 million in the quarter, and approximately $75 million for the year.

Finally our share count remains flat, with share repurchases offsetting the effects of option exercises and new issuances.

Chart 13, provides our new outlook for 2013, our sales for the year are consistent with our expectations when we last spoke in October, despite the significant increase in fourth quarter 2012 sales. Segment operating profit and the resulting margin are both higher than we indicated in October with the expectation that our strong performance in 2012 will carry over into 2013.

EPS from continuing operations are expected to be between $8.80 and $9.10 for the year and cash from operations are expected to be greater than or equal to $4 billion. As prevailing in the year, we would expect sequential growth in our sales during the year with the first quarter being markedly lower than the next three quarters and about $1 million lower than the first quarter of 2012 due primarily to lower aircraft qualities in our aeronautics business.

In the first quarter, we expect to have 10 fewer F-16s, six fewer C-130s, low C-5 deliveries and lower F-22 volume as there were production deliveries in the first quarter last year, and there are none this year. Margins are expected to be fairly consistent back order in the mid 11% range that could obviously change depending on the timing of risk retirements.

Cash would be strong in the first quarter with a benefit of the large tax refund as a result of the discretionary pension contribution and backlog will likely drop in the first quarter and first half of the year as orders are expected to be more heavily loaded in the second half of the year.

Chart 14, shows the guidance ranges for sales and segment operating profit by our business areas. Note that the reorganization of our former electronic systems business results in two nearly equally sized business areas in Missiles and Fire Control and Mission Systems and Training.

And finally, we wrap up with our summary on Chart 15. 2012 was a strong year for us both operationally and financially. These results reflect the strong performance and proactive steps, we've been taking for several years and our challenges to continue that success into the future.

Our backlog is positioned just well and speaks to the alignment of our portfolio with the needs of our customers, and require the 20% total return we provided our shareholders in 2012 and we stand ready to perform in 2013. With that we are ready for your questions. Karen?

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Jason Gursky from Citi.

Jason M. Gursky – Citigroup Global Markets Inc.

Good afternoon everyone.

Bruce L. Tanner

Hi, Jason.

Jason M. Gursky – Citigroup Global Markets Inc.

Yeah, welcome Marillyn. Bruce, I wanted to target this question to you and talk a little bit about cash deployment. I think this big pension contribution that we made here during the quarter may have caught a few of us by surprise. And I was wondering if you could just talk a little bit about whether you contemplated kind of letting us know that this was going to be coming perhaps why you didn't? And then also maybe just talk a little bit about long-term capital deployment and what you see on the horizon with regard to the mix, we just now had a big pension contribution, does that take that off the table now for a number of years and we get a much more steady stream of operating cash flow that can be used to deploy either back into the business or back into shareholders through repurchases and dividends.

Bruce L. Tanner

Thanks Jason. I think you got your money worth on that question. So let's see where do I start, as to why we did it at the end of the year and why we didn't tell you, and did we contemplate telling you. We did a fairly comprehensive study as far as pension analyses are concerned relative to our funding requirements, the expectations in the future, the sensitivity of our plans through asset returns, discount rate changes and the like. You may or may not be aware, we actually sent out in the fourth quarter an offering to our terminated but vested participants in the plan offering to essentially give them lump sum payments in lieu of the pension payments over periods of time when they retired. We got a fairly good return on that, actually reducing some of the volatility and our liability associated with those individuals going forward.

We were studying this issue right up until literally the end of the fourth quarter, Jason. And we were studying at the same time the prospects of what was going on in Washington relative to corporate tax reform and we were speaking to the Board at that time saying we think this might be sort of the confluence of a lot of different actions that should result in us potentially making a larger contribution for the pension plan in 2012 in order to, in my words lock-in the deduction at 35%. We do feel there’s a strong possibility for corporate tax reform going forward. We think that number could be anywhere from a 25% to 28% rate as opposed to the current 35% and we very much wanted to, as I said earlier lock in that rate. I walked through the very dynamics that I said in the prepared remarks relative to we thinking that this is a very quick payback, and the interest that we’re earning on the cash on the balance sheet is probably about 20 basis points as we sit here today.

So if the acceleration occurs and within a low interest rate period of time and we’re getting low interest on the cash that sits on the balance sheet, currently, it did accelerate the tax deduction as we talked about earlier and I liked the fact that it also reduces the gap between pension adjusted and reported earnings, as I mentioned earlier as well.

