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

Jerry Kircher

Thank you, Sean, and good morning. I'd like to welcome everyone to our First Quarter 2011 Earnings Conference Call. Joining me today on the call are Bob Stevens, our Chairman and Chief Executive Officer; and Bruce Tanner, our Executive Vice President and Chief Financial Officer.

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

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

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

Bob Stevens

Thanks, Jerry. Good morning, everyone. Thanks for joining us today. I'll proceed on the basis that you've had an opportunity to read today's earnings release for first quarter results, which I felt provided a good start for 2011, including booking over $12 billion in orders that expanded our backlog to over $80 billion while achieving sales growth of 3%. Our focus, operational tempo, quality and overall execution remain strong. We were again able to generate exceptional cash flow with cash from operations of $1.7 billion. This robust focus on cash generation continues to be a key element of our strategy to provide sustained return to shareholders while still ensuring appropriate investments in our business.

Since we last spoke with you in January, the dynamic change in world events continues to demonstrate the growing spectrum of complex global security requirements faced by our country and our customers. In addition to ongoing operations in Iraq and Afghanistan, instability on the Korean Peninsula, an emerging China and a threatening Iran, just this past quarter, we've seen unprecedented civil demonstrations for democratic reform across

Northern Africa and the Middle East, tragic earthquakes and tsunamis in Japan and New Zealand, requiring an instant humanitarian response, and actions to protect civilians in Libya from the risk of widespread massacre by government forces. These events and others underscore the ongoing and at times unanticipated critical missions that our military must fulfill.

With this velocity of change and the volume and volatility of global events continuing to expand, more demands on our military are likely. For our company, these events are having the effect of changing some of the near-term priorities of our international customers, delaying, for example, orders for F-16s in Iraq and C-130Js in the United Arab Emirates, while the need for an integrated air and missile defense system in the UAE has been reemphasized and elevated.

On April 15, agreement was reached on the FY '11 appropriations bill ending the continuing resolution that had been in place since the start of the fiscal year that began last October. The final bill signed into law by the President includes $531 billion for DoD-based budget authority and $158 billion for Overseas Contingency Operations funds. The resolution of the FY '11 Appropriations Bill was particularly important because it provides the resources and visibility our customers need to maintain their operational focus.

With funding issues resolved, we're also able to reaffirm our previously stated financial guidance for calendar year 2011. Congress is now turning attention to the fiscal '12 defense budget where the President has requested $553 billion for the base budget and $118 billion for Overseas Contingency Operations. However, as we've already seen, there'll be much more discussion about the right levels of security investment.

Let me turn to some operational highlights and start with a view of the development, production and sustainment of the Joint Strike Fighter, which is showing good progress. On the development program, momentum continues to build in flight test. In the first quarter, overall, we completed 199 flights against the plan of 142, achieving the highest quarterly level to date. The maturity of the STOVL aircraft is showing marked improvement, completing 101 flights versus a plan of 62, including 61 vertical landings. The conventional and carrier variants are also performing well, and overall, test point productivity is ahead of plan and software development continues to meet the revised baseline.

On the production program, progress also continues. The first 2 production aircraft flew for the first time in preparation for a delivery to the United States Air Force that we anticipate will occur over the next couple of weeks.

Low-rate initial production continues to accelerate with 62 aircraft in backlog, and we look forward to placing Lot 5 under contract later this year.

Working with our customers and our suppliers, we are turning our attention to lowering the cost of producing the jets and the cost of their sustainment over time. In the quarter, Aeronautics also received a $725 million contract extension to provide performance-based logistics for the F-22 Raptor. This contract extension builds upon our initial contract award in 2008 and is focused on a fleet-wide sustainment program for all 7 operational bases in close partnership with the Air Force. The goal here is the highest possible aircraft availability and performance at the lowest possible cost.

Turning to Electronic Systems. 2 key new business awards this quarter merit special attention. In ballistic missile defense, we received a contract for $790 million to produce additional Terminal High Altitude Area Defense or THAAD weapon systems for the Missile Defense Agency. This order will double the number of THAAD systems in the U.S. inventory from 2 to 4 batteries. Recall that THAAD was activated in 2008 and is the only missile defense system with the operational flexibility to intercept both inside and outside the atmosphere, providing a versatile capability.

