Good day and welcome everyone to the Lockheed Martin Fourth Quarter and Full Year 2013 Earnings Results Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the call over to Mr. Jerry Kircher, Vice President of Investor Relations. Please go ahead, sir.

Jerry F. Kircher, III

Thank you, Shannon and good afternoon, everyone. I'd like to welcome you to our fourth quarter 2013 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.

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 Marillyn.

Marillyn A. Hewson

Thanks, Jerry. Good afternoon, everyone, and thank you for joining us on the call today. All of us here hope that your year is off to a good start. Let me begin by saying that I'm extraordinarily proud of our Lockheed Martin team. We continue to maintain focus and achieve strong program of financial performance and a challenging environment. These efforts enable the corporation to generate exceptional operational and financial results in 2013 and have us well positioned for 2014.

Bruce will cover the financial results in detail over later; I want to highlight a few noteworthy 2013 financial achievements from my perspective. Starting with new business. I was particularly pleased with our continued success in securing new order bookings from both domestic and international customers. These new contract awards enabled our year-end 2013 backlog to grow to a record level of almost $83 billion. Even more impressively 2013 marks a fourth consecutive year we've grown our backlog in a very challenging and competitive environment.

I was also pleased that the international components of our backlog grew to approximately $20 billion, representing almost 25% of our total backlog.

This has us well positioned to achieve our stated goal of expanding international revenues to over 20% of total corporate revenues in the next few years. This backlog expansion is aided by two strategic differentiators. First, we continue to believe our portfolio is the best positioned in the sector, with unique and direct alignment to many of the essential programs identified by both domestic and international customers.

Second, our corporate wide focus on fostering and expanding customer relationships, directed at how we may best support their critical needs, continue to play a pivotal role in securing our new business awards for our innovated and cost effective products.

Our strong and growing backlog consisting of multiple years of prior fiscal appropriation driven by our longer cycle production programs provides strategic differentiation and a financial foundation of future work.

Another area of noteworthy achievement is our segment operating margin. Outstanding program performance resulted in segment operating margin expansion to a record level of 12.7%, an increase of 90 basis points of the 2012 level and marks the third consecutive year of margin expansion. Even more importantly, this performance was broad based with all five business areas exceeding or maintaining their 2012 margin levels.

Margin expansion opportunities are expected to emerge in the future as our program portfolio expand the international program, plus a transition from the current 50-50 mix of development versus production programs to a higher proportion of production work. As key development program such as the F-35 Joint Strike Fighter, Littoral Combat Ship, THAAD Missile Defense System and satellite programs mature.

I know our leadership team is up to the challenge of delivering on the commitments we've made to our customers with respect to these important and growing production programs.

Another area where we've been successful and which remains our strategic focus is generating robust cash flow. Our ability to deliver consistently strong cash flows continues to be a differentiator for our corporation. In 2013, we generated over $4.5 billion in operating cash after making approximately $2.3 billion in pension contributions.

Our strong and increasing cash flow enables us to invest prudently in the future of the corporation in areas such as research and development and capital expenditures, while simultaneously executing our cash deployment strategy of return to the shareholders in the areas of dividends and share repurchases.

In 2013 we returned over $3.3 billion to shareholders through dividends and share repurchases, reflecting a return of almost 90% of our annual free cash flow to stockholders. Looking forward, our future cash flows are expected to remain strong. Cash flows will be aided by higher pension recoveries plus increasing levels of customer advances from higher international work content.

Our focus on cash generation and the potential for continued strong and increasing cash flows is expected to position the corporation to differentiate us from competitors in value creation and returns to shareholders.

Looking outside the corporation I wanted to briefly turn to the status of government budgets. Since we last spoke in October, congressional budget deliberations were completed on full appropriations bills for fiscal year 2014. These efforts resulted in finalization of the detailed spending bills necessary to fund the government for the remainder of fiscal year 2014 and the president signed the bills into law last week.

This law sets new spending targets for DoD and civil government agencies that restores a portion of the sequestration cuts for the next two fiscal years and bring the major of near-term fiscal stability that should improve the ability of our customers and our corporation to plan for the future due to more certainty and budget planning and program funding.

Under this law sequestration is eliminated for fiscal years 2014 and 2015 and replaced with reduced spending levels. The law also removed the across the board spending reduction methodology previously in place under sequestration and restore the ability for government agencies to move funds and discretely allocate resources to higher priority areas. A critical revision that we've been seeking since the Budget Control Act was established back in 2011.

DoD based budgets for fiscal year 2014 and 2015 were established at approximately $500 billion per year, a level roughly flat with the fiscal year 2013. While we've not yet seen the specific budget allocations by program, we continue to believe that our portfolio of products will be well supported and the strategically focused allocation of budget resources.

These recent budget actions are welcome first step in the creation of a more measured and strategic approach to dealing with the nations fiscal challenges. Until sequestration is eliminated, long-term uncertainty remains. Thus, we will continue to add our voice to those seeking long-term solutions to national budgetary pressures, while working to eliminate sequestration as law.

Finally I want to provide some insight into the announcement this past quarter that we will close certain of our operations, principally those located in Newtown, Pennsylvania; Akron, Ohio; Goodyear, Arizona -- and Goodyear, Arizona as well as consolidate our facility footprint at our Sunnyvale, California campus.

These decisions are part of our continued affordability initiative and follow a detailed review of our current facilities capacity and future workload projections. The important work being performed at these sites will transition to other Lockheed Martin facilities with closures of these sites to be complete by mid 2015.