Now, we look at this Jason, and now this, I'll give you some stats here. So taking a look at 2013, one of the reasons we did it, the $2.5 billion as we looked at how much cash did we want to have left on the balance sheet and how much flexibility did we want to have going into 2013 to enable us to do the sorts of cash deployment activities we’ve done in years past.

So in 2013, we're looking at $4 billion of operating cash. We're looking at roughly $1 billion or so of capital expenditure. So $3 billion of free cash flow. We do have about $150 million debt retirement that we were going to do in 2013. So think of that as contributing $850 million sort of unencumbered, of our free cash flow and we felt that that $850 million plus the $1.9 billion on the balance sheet so almost $2.8 billion was very adequate to continue to do the kind of cash deployment that we have done in the past.

I think a fair question would be, so you guys have said, you’re not going to have a share count increase, what's that level of share repurchase that you’re counting on there and at least for our planning purposes we're expecting about $700 million of share repurchase activity in order to affect that and that's our estimate of how many options will be exercised in a year and also how many new issuances of stock will occur for executive compensation matching of our retirement plans in the like.

So collectively, we think from a cash deployment -between the current dividend contributions that we'll have in 2013 or roughly $1.5 billion plus the $700 million of share repurchase embedded in our guidance, that’s $2.2 billion.

As I said, I think we still have adequate flexibility on the balance sheet, and unencumbered cash flow to remain opportunistic to do additional share repurchases or mergers and our acquisition candidates, if in fact they looked fine for us to make those acquisitions.

I think the other side of it is, we don’t see this as a change and I think Marillyn made those comments in her prepared remarks relative to our long standing cash deployment practice of contributing at least 50% of more of free cash flow to our shareholders and that is still our intent, and I think I said it earlier, but I’ll close again, the reason for the timing was we literally didn’t have this discussion until late in December with our Board of Directors before making this contribution.

So kind of long winded answer, Jason, sorry about that?

Operator

Thank you and our next question comes from the line of Richard Safran from Buckingham Research.

Richard Safran – Buckingham Research

Hi, good afternoon.

Bruce L. Tanner

Hi, Rich.

Richard Safran – Buckingham Research

I have a question of IS&GS, you’re guiding to 9% margins for the year, given the margin pressure in this environment right now, can you discuss a little bit about what gives you the ability and confidence you can sustain 9% margins and also maybe if you could comment if this is being driven by you cyber and intelligence business.

Bruce L. Tanner

Hey, thanks Richard. I'll take that one as well. So if we look at IS&GS, I think we made a very conscious decision and I discussed this on previous calls, we try to differentiate ourselves somewhat in this market, by focusing on what I'll call mission IT, where we're literally sort of providing the embedded capabilities in large measure for our customers as opposed to what I'll call commodity IT, and you think about that as sort of back shop processing and the like, helpdesks, those sort of things, where we really didn't see, we have done that work in the past, but really we didn't see sort of a discriminator or differentiator for Lockheed Martin in doing that work.

So we focused much more on the mission part of the IT service that tends to be a higher margin part of the service activity in the IT world. So that's one thing that gives me the confidence that we continue to do that.

And as I look back Rich, over the last probably eight or nine quarters, IS&GS has been nine or the low 9% return on sales consecutively for those eight or nine quarters. So that gives me confidence again going into 2013, and we continue to do that. You asked about the cyber, we are very excited about the cyber activity within IS&GS. We've had some very successful wins including taking some business away from some of our competitors within cyber. I believe we are the largest federal cyber provider in the industry. And that work is very valued, that's very much in line with that mission IT that I talked about, and that work as you would suspect supports that 9% margin as well.

Operator

Thank you. And our next question comes from the line of Doug Harned from Sanford Bernstein.

Doug S. Harned – Sanford C. Bernstein & Co. LLC

Good afternoon.

Bruce L. Tanner

Hi Doug.

Doug S. Harned – Sanford C. Bernstein & Co. LLC

I'd like to follow-on Jason's question about cash deployment. If I look at the last few years, particularly 2010 and 2011, and if you look at, what I will call the cash yield to shareholders the net repurchase of shares, plus the dividends you've been above 10%. And I think a lot of people found that very attractive. Today when you're looking forward for this year, we're basically at 5%, if you assume no net share repurchases, and about 5%

dividend yield. When you look out to 2014, 2015, how do you think about that, do you think about it in terms of, what yield the shareholders would be, is this a temporary period, we are handling a pension issue. And then you may go up to, I would call larger yields to shareholders in the future. How do you look at this?