THAAD is a key element in our nation's ballistic missile defense system and has generated significant interest by international customers as they seek a proven missile defense capability to counter the growing proliferation of offensive missiles. Here again, we see an excellent illustration of how international work can stabilize programs and where additional volume can directly contribute to cost reduction and affordability goals.

In our Littoral Combat Ship program, we received a contract from the United States Navy for $376 million for construction of the second of 10 ships awarded to the Lockheed Martin team in December of 2010. The Navy's 10-ship award procurement plan provides stability of the program allowing industry to more efficiently meet customer needs for an affordable, multi-mission surface ship. Beyond the 2 ships in our new contract award, our second LCS ship at Fort Worth remains on schedule and on budget for delivery to the Navy in 2012.

Moving to the Information Systems & Global Solutions. We achieved a key operational milestone this quarter on the next-generation identification system for the FBI. The FBI announced achievement of initial operational capability on the NGI systems' ability to process fingerprint identification more effectively and more accurately, which will help in solving investigations faster, preventing future crimes and apprehending more criminals and terrorists. We're really proud of the ongoing partnership we've had with the FBI since 1999 in this key area of law enforcement.

In Space Systems, we received a contract from the United States Navy for $340 million for the fifth satellite in the mobile user objective system or MUOS constellation. When operational, MUOS will replace the current ultra high-frequency follow-on system and provide 10x more capability in assured communications, including simultaneous voice, video and data for forces on the move.

Operationally, a key milestone was achieved with the shipment of the first Orion spacecraft structure from the New Orleans facility to our Denver test facilities. This delivery milestone supports the objective of Orion's first crewed mission by 2016. Across our business, we're focused on program execution and cost reduction while maintaining quality. This is a challenging environment. But we have a strong and well-positioned portfolio of products that address the critical need of domestic and international customers in a complex global security environment. And we have talent throughout our workforce and a culture that challenges one another to do better and set the bar higher.

I'm very grateful to be able to work in a community of people who recognize our ability to contribute and want to do more. Let me turn the call over to Bruce now to provide some additional detail on our first quarter financial results and our outlook for 2011, and then we'll open the call for discussion. Bruce?

Bruce Tanner

Thanks, Bob, and good morning, everyone. As I highlight our key financial accomplishments, please refer to the web charts we've included today. Let's begin with Chart 3 and an overview of our first quarter. We grew sales for the quarter by 3%, which is noteworthy given that the continuing resolution lasted beyond the end of the quarter.

Our EPS from continuing operations grew by 12% compared to last year, driven by higher sales volume, higher segment margins and lower share count. We generated $1.7 billion in cash from operations, a record level for the company, surpassing the previous record from the first quarter of 2010.

We also grew backlog to more than $80 billion with a significant portion of the growth driven by additional efforts to complete the F-35 development program. So we're off to a strong start in 2011. Turning to Chart 4. We'll look at sales by the 4 business areas. 2 of the 4 business areas grew in the quarter, led by Aeronautics with 8% growth and Electronic Systems with 6% growth. Aero's growth was driven by the F-35 and C-130 programs, while Electronic Systems grew in all 3 lines of business. Both IS&GS and Space had lower sales in the quarter, with IS&GS reflecting the absence of the U.S.

census activity that finished last year. Space Systems was lower due to reduced activity on the Orion crew exploration vehicle and lower sales for the External Tank program resulting from the upcoming end of shuttle operations.

Moving to Chart 5 and our earnings per share in the quarter. Our earnings from continuing operations grew 12% over last year's level. Adjusting for the FAS/CAS impact to both quarters and the Medicare Part D charge that occurred in last year's first quarter, our EPS grew by 9% with the Medicare Part D impact essentially offsetting the increase in FAS/CAS expense between the 2 time periods. As I said earlier, the resulting increase was driven by higher sales volume, improved segment margins and lower share count compared to last year.

Looking at cash from operations on Chart 6. Cash generation was very strong at $1.7 billion, again, the highest cash the company has ever generated in a quarter. With our capital expenditures staying consistent with last year's level, free cash flow of $1.6 billion was also a record. As you would expect, cash generation in the quarter will be lower as we progress throughout the rest of the year. I would expect the second quarter to be our lowest for the year as we had over $1 billion in planned disbursements including 2 tax payments, a pension contribution and the payments owed under the voluntary executive separation program.