In 2013, we reduced overhead costs, cut capital expenses and removed 2.1 million square feet of facility space. These new actions will reduce further our facility footprint by nearly 2.5 million square feet and lower overhead costs.

Although such decisions are extremely difficult because of their impact on our employees and the communities in which they live, we will continue to take proactive actions when required to address our customers' challenges and remain competitive in the marketplace.

I'll now ask Bruce to go through some of the details of our 2013 financial performance and our 2014 financial guidance. And then we'll open up the line for your questions.

Bruce L. Tanner

Thank you, Marillyn. Good afternoon, everyone. As usual, we've included web charts with our earnings release today that I'll be referencing as I go through my remarks.

Let's start with Chart 3 and an overview of last year's results. Sales for the year were $45.4 billion, a little higher than we had expected, benefiting from a stronger than planned fourth quarter. Segment operating margin was a record level of 12.7%, exceeding last year's record level by 90 basis points.

Our earnings per share from continuing operations of $9.04 exceeded $9 for the first time and included the effects of two special charges in the fourth quarter, which I'll discuss in more detail in a few charts.

Cash from operations was also stronger than we had out-looked, helped by collections late in 2013 that had been expected in 2014. This enabled us to generate $4.5 billion for the year while contributing an additional $750 million in the fourth quarter to our pension plans, bringing the total amount of contributions for the year to $2.25 billion.

Finally, we ended the year with a strong quarter for orders increasing our backlog to $82.6 billion, the highest level in our history. So I'm pleased with a very strong year of operational performance.

Chart 4 compares our sales and segment operating profit in 2013 versus 2012. Sales were 4% lower than last year, but were slightly higher than we had guided in the third quarter. Segment operating profit on the other hand was 3% higher than last year, despite the lower sales level and was higher than the top of the guidance we provided in the third quarter, driven by stronger performance at Missiles and Fire Control.

Chart 5 shows our segment operating margins by each of the five business areas compared with last year's results. Segment margins were comparable to last year's levels in two of our business areas and higher than last year in three business areas.

Missiles and Fire Control continued its strong performance in 2013 with each of its lines of business having higher margin in 2013 than in 2012. Mission Systems and Training also had a significant improvement over 2012 due to strong overall performance and a successful resolution of contractual matters including two associated with the Presidential Helicopter program in the year.

Space Systems exceeded last year's record margin level with improved performance across the portfolio and higher equity earnings from the United Launch Alliance joint venture.

Aeronautics margins were comparable to last year with improved performance from multiple lines of business, helping to offset the dilutive effects of additional F-35 volume. And IS&GS ended the year at the same margin as in 2012 and now has 12 consecutive quarters of 9% or higher margin.

Chart 6 is where we'll discuss the special charges that impacted the fourth quarter. As is our practice, in the fourth quarter, we evaluated the goodwill on the balance sheet for any impairment; and this quarter, our technical services business from Missiles and Fire Control is found to have a lower fair value than its book value, resulting in $195 million non-cash charge to earnings or $0.54 per share. This impairment reflects an ongoing reduction in the level of sales that technical services has generated in the past few years as well as lowered expectations for the future.

We're experiencing a heightened level of competitive bidding and awards which seem to place less relevance on past performance and discriminating attributes and more on simply lower costs. This charge reflects our belief that this behavior will continue into the future. We performed similar impairment tests for the remaining goodwill on the books and have no other reporting units that we believe are at risk of the goodwill charge at this time.

Our other special charge in the quarter was for client headcount reductions that affected several business areas. In November of last year, we filed an 8-K which announced restructuring activities at Space Systems, MST and IS&GS that included $171 million in severance charges or about $0.34 per share. This amount does not include facility and other related charges of about $200 million that will occur in future periods. In our guidance charts coming up, I'll explain how the financial impact of the restructure is reflected in our 2014 guidance and how we expect to recover the vast majority of these costs in the future.

Moving to Chart 7, we'll review our 2013 earnings per share. We increased earnings per share by 8% on a GAAP basis and nearly 15% excluding the impact of the goodwill charge in the fourth quarter. On pension adjusted basis and also excluding the goodwill charge, our EPS grew to $10.49 for the year.

On Chart 8, we'll discuss our cash return to shareholders in the year. Our free cash flow for the year was $3.7 billion, reflecting $4.5 billion in cash from operations and about $800 million in capital expenditures. And with dividends of $1.5 billion and share repurchases of $1.8 billion, we returned 89% of our free cash flow back to shareholders in the year.

Chart 9 shows our backlog performance for the past five years. We've increased backlog each year since 2009 to the current record level of $82.6 billion. While we said throughout the year that we bought backlog at the end of 2013 will be close to where we started the year, there were a number of large moving pieces that enabled us to reach this level, the most significant being a large order for NASA's Orion program that provides several years of funding rather than the recent trend of funding annual spend plans. Our orders in the quarter were slightly more than $15 billion; meaning over $30 billion of our $45 billion or so of 2013 orders came in the second half of the year.

On Chart 10, we provide some of the key assumptions embedded in our 2014 guidance. First, our FAS/CAS pension adjustment provides nearly $350 million of income in 2014 compared with $150 million we discussed during the last call. The adjustment is higher as our asset return was higher than we anticipated in October, and we also contributed an additional $750 million to the pension trust in the fourth quarter.

2014 represents the first time since the financial crisis of 2008 that we expect to have both FAS/CAS income and positive cash from pension as recoveries are expected to exceed contributions. Next, we've not assumed the benefits from any extension of the R&D tax credit. This is obviously a change from 2013 when we had the benefits of two years of credits worth over $0.20 per share.