Bruce L. Tanner

Doug, I'll try that one as well, I'll speak for myself, and I think I speak for the Board. We don't go about selecting share repurchase amounts from what additive to our dividend levels would get us to a certain level of return on our shares or a certain level of return on our market cap if you will. And that is just not the way we think about that. We very much look at this as opportunistic. we've increased obviously the share, the dividend amounts considerably over the past few years to where that in and of itself essentially takes care of the 50% or more of free cash flow without any contribution of share repurchases.

I think if you look at where our pension plan is sitting from a funding perspective. To me, it's fairly obvious that you'd want to help that pension plan get a higher level of funding, that's definitely a near-term use of cash than maybe it was a few years ago, with the rates going down. I'll tell you that was very much part of the study that I mentioned on discussion with Jason as to, what is the appropriate amount to contribute to the pension versus the real life possibility that interest rates increase, and actually get us into an over-funded situation, but we are certainly not abandoning our share repurchase strategy, we want to remain optimistic, that's the reason I try to give the color on the fact that we have lots of flexibility, not just this year, but you asked about 2014 and 2015, with growing cash, as I expect to happen over the next two years, I think we'll have even greater flexibility in '14, and '15 than we do in 2013.

Operator

Thank you. And our next question comes from the line of Peter Arment from Sterne, Agee.

Peter J. Arment – Sterne, Agee & Leach, Inc.

Yes, good afternoon, everyone. Good afternoon, Marillyn. Question Bruce, I guess on the backlog, what's been impressive over the last few years, with the defense pressure has been the, your ability to kind of grow the backlog. Can you talk a little bit about, how the backup looks for '13, and what you need to see in terms of bookings in the second half of this year for international activity, to kind of hold these levels, just given what we're going to see with sequestration kicking in? Thanks.

Bruce L. Tanner

Yes, let me give you sort of maybe a wide all-encompassing orders and backlog response to the question, Peter. So expectation wise, if I take a look at where we expect the orders for the year to end, and where we are right now from a backlog perspective, I think we'll end the year close to the $80 billion level, we might not be able to replicate the $82 billion that's the highest level we ever have done, but I feel pretty good about being able to get to the $80 billion or so. This will be an interesting year; you've seen some of the correspondences come out of the acquisition community relative to delaying some of the near term awards associated with continuing resolution and anticipation of sequestration.

So we are definitely expecting to have a significantly more loaded second half of the year than in the first half.

So, I would expect each of the first two quarters to be below a 1.0 book to bill, I'd expect the next two to be above 1.0 book-to-bill. I'll say we have a significant amount of international activity that we're counting on the year. I'll just rattle off a few of the orders that I think are important both from a dollar perspective and maybe a strategic perspective. And I'll ask Marillyn maybe to comment on some of the strategic ones as well. But we got sort of near-term – think of these as first half, I hate to give quarters only because of some of the delays that have occurred. But first half, we got the two LCS ships for the FY13 order. We got closure for the lot six international aircraft for five aircraft. We're hoping and our customer is hoping to definitize the lot 6 and lot 7 for F-35 negotiations in the first half of the year.

I think an important one that I think is worth mentioning is we expect to get long lead funding for lot 8 of the F-35 program for some 48 aircrafts. Just the quantity alone versus the prior year's quantity is worth mentioning. Think of that as 29 domestic aircrafts and 19 international aircraft including 9 FMS, for military sales, outside of the eight initial partners on the country (inaudible), excuse me.

Strategically there is some things to watch that aren't necessarily big dollar events, but they are strategically important to us. So the Aegis Combat System's engineering contract, within our MST operations, think of this as next generation Aegis development for the capabilities there.

The KC-46 training and the interesting thing about that is we're actually - the only reason we're able to bid that frankly is because of the acquisition of the Sim-Industries last year, that gives us some capabilities to do that training capability on the 767 aircraft is the basis of the KC-46.

We have the Air and Missile Defense Radar which is sort of the next generation air and missile defense as the name implies, radar for surface combatants. Second half of the year we have a couple of vehicles 5 and 6 for the SBIRS contract, some THAAD UAE follow on production Lot 5 contract for the THAAD order, and some orders they tend to get on the common annual basis, the Fleet Ballistic Missile and next order the RERP, somewhere that mix internationally, we've got the C-130 to Saudi as well. We've got an Iraqi F-16 order, for another batch of 18 aircraft, we're hopeful for, and scattered throughout that are other smaller international business, I should point out that in the year 2012, we did about 17% sales, and about 17% of orders on international basis, and that's roughly what we're expecting in 2013, maybe little bit higher that the orders as far as the total content of our orders in 2013.