On Chart 7, you will see our recent backlog levels compared with the results this quarter. Again, we grew backlog to the $80 billion level driven mostly by the additional developmental efforts for the F-35 resulting from the recommendations of the technical baseline review. Looking forward, I would expect backlog level at the end of the year to be very close to where we ended the year in 2010.

Chart 8 shows 15 of our largest programs, which represent around 45% of our sales in 2011 and how we view the future opportunities for growth in these programs over the next 2 to 3 years. As you can see, with the exception of the F-22 program, we believe that these large programs are either stable or growing in the near future. Going forward, with the future budget pressures we are likely to face, the strength of the portfolio is going to be the key determinant as to which companies can experience growth in that environment versus which cannot. Clearly, the days of enough budget growth to enable every farm in the industry to grow are over. We believe our portfolio is strong and well-positioned to succeed in that environment.

Moving to Chart 9, we will show our guidance changes in the quarter. We increased both our EPS guidance and cash from operations as a result of the favorable resolution of several prior year tax matters. As a result, EPS was increased $0.25 to a new range of $6.95 to $7.25 per share, and cash from operations was increased by $100 million to a new level of $4.1 billion. I should point out that the resolution of these tax matters actually occurred in the month of April and when you see the impact of these items in our second quarter results, it will be reflected as an unusual event.

Finally, on Chart 10, we summarized the quarter. Again, we're off to a good start in 2011 led by a very strong cash generation, which gives us great flexibility going forward. I think we're well positioned to achieve our goals set for the year, though I would point out that the phasing of some of our objectives, such as cash, will clearly not be linear for the rest of the year. And finally, with the threat of a government shutdown behind us, we can focus on meeting or potentially improving upon our financial outlook for the year.

With that, I think we're ready for your questions. Sean?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Richard Safran with Buckingham Research.

Richard Safran - Buckingham Research Group, Inc.

I just wanted to ask, if you look at your share buybacks just relative to prior years, the $3.5 million that you did this quarter just appears to be a bit lower than you what you've done before. So I just wanted to know is this reflecting some conservatism in your part. If you could also -- if you could comment on what expectation should be for buybacks for the rest of the year.

Bruce Tanner

Thanks, Rich. This is Bruce, I'll answer that one. To begin with, we did $281 million of repurchases in the quarter. So we're actually ahead of the pace to achieve the $1 billion in repurchases that we had in our guidance. Having said that, it probably was somewhat lighter than it might have been otherwise, and probably there were a couple of reasons that drove that. First, as we near the end of the quarter, the first quarter, it became clear that the government shutdown was a real possibility. And frankly, we believe that a less-disruptive path both for our employees and our customers was for us to sort of just press on business as usual. We believe that a shutdown, if it actually occurred, would be short-lived, but we wanted to have enough cash to fund the activities in the event that, that a shutdown did actually occur. And right in the middle of this, we knew we had some large disbursements that need to be made in the second quarter such as the ones I mentioned, the best payouts, the taxes, 2 tax payments and a pension contribution, and those needed to get paid whether we were getting paid during government shutdown or not. So we wanted to have the flexibility to deal with those as well. So overall, we've not changed our approach just to how we plan to return of cash to shareholders either for repurchases or, for that matter, for dividend increases as we look later this year.

Operator

Our next question comes from Jason Gursky with Citi Investments.

Jason Gursky - Citigroup Inc

Just a follow-up to that question. You've got $3.9 billion in cash. You've spoken about having $2 billion in excess cash. You're getting set to generate roughly $3.5 billion in free cash this year. At what point are we going to see an acceleration of money coming back to shareholders either through share repurchases or through an increase in the dividend? I think clearly, you've got plenty of dry powder here, so to speak, and I think, as the prior questioner alluded to, I think expectations were that things were going to be a little bit more robust than what we've seen in the first quarter. Can you just talk a little bit about are those numbers right at this point and what you see going forward and getting that excess cash back to shareholders?