Finally, we assumed a flat share count for the year with share repurchases offsetting the effects of new issuances and option exercises. Inherent within that assumption is over $1 billion in repurchases and as usual will continue to be opportunistic repurchase activity.

Chart 11 provides our outlook for 2014. We're providing orders in our outlook this year for the first time. We always discuss our expectation for backlog during this fall and thought it would be helpful to give you our expectation for the order side of the backlog equation.

This year we're expecting orders between $41.5 billion and $43 billion which when compared with our sales outlook would indicate that backlog should remain above the $80 billion level this year. Similar to last year, we had several large orders which depending on when they closed, could impact remaining backlog level for the year. In particular, we expect to finalize a C-130J multiyear order for 79 U.S. aircraft worth more than $5 billion in the fourth quarter of this year, but should it slip to the right, it'd be difficult to achieve that $80 billion backlog amount.

Sales are expected to be slightly better than we indicated in October as a result of the higher orders received in 2013 and the recent budget agreement. Segment profit and operating profit are expected to be the same this year with the FAS/CAS adjustment and our other allocated expenses offsetting each other.

Margin at the midpoint of our sales and segment profit guidance is 11.7%, slightly higher than we indicated in October, and this includes the 2014 impacts of our restructuring activities which were not included in our October trend information.

Earnings per share are expected to be in the $10.25 to $10.55 range and cash from operations is expected to be greater than or equal to $4.6 billion higher than what we generated in 2013, even with the cash received that moved into 2013 from 2014 and the restructure impacts in 2014. And we had planned contributions of $1 billion into our pension plans for the year.

Chart 4 provides our sales and segment profit guidance ranges for each of the business areas. Aeronautics is expected to grow sales to up to the mid single digits over the 2013 amount as a result of their 35 production growth. At 2014 the F-35 program is expected to be as large or larger than any of our other four business areas. Mission Systems and Training, and Missiles and Fire Control are expected to be fairly comparable to their sales level in 2013 although IS&GS and Space Systems are expected to have lower sales in 2014 than 2013.

For segment operating profit, Aeronautics profit is expected to be higher than 2014 with slightly lower margins than in 2013. IS&GS's profit will follow the lower sales volume and Missile and Fire Controls profit is expect to be slightly lower in 2014 as some of the performance improvements that were achieved in the fourth quarter of last year had been expected to occur in 2014. Mission Systems and Training and Space Systems both deserve a little more discussion.

MST is expected to have lower margin on essentially comparable sales for two reasons. First the significant benefit from the contract revolutions associated with the Presidential Helicopter Program in 2013 will not repeat in 2014, and the 2014 impacts of the restructuring charges announced in November will also cause the margin to be lower. For Space Systems we expect lower equity earnings this year compared with last year and will also experience the effects of the 2014 facility and other charges related to the restructuring announced in November. Without these charges in 2014 we project that margins for MSP and Space Systems would be around 11% and 12% respectively in line with what we said in October. On the next chart we'll describe these restructuring impacts in more detail.

So turning to Chart 13, in addition to the $171 million severance charge taken last year we expect around $200 million of facilities related charges to be recorded in segment operating results throughout 2014 and 2015 as we complete the consolidation activities and these impacts to profit and cash flow are included in the guidance we're providing today. These charges reduce Space Systems and MSP's 2014 segment operating profit by $55 million and $25 million respectively net of recoveries or about $0.16 of earnings per share and reduces operating cash flow by around $150 million mostly as a result of severance payments to be made this year. We would expect a significantly lower impact to segment operating profit and operating cash flow in 2015 as we began to see additional recovery of the restructuring charges in our contract pricing and we would expect to recover the vast majority of both the severance and facility related charges in 2016 and beyond.

We'll now turn to our summary on Chart 14. 2013 was a terrific year of operational performance by the company led to outstanding value increases for our share holders and gives us the solid foundation as we begin 2014. We like where we have positioned our portfolio of products and services and we're hopeful that we'll see the benefits of greater budget stability going forward.

I think with that Shannon, we're ready for questions.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question is from Doug Harned of Sanford Bernstein. You may begin.

Doug Harned – Sanford C. Bernstein & Co. LLC

Thank you, good afternoon.

Bruce L. Tanner

Hi, Doug.

Marillyn A. Hewson

Hello.

Doug Harned – Sanford C. Bernstein & Co. LLC

I'm interested in your discussion of the international orders and if you could give a description of what the regional mix of your bookings has been in 2013? And then in particular there's been a lot of strong rhetoric coming out of the Middle East and some has been critical of U.S. policies in the region. I'm interested in understanding, are you seeing a slowing in the completion of contracts there; certainly there's been approvals for a lot of potential sales to that region, but it appears you haven't really seen the commensurate amount of orders, and I'd say across the industry. So perhaps you could comment on that.

Bruce L. Tanner

Yes, Doug, I'll take the first part, and I think Marillyn is probably better for the second half of the equation. So, I'm trying to think like off the top of my head I'm not sure I've got the numbers committed to memory frankly for what it is by region. So I'll give kind of a broad brush answer there. I would say, I did take a look at this. I think 2013 we had the highest order of concept for international activity we had in the history of the corporation. And as Marillyn said in her opening remarks, I think our backlog right now in terms of international versus domestic is somewhere between 23% to 25% of our total backlog. So, one of the reasons we've tried to tee up the notion that we could grow our international sales from 17% to 20% is because we expected to see that backlog materialize in the form of those orders are they were received and we'll start to see. We ended the year 2013 with 17% of our sales internationally, you'll see that number grow is our expectation in 2014. Probably not quite to the 20%, but a little bit below that is our expectation. If I was to give sort of the regional split in 2014; yeah, I think it's heavily weighted towards Asia and the Middle East Doug, although I don't have the splits there. I know we've got a number of orders that took place in our airlines business including some C-130 for Saudi Arabia. We had a couple of 18 aircrafts for Iraq for F-16. So, while I don't have again the numbers committed to memory, I am pretty certain Doug it would be heavily weighted towards Asia and the Middle East.