Marillyn A. Hewson

So let me just add to that, we do have a strong focus on international growth in our growth portfolio, and as Bruce has listed out several items, but certainly there's continued strong demand for Air and Missile defense in the Middle East and Asia-Pacific, and so we expect to continue to see a pull for PAC-3, THAAD, Aegis and in addition to that air mobility, F-16 as Bruce, he listed off, several of those things that are out there, that we're looking at, but we expect to grow our portfolio in the international side to at least 20% of our revenue in the next few years.

Operator

Thank you, and our next question comes from the line of Myles Walton, from Deutsche Bank.

Myles A. Walton – Deutsche Bank Securities

Thanks, good morning – sorry good afternoon by now, first one is a clarification, Bruce is the $1.5 million in 2013, discretionary or required, I would be surprised if required give me a brief on that?

Bruce L. Tanner

Yeah. That's our plan levels. Myles, I think the required amount is less than that.

Myles A. Walton – Deutsche Bank Securities

Okay. And you mentioned the lot 8 quantities 19 international; I guess nine of those being able to mess Japan or Israel or combination of the two. And then 10 partners from a partner perspective, it's obviously good growth overall, but it seems like the partners are certainly flipping out to the right versus where they would have been 12 months ago in lot 8. Is there upward mobility to the lot 8 or is that kind of what the international partners will look like, I guess about 12 months ago, I would have thought, maybe that number would have been 30, now it sounds like it’s 10, and what does that bode for the next couple halves thereafter?

Bruce L. Tanner

Yeah. I’m trying to think of the 30 Myles. I can’t imagine the scenario that would have gotten us to 30 aircraft. I think perhaps the number that you were thinking that might have been a little bit higher was, the Turkish aircraft in lot 8. They are now pushed out to the right. I think if we actually go back a couple of years, you would have seen fewer Israelian, Japanese aircraft, and so it’s actually helped to mitigate some of those Turkish aircraft at least in lot 8, but that’s you asked about the flexibility, I wouldn’t think we would see the orders bouncing around much if any from that level, customers I will say yes, we have ongoing conversations with our customers, and they continue to like at the F-35 as we continue to perform. And I think that’s the more we can do and demonstrate the capabilities of the aircraft and show that capability to customers like South Korea for instance, the more of this aircraft will stay on the future.

Marillyn A. Hewson

Then I think as I talked about earlier in my remarks we've made great progress on the program, it's maturing and the development process as well as the production ramping up. We've got 5,000 hours on the aircraft. We are committed to delivering an affordable aircraft and we are on plan, actually we're being ahead of plan to 2010 baseline that was put in place.

Operator

Thank you. And our next question comes from the line of Joe Nadol from JP Morgan.

Joseph B. Nadol III – JP Morgan Securities

Thanks good afternoon.

Bruce L. Tanner

Hi, Joe.

Joseph B. Nadol III – JP Morgan Securities

This has been a very smooth transition thus far in terms of leadership Marillyn. But when I look at the either 2011 annual report in front of me, and there are nine folks in the picture. One of them is in his current seat and that is the person next to you, Bruce, everyone else has changed. So my question is in that context you have a very smooth transition, all the plants are the same, but the combination of these people here must have very different ideas in how to do things including you. So I am wondering if you could list a top two or three, may be that on top of your head in terms of how we think about the company, what might change?

Marillyn A. Hewson

Well, we are all connected. This is a very tight team, this leadership team and that is why our succession plan has been so smooth and successful. We have been operating to the same strategy for a number of years and the results demonstrate the strategy is working. We have very experienced team of folks and so even though ones that are moving into the new roles have been with Corporation for a number of years. They are all experienced executives, and we spent a lot of time working together on making sure everyone does understand our strategy. So we in fact in another week will have the entire leadership team from across the Corporation together to talk about our strategy for the coming year to build on that, so we don't work together for a long time, and we're not in the mood of changing the strategy that we have, but our Board of Directors are directly involved in talent development and the succession training process. In fact, as Joanne and Linda announced their intent to retire, we took that to the Board, we reflected back on our pipeline of talent with them, and there was not even a hesitation on who would move into the next role. So we've been calling together with tight leadership team for a number of years and it's a well planned transition process, and I don't expect there to be changes. We'll work together and deal with the environment they're operating in and adapt to it.