Bruce Tanner

Yes, Jason, I'll try that one as well. As I said to Rich's question previously, I think the first quarter was probably a little lighter than it might otherwise been had we not seen the potentiality at least of the government shutdown occurring. I still feel very strongly that we are going to follow suit for what we've done in the past relative to both share repurchases and dividend increases. We always take a look at the dividend increase in our September board meeting. That is our expectation, is that we'll do that again and during that time frame, so you won't see anything happen sooner than that. And repurchases, without getting into specifically what we're going to do on a monthly or quarterly basis, Jason, I think the history of what we've done in the past speaks for what we're going to do throughout the rest of this year.

Operator

Our next question comes from Eric Hugel with Stephens.

Eric Hugel - Stephens Inc.

Just a quick question with regards to sort of what's going on in Japan especially, considering most of your products are so heavily into electronics. Are you having any issues sort of with availability or pricing of electronic components?

Bob Stevens

Eric, this is Bob Stevens. No, we are not. We're seeing no disruption in our supply chain. Of course, as embedded in your question, we're paying very considerable attention to the durability of that supply chain over time. But we're not seeing any disruption here.

Eric Hugel - Stephens Inc.

Great. Thanks a lot, guys.

Bob Stevens

Certainly.

Operator

Our next question comes from Doug Harned with Sanford Bernstein.

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

On the F-35, the program leaderships recently stated that you received only $7 million of $35 million of available award fee last year and also commented that there's about $370 million available this year. Could you talk about what your expectations are now in terms of what you think you can receive, how the program is performing with respect to capturing that award fee.

Bob Stevens

Well, I think the [Vice] Admiral [David] Venlet's comment about earning $7 million of $35 million last year is accurate. We achieved 1 milestone against which there was the $7 million earn out. This year, we have $52.5 million of award fee earning potential that are spread across 5 milestones that we and our customers believe to be critical in demonstrating forward progress on the program and enabling future activities to flow smoothly in this environment. The first milestone is completion of all structural tests, completion of the carrier version, suitability testing at Lakehurst, New Jersey. This is for carrier suitability. Releasing the Block 2 flight test software updated to the flight test program, having the STOVL version, the F-35 B model, engage in C trials and getting that aircraft out to the ship and finally, releasing the Block 1.0 training update to the Eglin Air Force Base training facility. Each of these milestones is achievable. Each of them has $10.5 million of award fee potential associated with it, and it's ours to work toward and earn. And I think we'll be able to discreetly measure progress against that. The remainder of the award fee pool, we believe, through future negotiations will be allocated in a similar way to milestones that are perceived as being critical to demonstrate the performance of the airplane and bring the production airplanes forward into their initial operational capability. We'll keep you advised as information becomes available on how well we're performing against these milestones.

Operator

Our next question comes from Robert Spingarn with Credit Suisse.

Robert Spingarn - Crédit Suisse AG

Bruce, you talked about backlog settling at around the $78 billion at the end of this year that you had at the end of last year, roughly flat. How should we think about this by segment? And Bob, do you see any further portfolio shaping?

Bruce Tanner

I'll start off. Maybe just to give a little color on the phasing of the backlog in total first for the year. I think we're going to probably come down just a little bit in the second quarter from where we are right now. And if you look at historically, we tend to drop -- third quarter tends to be our lowest quarter for orders out of all the quarters of the year, and then we kind of bounce back typically in the fourth quarter. I would expect that we will see a very similar picture as far as the phasing of backlog for the year. As far as by the segments and their concern, I would expect to see that Aeronautics will actually have growth and backlog for the full year, as will Electronic Systems. Space will likely see some reduction in backlog somewhat dependent upon the win or not in the GMDS, the ground-based missile defense system competition that's coming up later this year. And IS&GS is likely going to be a little flattish relative to backlog as from where they ended in 2010. And I'll turn it over to Bob for his side.

Bob Stevens

Thanks, Bruce. I like our portfolio. Of course, we've worked over time to fashion it, to have the content that it has today. We think given the strength of the portfolio, we have the ability to focus on good execution, and if we focus on good execution, we should see future growth. So I don't want to signal to you any unhappiness with the portfolio we have. But as a matter of business discipline and process, we have a continuing assessment of the quality of this portfolio, its relevance in the strategic environment for our domestic and international customers in the markets that we serve today and in the adjacent horizon markets that we might want to become more active in tomorrow. So there is an ongoing process here to evaluate this portfolio and to shape it appropriately. But I don't want to convey to you any dissatisfaction with the quality of the portfolio or our judgment with the substance that we have and the maturity that we have. And given the relevance and priorities of the programs and capabilities to meet demanding customer missions, if we execute effectively, we ought to be able to grow the business and maintain the health of the portfolio.