Marillyn A. Hewson

Doug, I'll add on to that about your question relative to U.S. policies and if that's pulling down the completion of contracts and how it's affecting our ability in sales around the world. Over the past year, I mean I've literally flown around the world to a lot of different locations and spent a lot of time meeting with customers and listening to them. And frankly what they're looking for is for our help. They face a lot of serious challenges relative to their national security and they also have a lot of citizen services that they need to conduct and, so they are talking to us about specific areas of concern and things that we can help them with. So, I don't see an impact of U.S. policies on the dialogue that I'm having with them from the standpoint of our portfolio and what we can provide to them. And our priority for me and for the leadership team is that we get out and we listen and we meet with them and we understand what it is that they want and need. And frankly we're very confident that we're well positioned from growth because of the items that Bruce talked about, but just in general our portfolio, the Tactical Aircraft that we have, the Airlift Mobility Aircraft, our Integrated Air Missile Defense, IT, Cyber Security, Space Situational Awareness, I mean I could walk you around on portfolio. These are the types of things that they need in their countries.

Operator

Thank you. Our next question is from Sam Pearlstein of Wells Fargo. You may begin.

Sam Pearlstein - Wells Fargo Securities

Good afternoon.

Bruce L. Tanner

Hi, Sam.

Marillyn A. Hewson

Hi.

Sam Pearlstein - Wells Fargo Securities

Bruce, I was wondering if you could talk a little bit more about the cash flow. I know you mentioned receivable collections in the fourth quarter. But, I'm sure trying to look at '13 to '14 if you have $600 million more in CAS reimbursement than the contributions, and you're going to make less contribution in general. Why wouldn't cash from ops be higher than the $4.6 billion? I'm trying to think about what is actually going against you, whether its taxes, receivables et cetera in '14 versus '13?

Bruce L. Tanner

Yes. No, a very perceptive question, and so I think we had nearly $800 million use of cash if you will for pensions in 2013, and with $1.6 billion in recoveries and $1 billion of contributions we're looking at about $600 million of positive cash in 2014. So, roughly a $1.4 billion swing, I think that's at the heart of your question; why isn't that showing up in terms of cash differential between 2013 and 2014? So, there's a lot of moving pieces to that question. Recall in the fourth quarter of 2012 we made $2.5 billion pension contribution. The tax benefits of that pension contribution showed up in the first quarter of 2013. In the fourth quarter of 2013 we made $750 million pension contribution, the tax benefits of that show up in the first quarter of 2014, and some of the 600 plus I think million dollar swing from just a taxes paid perspective for just the pension contributions made in '12 and '13 that affected tax paid in '13 and '14 if you follow that. Secondly we had and if you ever heard about this, we disclosed this in our 10-Q and 10-Ks, we had some withholds associated with the business systems rules for systems like Earned Value Management and some others, and almost all of the withholds associated with those activities were recovered in the year 2013 and those won't be replicated obviously in 2014. We had the LRIP 5 and LRIP 6 contract definitizations for F-35 that occurred in 2013 and brought with it sort of some cash, up cash for the definitization associated with those two contracts that again will not occur in 2014. We had lower joint venture cash or are expecting lower joint venture cash in 2014 than just 2013 in part because of just lower volume but there was also some reimbursement items that the JV contributed to the parents [ph] in '13 that we'll replicate in '14. And finally we got roughly $150 million or so restructured cash that's associated with the severance payments that we're making in 2014 that were higher than obviously mid 2013. So, I know there was a mouthful. There was a lot of moving pieces there, but that's sort of the lion's share, if you will, of why that pension cash swing doesn't translate necessary to even higher cash in 2014.

Operator

Thank you. Our next question is from Bill Loomis of Stifel. You may begin.

William Loomis - Stifel Nicolaus

Hi. Thank you. Just going back to the goodwill write-down in technical services, can you tell us what acquisition in the past that was related to or the type of work? And are you starting – I know you didn't have any goodwill write-downs in other areas, but are these trends impacting any other businesses? And then just a follow-on question on the 30 million charge for lower of costs or market considerations if you can explain that a little more? Thanks.

Bruce L. Tanner

Sure. Bill, I'll take those as well. So the goodwill – once you start moving some of the businesses associated with the goodwill into different reporting units in the corporation, unfortunately you kind of loose the track of the original business area in terms of where that goodwill resided. And those businesses have been reorganized over the past few years, so it's very difficult to kind of pinpoint sort of the original origin of the goodwill itself. The type of businesses that this was acquired for are services businesses, as the name implies, technical services. Think of that as a lot of in-country support of the troops, so aircraft maintenance, actually some aircraft piloting vehicle maintenance, that sort of thing, mostly Army in nature. I think about three-quarters of this business or so is probably U.S. Army base and as we've seen the reductions in troop drawdown in particular in Iraq and most recently in Afghanistan that the revenue volume of this business has dropped off fairly dramatically. And again that's sort of what our expectations are going forward as well. So let's see, I think the other question was on the – well, I should back up. You asked the question about how does this translate – my words now, how does this translate to other businesses? As I said in the prepared remarks we do, do an annual impairment assessment at the end of every year. And the types of contracts that are in tech services, some of those types of contracts are in other parts the business. I think as we sit here today, as I said in my remarks, we have clearance right now and we're not at this time concerned about another or being at risk of a goodwill impairment going forward and that's with the plans and expectations that we have in the long range planning that we put together here today. So, if that turns out to be different we'll revisit that next year. And finally the $30 million as far as the cost to market, we took a look at some inventory that we had on some of our contracts and just assessed that it's being worked – not worked as much as we had anticipated in some of our training and logistics businesses, and I think that's a little bit reflected of just the way the market is playing out for us right now.