Operator

Thank you. and our next question comes from the line of Howard Rubel from Jefferies.

Howard A. Rubel – Jefferies & Co., Inc.

Thank you very much. I just want to follow-up a little bit on sort of change in the environment that you see going forward, and how you want to take advantage of that, Marillyn. In one case, you have Congress doing things like ring-fencing on EADS and in other cases; you have what I call low-cost competitors trying to unseat a very reliable solution in ULA. how do you deal with those two competitive threats?

Marillyn A. Hewson

Any competitive threats we've taken to account the environment that we're operating in, I think we have a very strong portfolio, and even me, I think is demonstrating success, the flight test that we had in November and the flight test we have planned through this year, later this year. We're going to operate to our technologies and our innovation that we bring to the marketplace is the hallmark of this corporation. and we are very much proactively focused on cost efficiencies and that's a critical discriminator for Israel.

So this competition that we are dealing with it's really not new to us at all. We are used to it. It's constant. That's how we operate all the time. It is in a competitive environment and we will continue to do so. So I don't find that has something that is a big change for us. We understand our competition, we understand the market that we are operating in and we're going to excel in these markets.

Operator

Thank you. And our next question comes from the line of George Shapiro from Shapiro Research.

George Shapiro – Shapiro research

Good afternoon.

Bruce L. Tanner

Hi, George.

George Shapiro – Shapiro research

I'd like you to go through a little bit more detail some of the moving parts in aeronautics, something like one of the things that's in the release, that the operating profit is about comparable to '11 for the F-35 and the F-22. So the F-22 is down considerably from last year. F-35 is probably grown. So can you discuss kind of how much growth we saw in the F-35, where you are? If we change they made a booking rate and the margins et cetera.

Bruce L. Tanner

George, are you talking 2012 or are you talking to 2013?

George Shapiro – Shapiro research

I was just reading from the release in terms of your analysis that the operating profit for the December quarter, there is a comment in there that operating profit was comparable to the same period in ’11 for F-35 contracts and the F-22, and sales were comparable as well which says that the I would imply the F-35 profit must have gone up, because you were booking lower on the F-35 than you were on the F-22, we know the F-22 revenues are way down. Looking for some more clarity.

Bruce L. Tanner

I think in the press release, I don't have it in front of me George. But I think what they are saying is that F-35 sales and F-35 profit this quarter are comparable to that F-35 sales and F-35 profit levels last year whereas F-22 sales and profit are comparable to last year’s quarter as well, not that the two of them are comparable to each other if you follow.

Bruce L. Tanner

(Inaudible) we’re coming on the hour, but because we have a number of people from the queue are sort of extended the comments today. We’d like to go ahead and extend the call at least another 15 minutes to 4:15 or so to let people ask questions.

Operator

Certainly, sir. Our next question comes from the line of Carter Copeland from Barclays.

Carter Copeland – Barclays Capital

Hi, good afternoon and welcome, Marillyn.

Marillyn A. Hewson

Thank you.

Carter Copeland – Barclays Capital

Just wanted to ask quickly about the F-35, the commentary from your customer last quarter before you sent the contract was that you were pretty fall apart on terms, yet you closed that negotiation before the end of the year and I wondered if you might comment on how you reached a conclusion there and what the implications are for the follow-on negotiations from your prospective, as Bruce highlighted that there’s several up to follow-on lot negotiations that are sitting in front of you this year. any color would be much appreciated?

Marillyn A. Hewson

Sure. Carter, well, basically on the F-35, there were five negotiations what was important was for both sides to understand the cost structure of their positions. and so we had an opportunity to spend time with our customer, and let them share with us how they viewed all of the cost elements, we had an opportunity to likewise share that with them. and I think through that process we were able to come to a mutual understanding, and get to a closer negotiation and we reached a fair and yet challenging agreement. and so it wasn't – I think it did take a little longer, because we had a lot of time that we had to go through to, from both sides to really assess it, but it was nothing around the terms and conditions that drove that, it was really around the costs.

So I think we're in a good posture for lot 6 and 7, we already have the undefinitized contract action, and they're under contract, and we are in direct discussions right now at the program level on the lot 6 and 7 and the intend is to negotiate both of them together and get that done in the first half of the year, and our customers really need us going forward and make sure that we meet the challenges, but they put in front of us and that we're taking cost out. So in addition to getting our prime negotiated and getting on with our 6 and 7, we are working very hard on taking costs out of our business and driving toward a more affordable product for them in all aspects of our business.