Operator

Our next question comes from Heidi Wood with Morgan Stanley.

Heidi Wood - Morgan Stanley

Yes, Bob, actually somewhat harking off what you just said, when we dissect the parts of IS&GS, it kind of buried in it, Intel looks like it's trending down, even actually EIG. So there's 1 area where defense budget growth should remain significantly above the total. It's probably in Intel, which sort of raises the question, what areas are you losing ground on or are you satisfied with internal performance and your wins there, or is there a customer problem, or is it a budget timing issue?

Bob Stevens

Well, I think there's a little bit of maybe all of the above. It's got a lot more to do with the specific program of GeoScout maturity and the delivery of mission components under the GeoScout program, which is trending the Intel down. I mean, you're correct in your assessment that Intel is trending down. But let me say again, that the quality of the Intel work that we're doing and the significance of that work to a broader intelligence community customer is a great value to us and great value to them. So while we're seeing a little downward trending here, that shouldn't really convey a dissatisfaction on our part with the overall Intel community. And Heidi, I think 1 of the things we all look at in the future is how exactly will the great need to address the cybersecurity environment mature over time and how can we, with our extensive experience in the cyber domain, not just with the Intelligence communities but really across the entire breadth of the federal government, how can we bring that experience in a greatly focused way to make real contributions to greater security in the cyber domain. That's a question that I think is getting answered with the passage of time. There's not a discrete answer today, but we are focused on that. And in 2 ways, I mean there's the infrastructure component. What modifications will be necessary in the cyber domain to assure safety and security there, and then in mission areas, the applications part where we have considerable strength across the company. So I think that will also be a part of the overall intelligence community story that we will write and tell over time.

Operator

Our next question comes from Joe Nadol with JPMorgan.

Joseph Nadol - JP Morgan Chase & Co

My question is on the 8-K you filed a few days ago on compensation. And there were 2 metrics that were mentioned. One was operating cash flow. It's going to be very important this year then there's ROIC. My questions are, why were these 2 selected in particular? And then obviously, operating cash flow is very easy for us to track, but I'm wondering if you could provide -- since you no longer provide ROIC in your earnings statement I'm wondering how that's tracking for the year.

Bob Stevens

Yes, the reason it was done, Joe, is that our management development compensation committee specifically and the board generally do very much want to listen to our investors, to understand their specific points of view about tying our compensation to performance, and the board is very serious about this, and I hope you all have a sense that they are. And in listening to the discussion associated with performance, they thought it was advisable for me personally to tie my eligibility for options to, in essence, a double trigger, not just options with best over time, but having to meet very specific performance-based objectives. And I'm entirely okay with that because this is a pay-for-performance environment for me and every member of the leadership team here. The 2 parameters, operating cash and returns on investment, were selected because we and the board believe that they are the most critical drivers of shareholder value, and I will tell you if you like $1.7 billion in operating cash in the quarter, if you like the allocation of cash and the way that we allocate it to drive superior returns, I think that you and others would want to hear a management team talking in terms of shareholder value in addition to delivering value to customers. And I think that closes the equation pretty well. So that is why it is done. We do give you a significant information on our cash generation and that we can certainly provide information about returns on invested capital.

Bruce Tanner

Joe, I'll piggyback from what Bob just said. The metrics that we use that we have been using in the past for our long-term incentive program have always been cash and return on invested capital. The ROIC portion of that has always been an annual metric. That's what the metric will be for what was filed on the 8-K as well, and so we're not going to show the quarterly performance, if you will, because it's not necessarily aligned with the annual numbers that we've put in place for the compensation. We will definitely show that as we get towards the end of the year in terms of the expectation and the actual ROIC performance for the year such that you can compare that back to the 8-K.