Operator

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

Jason Gursky - Citigroup Global Markets Inc.

Good afternoon.

Bruce L. Tanner

Hi, Jason.

Jason Gursky - Citigroup Global Markets Inc.

Just a quick clarification from you, Bruce, on the cash. I was wondering – you went through all the puts and take, I was wondering if you could just briefly talk about potential opportunities that you see would lead to upside in cash? And then, Marillyn, the rest of the question for me is on the portfolio and whether you feel that you've got the right mix of portfolio companies and businesses than what your view is on portfolio shaping given the current demand environment as you see it over the next couple of years?

Bruce L. Tanner

So, Jason, I'm assuming you're asking upsize for cash in 2014 versus say over time. I think we have probably typical planning convention. The special we do with some of our international contracts, we tend to have assumptions of maybe less advances, less positive cash flows in our planning than perhaps we actually end up negotiating. I hope that's the case again this year. We obviously have some contracts – some fairly large contracts that we hope to de-finitize. I'd like to think we could get some of the billing arrangement with some of those contracts with slightly better terms than we have in our planning. And that's been our history frankly. I think we've been doing that and sort of improving our cash flow throughout the year. I think the whole organization from sort of the business side to the program management side, all has that as an objective and that's something that we strive for very hard. So while not obviously embedded in the numbers, I think that's something that we look at very earnestly at every opportunity to improve the cash terms we have going forward, and I assure you we'll do that throughout the rest of the year and we'll keep you apprised of our progress for the next three quarters.

Marillyn A. Hewson

Let me just speak to portfolio, Jason. Your question around we have the right mix and what are we looking at over the next few years, I would say if we just look at how we've built the backlog over the last 40 years, that demonstrates the strength of our portfolio in recent years. And as you look at the situation with the domestic budget, with the U.S. budget and our portfolio and the ability for our customers now to be able to focus on their priorities, I think we're well aligned. I'm very happy with our portfolio. It looks like it will be well supported in the budget and we know that we have strong demand internationally for our missile defense, for tactical aircraft, air mobility, the whole range of our primary platforms that we offer. Even we're looking at opportunities for the Littoral Combat Ship variant and as well as the range of services businesses within IT and cyber security and the communication series. So I'm very happy with the portfolio. I think we're in very good shape for the next few years and we'll continue as we always do to assess it and adjust it as we need to. But at this point, I think it looks very good.

Operator

Thank you. Our next question comes from Rich Safran of Buckingham Research. You may begin.

Richard Safran - Buckingham Research Group

Thanks. Good afternoon.

Marillyn A. Hewson

Good afternoon.

Richard Safran - Buckingham Research Group

I wanted to ask the capital deployment question. Look, at one point I think you were looking at possible mix shift, maybe between dividends and share buybacks. For 2014, are you still remaining committed to the dividend increases? Any thought here on consideration on M&A? Just looking for any update on how you're thinking and what is – really what I'm interested in here?

Bruce L. Tanner

Thanks, Rich. I'm not quite ready obviously to declare a dividend increase. We meet as a matter of course every September with the Board of Directors, so that's when we discuss potential dividend increases and that will be the pattern we do this year. So we've been – obviously it's pretty heavy on the dividend increase capacity here. I'd like to think that we have the fire power to kind of continue to do that going forward. When you look at the cash flow that we generated last year and the cash flow this year, that our expectations of recovery of pension contributions in particular in addition to the normal operating cash flow in years to come, I think that gives us the opportunity at least to do that. So we gave guidance and/or embedded in our guidance this year was a little over $1 billion, more than $1 billion of share repurchases. That's just to offset dilution of share count. And you should think of that – I may get these numbers slightly wrong but I know I'm pretty close here, so we've got roughly 9 million to 10 million of shares outstanding at the end of – I should say options outstanding at the end of 2013. We had roughly 10 million options exercised in the year 2013. We kind of assumed a lower level than that in 2014. Think about maybe half of that or little less. And combined with, I will say, normal matching in our 401(k) which we do through share count matching and our executive compensation is probably another 3 million shares or so. So it's probably about 8 million. I may have the numbers slightly wrong, but I think I'm pretty close. 8 million shares, $150 million bucks a share, it's probably about $1.2 billion or so of share repurchases. We will offset any share count dilution that's caused by any additional options that are exercised above that level and then as I said in my opening remarks we will try to be opportunistic throughout the year for additional share repurchases beyond that.

On the M&A side, we're constantly looking at that. We don't -- obviously we're not going to comment on anything until we've actually close on a deal, but that's always a possibility. I think we've been successful with the strategy we have used in the past. I don't see any state of body [ph] lists that would change that strategy going forward and that's probably about as much as I can say on that right now Rich.

Operator

Thank you. Our next question comes from Ron Epstein of Bank of America Merrill Lynch. You may begin.