Operator

Thank you. and our next question comes from the line of Rob Spingarn from Credit Suisse.

Robert M. Spingarn – Credit Suisse

Yes, good afternoon.

Bruce L. Tanner

Hi, Rob.

Robert M. Spingarn – Credit Suisse

A question for Bruce and this is building on George's question on the aeronautics, but I would like to take you up on the 2013 part of that, and may I ask if you could refresh us on the manifest by program, your quantities, the margin you see for the major programs, and in particular, if you could talk, just update us on the F-35 on the 36 aircraft, how we just think about, which lots those are from and profitability on F-35 in '13 relative to '12?

Bruce L. Tanner

Rob, you asked the question to me. so I'll answer it. So as we look at 2013, I think I said in the October call, we're going to be down probably 10, C-130 aircraft, so think of that – we did, I believe 34 in 2012 and other 24 or so in 2013. The F-16s, 37 last year, about 13 this year, think of that has really no change in aircraft deliveries from the four more flying. All the change we're talking about there was the aircraft that were delivered on to Turkish lines, so you will see sort of cost fluctuations, associated with that with the aircraft coming off the line in full order.

C-5 we've talked, we really talked in the October call about the increased volume there. So we ended up delivering four, we actually delivered maybe an extra that we work exactly counting on delivering in 2012, but we ended up with four for the year. We're expecting somewhere around eight, so kind of a doubling of quantities on the C-5 program next year. And you talked about the F-35 deliveries, we're looking at probably a 20% increase. We did 30 this year, we're looking at 36 next year. (Inaudible) aircraft, those were I believe I will make it just a little bit off, I believe those were the tail-end. We started delivering lot 4, aircraft at the end of 2012. We'll deliver all remaining lot 4 aircraft in 2013, and then we'll start, and I've lost track exactly. We're out somewhere in the middle of the year, third quarter-ish time of the year, we'll start delivering lot 5 aircraft, and those will be the aircraft that we deliver all the way through the end of the year.

Margins, on the F-35 program. We are expecting to go up in 2013. Therefore no other reason than the absence of the profit adjustment we took, I believe in the second quarter on the SCD contract to lower the expectations on the award fee going forward. But we're also, because we did have success, I'll remind you we started 2012 for the goal of delivering 30 aircraft, we had multiple strike at our four more facility, and we still delivered 30 aircraft, and so as you'd like to imagine that says the efficiencies we are getting in the production line are starting to be self evident. And with those efficiencies, we would expect in 2013 to actually have some profit step ups on the production contracts, so we would expect the overall rate between the combined SCD contract and the LRIPs in 2013 to be higher than it were in 2012.

Operator

Thank you. And our next question comes from the line of Cai von Rumohr from Cowen & Company.

Cai von Rumohr – Cowen & Company

Thank you, very much. I may have missed it, but what did you say about the orders for the full year 2013, and could you give us a little split between if there is no sequestration I assume that to your assumption, and if there is sequestration, which part of our business, which of your orders, put it that way, 2013, do you see as a greatest risk?

Bruce L. Tanner

So 2013, the orders I was talking about, where we I think what I said is, we expect to have orders given our sales level that would essentially get us back to about $80 billion backlog, so you can kind of solve for the math, I will think of it as, I don't know somewhere $40 billion, $45 billion or so, and as far as, we are not assuming the effects of sequestration, as I said in my prepared remarks, and how that would manifest itself in terms of the impact in the orders, it always described IS&GS as a very short cycle business, if you look at the numbers for IS&GS right now, we are expecting a downturn in 2013 over 2012, and to large extent, that's because the federal IT budget has gone down, frankly with or without sequestration, I think a fair question is how much more can you take out as the federal IT budget even under sequestration environment you still accomplish a test that you need from an IT perspective.

We don't have a lot of, we look at, there has probably a shift over the past two years to have more of these IDIQ task orders. So I'd suspect and a lot of those where they are occurring is in the IS&GS business, so I would expect during the sequestration we would see less extra sizing of those IDIQ task orders. I said earlier – in response to another question, I lost track who asked it, that I think we're seeing some of the sort of the push out orders right now in part, because of Secretary Carter's, guidance relative to preparation under the continuing resolution, and I would argue one of the prospects of sequestration, they are pushing out some of the larger orders I believe, anything over $0.5 billion as to go to him for approval or it's authorized.

so I'm not knowing exactly how sequestration will be manifested in terms of what I'd like to call the peanut spread versus a targeted spread, it's hard for me to say how those order could be impacted, whether they'd be pushed to the right or reduced, and at this point, I'd frankly be speculating at this point, other than to say IS&GS will likely get hit the largest percent would be my guess the longer cycle businesses would be get less approval than IS&GS.