Ronald Epstein - Bank of America Merrill Lynch

Yes. Hey, good afternoon.

Bruce L. Tanner

Hi, Ronald.

Marillyn A. Hewson

Good afternoon.

Ronald Epstein - Bank of America Merrill Lynch

Bruce, just wanted to try to better understand the estimates at completion, the EAC whatever you want to call it, balance that you guys get, right. So just kind of looking historically, last year it was almost half of your EBIT. And when I look at your peer companies, General Dynamics, Raytheon, Northrop, how sustainable is that? How do we think about the EACs over time? And just if you can give us some more color on that -- I mean, I guess what I worry about is if that gap were to start to close, what's that mean? Why is it so high now, that kind of thing?

Bruce L. Tanner

Yes. Well, thanks Ron, good question. So I think if you look at our historical -- first off let me comment, I think you're higher at the level of profit adjustments as a percentage of the total earnings than what we really experienced. So last year I just looked at this not too longer, we were around 36% or so, I believe the total earnings of segment EBIT. Excuse me, not total earnings, but segment EBIT was in the form of the profit adjustments. That's not sort of out of family with what we experienced on sort of a steady-state basis. I mean if I look -- as I look forward to the planned level of 2014 adjustments, it's not far off of that number.

I will tell you almost every year when we have a good year, obviously that number grows from our initial plan and I sure hope the best what happens this year as well. So I don't know exactly how to compare us with everyone else Ron. I suspect we have different sort of philosophies as far as starting positions, on booking profit, on contracts. Everyone has got a different lifecycle in their own portfolio as far as whether they're way down the learning curve and have any new development or concurrent development going on with production that would suggest maybe starting a little lighter booking rate. Some folks are further down selling only international activities where you're at a pretty good idea what's your products costs by that point of time, you can probably start up booking at a higher profit level, which would make you have lower step-ups, lower profit adjustments. I think ours is more comparable to us as opposed to anyone else and I don't see an issue at the levels we're talking about for that diminishing going forward.

Operator

Thank you. Our next question is from Peter Arment of Sterne, Agee. You may begin.

Peter Arment - Sterne, Agee & Leach, Inc.

Yes. Good afternoon Marillyn and Bruce.

Bruce L. Tanner

Hi Peter.

Peter Arment - Sterne, Agee & Leach, Inc.

Bruce, could you give us an update on kind of the skyline of how the F-16 and the C-130 are looking? Looking out, obviously you mentioned the C-130 in terms of domestic order potentially coming, but what else does it look like? You've got two very mature platforms here that seem to be trending down in volumes and affecting the mix shift here in margins?

Bruce L. Tanner

Yes. Good question, Peter. So actually I think calendar year 2014 we're actually going to see an increase in the deliveries of F-16s compared to what we delivered last year. So in 2013, we delivered 13 F-16s. I would expect that we will be north of 15, maybe 16, 17 aircraft delivery in the year. Our C-130 program, and I should say those deliveries will probably go back, I think of it probably in the one per month level for a couple of years. But I think our backlog on the F-16 program today is through 2000 -- I'm trying to do this from memory of course, 16, 17, somewhere in that range. I will get that covered before the call, before we are off from the call. The C-130 deliveries, we did 25 last year. We kind of said that the rate will be building with C-130s going forward is 24 a month. I'm real confident, particularly when you talk about the addition of multi-year aircraft at the levels we talked about. Again, 79 aircraft is what the -- just the U.S buy is on that multi-year program. And that's going to enable us to continue with that 24 aircraft per year level for quite a while. And I just remembered that I think the F-16 deliveries right now go up to almost the end of 2017. So -- and again you should think of that there is probably one aircraft per month for the F-16 and roughly two aircraft a month for the C-130 for sort of that period through that timeframe.

Operator

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

Joseph Nadol - JPMorgan Securities LLC

Thanks. Good afternoon.

Bruce L. Tanner

Yes.

Joseph Nadol - JPMorgan Securities LLC

Marillyn, congratulations on a good -- a very solid first year. My question is to you. I was wondering if you could maybe give your impressions on maybe a couple of things you learned about the company that maybe you didn't know a year-ago or your impressions after your first year? And then perhaps more importantly going into your second year what are a couple of goals that you have that are specific to 2014 for Lockheed Martin that, more specific than just meeting our financial goals and that sort of thing. What do you really want to get done this year?

Marillyn A. Hewson

Well, thanks for the compliment there Joe. I mean, that's a team sport in this company. So great credit goes to the entire team for what I would consider exceptional performance for the year. It has been a very strong year. And I think what we did in the past year has really positioned ourselves for continued success and a lot of work that the team has done or has been very proactive in strengthening our core business and our international business.

We have rolled out what we call Lockheed Martin International, which is a leadership focus and resource focus at the enterprise level to grow our international business. We already do a lot of business internationally in over 70 countries, but we want to put a concerted focus on that from an enterprise view and bring the full depth and breadth and strength of our portfolio to the international marketplace.

So that is something we initiated in the middle of '13 and that will be one of the imperatives that we will be focused on as we move forward in 2014 and beyond. Another thing that we initiated in a great way, we've been on this path, but we took it to another level with our proactive steps and streamlining our operations and improving our cost structure.

And as Bruce went through, we announced several things in the fourth quarter. We've been on that path, but we took it to another level of looking at our capacity utilization relative to what we see as our workload and making sure that we remain competitive and have that competitive position as we continue to grow in the future.