Marillyn A. Hewson

All right. I will just add to that on the sequestration front, I mean that's why we have been so vocal about what a terrible policy that is to have sequestration come into play, some are very encouraged that we're trying to – that our government Congress is trying to get to a permanent elimination of those across the board cut, because if fact if they have, if they're going to take any cuts and they can do it along the lines of the national security strategy and do it in the areas that align better with what our administration and our entire defense is trying to accomplish that's the best outcome. And for us, as we look at it, I mean, I think we have a great portfolio that's aligned with those strategic priorities of the US government and our defense department. So if we get through sequestration, and it doesn't happen and it allows our defense department to decide where they take cuts, we think we're actually very well-positioned.

Operator

Thank you. And our next question comes the line of David Strauss, from UBS.

David E. Strauss – UBS Securities LLC

Good afternoon.

Bruce L. Tanner

Hi, David.

David E. Strauss – UBS Securities LLC

Marillyn a question for you, you guys have gone after you cost structure very aggressively just like you tell both from a square footage prospective and head count. Despite the fact that the budget hasn't come down much yet and your top line is held up pretty well. How much more room do you have to address headcount and square footage industrial cost structure and it's entirety, maybe disproportioning what happens to the budget from here.

Marillyn A. Hewson

Well I tell. we're a large corporation, and we have, I think we still have more opportunity particularly on the foot print side. As we laid out a plan to take cost out, we put it in more aggressively about 3 years ago and so we've been about this pro active approach to taking out cost in our infrastructure and our processes for a number of years. As you mentioned we have had some reductions in for us we've taken our some management layers, we've been collapsing some organizations, in order to get some cost out in that regard.

And on the foot print side, we've taken out about $1.9 million square feet for the last couple of years and we're going to take another $2.9 million between now and the end of 2014. So there is more to go there, I believe there is also opportunities for us. Just to continue on an ongoing basis to drive cost out, and so that we can meet the demand of our custom members. We've been getting out of these space for example, we'll continue to look at even providing more affordable products to our customers taking weighed out at how we can reduce cycle time, all of those things that would give them a more affordable product as well.

So we'll continue to do that, that is something we set targets on every year, drive cost out of our business, and we want to continue to do that, remain competitive and win more business.

Operator

Thank you, and our next question comes from the line of Sam Pearlstein from Wells Fargo.

Sam Pearlstein – Wells Fargo

Good afternoon, Bruce I was wondering if you could walk a little bit through the cash in 2013 just as you get from cash flow from operations about $1.6 billion to over $4 billion. We know pension is certainly less of a headwind, but what else is improving taxes, interest advances working capital. What else for the drivers there?

Bruce L. Tanner

Let me see if I can do that on top off my head, Sam so $4 billion as you said in 2013 versus the $1.6 billion, level the biggest driver obviously is the $2.5 billion pension contribution, $3.6 million I guess I should say, versus the $1.5 million by 2013.

We're actually expecting a slight increase in our working capital and something I'll speak from myself, personally that I have targeted to try to minimize that amount of working capital growth. I think some of that might be a little bit of planning conservatism. We tend to plan, even say, our several international orders maybe a little bit lighter relative to payment terms than we actually are able to negotiate that ends up manifesting itself in the form of higher working capital than maybe what we actually experience that what I'll be watching.

Income taxes, I am trying to think what we're planning on income taxes. See, we're actually down, I believe, I think we're down probably like – we're actually further paying out relative to tax that is fairly close from booking within our earnings it's down probably about $150-ish million just. So it is sort of a cash flow up down. You see the $150 million from an earnings perspective going down the cash. As far as the biggest drivers that I am looking at next year, a little bit of change in depreciation, amortization, about enough to talk about, so really just sort of the working capital and a slight change in the taxes there.

Operator

Thank you. And our next question comes from the line of Noah Poponak from Goldman Sachs.

Noah Poponak – Goldman Sachs & Company

Hi, good afternoon, Bruce and Jerry, and welcome to the earnings call process, Marillyn.