And then the third element that we've been focusing inside and outside the corporation on is our view of being a technology leader and our innovation. We talk about innovation with purpose because it's -- the missions that we support in our company are what attracts people to Lockheed Martin to work in this company because we do some of the most important work in the world.

But its work that involve very interesting and complex solutions that we bring to customers, which means a lot of innovation and invention that our company does and we are going to stay focused on delivering those innovative solutions to what are the needs of our customers today, but also as we look at what their needs are for tomorrow. So we are continuing to invest in research and development and continuing to keep a climate for our workforce where they -- it's an innovative culture that continues to focus on that.

As I said earlier, I think we've got the right portfolio and the business in terms of meeting our customers' needs. We will constantly look at keeping that portfolio relevant, continuing to invest in the things that we think our customers going to need. So being that leading technology provider of doing everything from fighting cyber criminals to the fifth generation fighter that's addressing unique in needs around the world.

So my focus as we continue forward as a company is that we're going to continue to our strategy that has been working focused on our core and international business and deliver those innovations while at the same time maintaining a focus on affordability and streamlining our operations. The last thing I would add is that we have a strong focus on making sure that we're listening to our customers and that we are actively engaged with them on an ongoing basis, so that as their needs change and as they face additional complexities whether it's budget pressures or global security challenges that we understand what their needs are and that we're there listening to help adjust those needs with the products and capabilities that we can bring forward.

Operator

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

Carter Copeland - Barclays Capital

Hi. Good afternoon and good quarter.

Marillyn A. Hewson

Thank you.

Carter Copeland - Barclays Capital

Marillyn, I want to ask about something sort of bigger picture. I think you've mentioned now the quality of the portfolio, I think you mentioned a couple of times in your prepared remarks and in your response to several of the questions so far. Just seeing the pickup on that as sort of a theme and I wondered if you might elaborate on that and specifically and how you think the performance differentials between you and your peers might actually play out over the coming years and how you think about balancing that fine line between what has been a pretty cost focused and affordability focused strategy to perhaps one that's more revenue focused and perhaps technology focused as you just mentioned? Is there a – am I catching a sort of shift in how you're thinking about running the business relative to maybe the way your competitors are thinking? Anything to elaborate there would be helpful.

Marillyn A. Hewson

Sure. Thanks for the questions. I don't think you should sense a major shift in our strategy. We have a strategy that we've been working on relative to our core business. It's just where we are going to market as we look at what's happening in the domestic business and budget; it's going to be flat for the next couple of years. So we recognize in order for us to maintain and hopefully grow our businesses to align with where our customers are, have the budgets and have the needs for our products which is in the pivot to Asia as well as in the Middle East. So a lot of things that we offer in those regions is because that's where the demand is and actually that's where U.S. government services are focusing, and that's a good integration where we can bring our products and capabilities. Relative to the portfolio, I mean I think if you just step back and look at – let's begin with the Joint Strike Fighter, the F-35, that's a very significant element of our portfolio. It is one that represents 16% of our revenue in 2013 and it's going to continue to grow. We've got the eight international partners. We have security cooperation partners with digital in Japan. We have other countries that are looking at it with South Korea, with Singapore, with others that I think will – that are interested in the Middle East that have expressed their interests. So I still see that as something that is a differentiator for us because no one else has a fifth generation fighter and it's a unique capability that is needed around the world. At the same time, the F-16, as Bruce was talking about the backlog on the F-16, there is still a strong demand for the F-16 around the world and there are opportunities for upgrades. We're doing the upgrades in Taiwan, opportunities in Singapore and we'll see other opportunities here. So that piece of our business continues. Missile defense in that arena with THAAD, PAC-3, the Aegis Systems, MEADS and our opportunities for MEADS, all affordable systems that have the full domain and very strong in terms of air and missile defense. And then the whole satellite components to come with that as well. Our targeting systems with Sniper, MTAD, Arrowhead, those also continue to be in demand around the world; cyber security, C4ISR. If you just step back and look at this portfolio and the range of capabilities we have and the depth and breadth and experience that we have, I really stand behind the fact I do believe we have the best portfolio, the best positioned portfolio for the needs today. And we're not going to rest on our laurels, we're going to continue to invest in that portfolio and continue to keep it relevant and stay abreast of where our customers are moving and invest in technologies and things that take them forward. You've probably seen similar things that we're looking at in terms of longer range opportunities, directed energy or advanced capabilities and manufacturing advance materials in the energy space. So we've got a lot of things that are more in our adjacent areas and areas that both in our core are adjacent that we're going to continue to invest in. But the basic core portfolio that we have is well positioned and I think well supported by the U.S. budget and great demand internationally.

Bruce L. Tanner

Carter, the only thing I might add as I'm listening to Marillyn there is I think we've got a really interesting sort of situation where the products that we are developing are not – and that we anticipate the ability to sell in production and particularly to sell internationally are not long-tenured products. We've got capabilities. We have some of those as well, obviously with C-130 and F-16s, but no one has sort of the current air missile defense products that we have in terms of MEADS, in terms of Littoral Combat Ships from a naval perspective, in terms of an F-35. So we're kind of uniquely positioned that a lot of our products are through the developmental cycle. There will be quite a bit of time before you see new products develop just because there's going to be a delay in new starts with the fiscal pressures that we're facing. And our portfolio is available now and has sort of got the good backing of the U.S. Military behind us. Now I think that's got us very uniquely positioned.

Operator

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

Noah Poponak - Goldman Sachs & Company

Hi. Good afternoon, everybody.

Marillyn A. Hewson

Good afternoon.