Marillyn A. Hewson

Thank you.

Noah Poponak – Goldman Sachs & Company

Marillyn, I wanted to ask you the sort of a follow up to the question on cost cutting, but a little bit bigger picture and long-term. One of the big concerns we still hear from investors on defense companies, is with regard to the sustainability of margins and whether or not there is a shoot or drop there. And in historical cycles, you've seen margins come down pretty significantly, Lockheed Martin has been able to kind of hum along at this 11.5% segment operating margin right through everything we've seen thus far.

How do you think about where margins go and how sustainable they are? Is there risk in your view that the part of the backlog was more favorable in terms of trade, sunsets and more difficult backlog layers in, just curious how you think about that given your many experiences operating the business?

And then, one quick for Bruce. Have you done the math on the 2014 FAS/CAS number with the hypothetical that nothing changes in '14 versus '13.

Marillyn A. Hewson

Thanks for the question. I'll just kick-off with the margins. As you look at our portfolio, we have a lot of mature products that we have to move down the production lines and those that are moved into production and we're in position where we can drive higher margins through the process of booking higher profit rates on those programs moving forward.

And then as I said, we're growing our international sales component and through that process, because of the risk return relationship there on the international sales and we expect to get higher margins on that. While the portfolio is transitioning, if you think about where F-35 is, we are still on development, but concurrent to that we're moving into production and with that production over time and with the volume that we're going to bring along in a fixed price incentive environment and then fixed price environment, that's going to allow us to improve our margins.

LCS, with our LCS program, moving along as it ramps up with additional ships coming online, that will allow us to improve margins and a lot of our missile programs are well long in production. So there's fewer development programs in place, three to five elements coming along strongly. And then it's typically and internationally as I said, we see our margins. We think Bruce, do you want to take the other part of this question?

Bruce L. Tanner

Yeah. not if I remember right, have you done the math; I think you said FAS/CAS in 2014 under the current assumption that we have done that math. Actually we have done about 15.2; I'll give you a bonus question there. So as we look at '14, we're probably seeing current course of speed somewhere about $350-ish million improvements over the $485 million we have today. I think the more interesting model is, as I look at the 13, 14, 15, I think of the change I should say, the change in the FAS/CAS between '13 and '15 is roughly $1 billion. So we think of the 15 number is just about on the offsetting of the zero bar going the other way. So really, really dramatic swing in FAS/CAS with current assumptions and obviously, if the discount rate goes north, and quite I should hope it does sometimes soon, then those commercials change even more dramatical.

Noah Poponak – Goldman Sachs & Company

And I think maybe one more.

Operator

Thank you. Our final question comes from the line of Bill Loomis from Stifel Nicolaus.

Bill R. Loomis – Stifel, Nicolaus & Co., Inc.

Great, thanks for taking the question. Bruce, just when you talked about the first quarter being $1 billion lower. I just want to be clear that that was versus the year ago. And then you talked about the lower deliveries in aeronautics, but obviously with that grouping 3.7 billion in the first quarter '12 that would be a pretty significant percentage drop. So it is the bulk of that can be there and if now, which is the other groups and why do you see that coming back if it is coming from the other groups as well.

Bruce L. Tanner

So, Bill you heard rightly. The billion dollars I was talking about was comparing first quarter 2013 versus first quarter of 2012. I gave in my prepared remarks, the aircraft quality changes. So very, very significant within aeronautics and the reason we feel good about it coming back the other way is because those aircraft are higher on a comparative basis to the previous quarter in the next three quarters.

The other – just as I look at the data releases, I said here today. Part of the way, I would look at sales going forward. Again, I mentioned earlier, it's sequential growth quarter-over-quarter. So think of the – it's obviously lower I believe every single quarter versus 2012, but it gets lower than 2012 by a smaller percent with each successive quarter. Said differently, fourth quarter 2013 is not nearly as far off of fourth quarters of 2012 on the first three quarters of 2013 versus the first three quarters of 2012.

And the other thing I looked at is the innovative software, but as more I just say, but the second half of the year from a revenue perspective is about $1 billion for that six months greater than the first half of the year. So we're definitely the level of back-end loaded in large part because of the aircraft qualities we heave there, but yes something of the other shifts within the business areas as well forcing in the second half.

Marillyn A. Hewson

So, I want to just wrap up here and tell you all thank you for joining us on the call today. And we look forward to speaking to you in April. Thanks.