Noah Poponak - Goldman Sachs & Company

I don't know if this is for Marillyn or Bruce or both, but it feels to me like one of the bigger debates in this space right now is if a company like Lockheed Martin can forecast that revenues will be flat in 2014 despite all of the churn mostly downward in the defense budget, argument one is that that's largely everything you're talking about with the portfolio being differentiated versus the industry. Argument two is that that's almost entirely the lag effect between the decline in authority in 2012 and 2013 and that there is another shoot or drop, if you will, on the top line in 2015 and 2016. And I know you're only starting to talk about '14 today officially, but I thought perhaps now that you have a '14 budget and some discussion of the '15 request, maybe a little more insight into the Pentagon strategy moving forward, if you could shed a little bit more light on which of those you'd think it is?

Bruce L. Tanner

I'll take the first shot and Marillyn can provide some color commentary on that. But it's an interesting question. I think it's one that we've talked about ourselves internally as well. And sort of the heart of your question I think is so have we bottomed out or not? And you posed two different scenarios there. One is the value of the portfolio and then sort of the lag effect of the budget authority. I do believe as Marillyn has said quite vividly that the portfolio that we have is differentiated, I think that is what's enabled us to survive without having huge drops year-over-year. I think the part that again people are missing when we talk about the effects of sequestration, where we are right now is our portfolio pre-sequestration would have been growing in these periods of times. So we are seeing reductions, but the reductions are taking us back to sort of a flat scenario as opposed to taking us to a negative gross scenario. And I get the point, believe me, that our outlook for 2014 is below '13 and '13 was below '12, but going forward from '14, '15, I think we're going to be – hopefully, we've hit the bottom. If not, I think we're very, very close to that between '14, '15. And if you just take a look at the budget agreement that was signed this past week and a half or whatever that provided the incremental benefits over a full sequestration for fiscal year '14 and '15, that essentially makes the DoD top line kind of flat. And then if you take a look at FY '16, under sequestration today that actually shows a slight increase over the FY '15 levels as we sit here today. So I'm, I'll say cautiously optimistic. We've sort of reached bottom and that we have – at least for Lockheed Martin, we have the opportunity to see some growth in the not too distant future.

Marillyn A. Hewson

I don't have much to add to that. We have looked at it closely. Of course, the DoD budget is something we watch closely and so as we saw the bill get passed and looked at the outlook, I mean, we're basically flat for the next two years within that budget does start to increase. So, when you take that coupled with our strong portfolio and the ability for the DoD to decide where they want to spend their money as opposed to it being an across the board cut, we think we are well positioned and allowing them to make those kinds of decisions through a non-sequestration environment is what, how we're going to hold up well and we will be differentiated. So, I am of the mind that we're -- as Bruce said, we have looked at it a lot, we are at the bottom or near the bottom and we should see an increase in the next few years.

Jerry F. Kircher, III

Shannon, this is Jerry. I think we've cover up an hour. Maybe one more question, then we'll turn it back to Marillyn for final thoughts.

Operator

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

Howard Rubel - Jefferies & Co. Inc.

Thank you very much. Good afternoon. Marillyn, you had a chance probably to go through the '14 budget in a pretty fine detail now, and if you look to your point, you clearly have a lot of important foundation programs that do make Lockheed differentiated. Could you address a little bit where some of the shortfalls are versus what's it like? And also, flat in one sense is good, but the reality is you still have some inflation, so you have to find productivity and other measures to make up for that. So really the question is, sort of where are the holes you have to fill which are probably a couple and then what about more productivity measures beyond what you've done?

Marillyn A. Hewson

Well, first of all I mean, there is strong support for our program as we've looked at it across the entire portfolio and we've looked at every one of our major programs to see how they hold up, and I would say in large measure that we are strongly supported. The F-35 showed some cuts, but it appears that those are primarily in the government fund side. If you look at our multi-year order on Orion, the opportunities we have for multi-year on C-130J and it's just a matter of getting through that process. I think we are in a good position. In terms of your comments about inflation and continuing to stay after managing our cost, we are absolutely going to do that. This is a team that understands that, this leadership team is well experienced of that and we work it every day and we'll continue to do so. We're not going -- we've been, I think very proactive over the last several years and we've recognized that, that is an ongoing thing to constantly stay abreast of what our cost positions are and streamline our business so that we can continue to be competitive.

Bruce L. Tanner

But I assure you Howard (audio break) Marillyn is relentless when it comes to her (technical difficulty).

Marillyn A. Hewson

No, we’re not perfect as any business is not perfect. But when we look at the breadth of our business and the ability to bring our very talented workforce to bear with the technologies and opportunities that we have to keep our business relevant, there's no program that's out there, no major one that's sun setting and we look at our production rates there either maintaining or they're growing across our major programs. So, I think I stand by my position. We got a strong portfolio and we're going to weather this flat period and then continue to grow.

So let me just wrap up for the call today. I appreciate all the questions from all of you today, and I just want to conclude by saying again that, I believe that our 2013 results mark another year of continued high performance in a challenging environment, and they demonstrate that we continue to be well positioned to provide solutions to our customers and value to our shareholders. If you look at our records backlog of work, our robust cash generation, our solid balance sheet and the exceptional execution of our employees, I'm confident that it's going to continue to propel our corporation forward in 2014 and beyond. And it's really due to the integrity, the performance and the innovation of our workforce that we're going to be able to support our customers in their essential mission.

So, thank you again for joining us on the call today. We look forward to speaking with you in our next earnings call in April. Shannon that concludes our call today.