Operator

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

Cai Von Rumohr - Cowen and Company, LLC

Bob, you made some comments about the push out of F-16s and C-130Js and maybe the mentioned potential acceleration of air defense. Could you give us a little bit more color on what's happening there, what stuff is moving on and why, what stuff might be moving forward and why and timeframes in which we might get some of these orders?

Bob Stevens

Yes, certainly, and I don't think you're going to see a wholesale movement in the orders. But quite specifically, Cai, we've, in conversations, been advised by the leadership in the United Arab Emirates that they want to postpone their order placement of 12 C-130Js and take that discussion up at a future time. Within that very same discussion or in that environment around those discussions reemphasized and elevated the need for an air and missile defense system because of the observation of the proliferation of offensive missile systems in a region of the world that, as we all see today, is highly volatile and risky. With the case that I mentioned in Iraq, around which there was an LOA for 18 F-16 aircraft, the Iraqis this year reallocated those funds for domestic purposes rather than security purposes. Our sense here is that we will reinvigorate those discussions about the 18 F-16s during the balance of this year and probably have more to talk about in 2012 about that likely order placement. These are rough approximations. So I would think the air and missile defense is going to hold the schedule and that the C-130s will be phased out through the Emirates. The good news about C-130s I think generally is there are pretty high-demand aircraft that are giving really exceptional service in their mission capabilities, and then we'll come back and talk to the Iraqis about F-16s later on this year presumably for an order next year.

Operator

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

Robert Stallard - RBC Capital Markets, LLC

Bob, I was wondering if you could comment on what you thought the impact of the CR was this quarter and how you think the rest of your year will now progress as the government sort of gets back to work.

Bob Stevens

Rob, well, I think, and hopefully we convey this to you clearly, as we were concluding the government fiscal '10 and watching the activities for government fiscal '11, we anticipated the likelihood of a continuing resolution. Of course, the difficulty for us and you and everybody is estimating the duration of the continuing resolution. We and others make assumptions about what the climate is like and what the likely debate will be and what the timing around a conclusion of the CR would be. We did not think for example a CR would be in effect for the full year. But we did think the CR would be in effect for a while. We incorporated those assumptions about timing and content and the ability to proceed into our planning, into our guidance, into our discussions with you. As Bruce mentioned earlier in his remarks, what we also elected to do believing that sometimes CRs don't end on a date certain but have some additional extensions. We felt it would be unacceptable and ill-advised to have a disruption in the focus of our professional teams as we are executing against our program commitments for the want of extensions to the CR that we believe wouldn't be long-term extensions. So I think what you were seeing are our ability to reaffirm our guidance is that our assumptions were pretty close to the mark as to the overall timing and content, had that continuing resolution not resolve the way it had on April 15, we'd be having a different conversation with you today. And I'm quite sure our customers would be subjected to an enormously more difficult operating environment because under these CRs, the customers are compelled to replan and replan and replan and replan almost on a cash to cash basis for the content of their operations, which is enormously demanding and time-consuming for them. So we were really gratified that the CR was resolved foremost for our customers' interest and then also the resolution of that CR was more or less right on our timing expectation for the resolution of that CR. We've been asked, what's the likelihood of a CR in 2012 and we don't know, and we'll probably have that conversation as we talk more about our year unfolding with you.

Operator

Our next question comes from George Shapiro of Access 342.

George Shapiro - Citi

Probably for you, Bruce. If I look at the Aeronautics margin this quarter, it was $10.4 billion and the guidance is basically about $10.7 billion and you disclosed a lot of details to what went up and what went down. But my question is was there any change in the booking rates this quarter? And how should that margin progress for the rest of the year, and then also if you might give an update on what revenues you're looking for, for the F-35 given the change in schedule.

Bruce Tanner

Well, thanks, George. I hope you were pleased. It sounds like you were with -- we did change our press release somewhat to have a little more detail into the programmatics by the segment. I hope that was useful and to all the callers today. Relative to Aero and the margins in the first quarter, I tried to tee up in the January call that the delivery of C-130 and, in particular, F-16s, were more back-end loaded in the year. They were not linear by any stretch. And so for instance, C-130s, 2/3 of deliveries on C-130 are on the second half of the year and more than 50% of F-16s are in the second half of the year. And so to a large extent, what you're seeing in the first quarter is sort of the absence of what's going to happen for the rest of the year relative to the higher margin C-130 and the higher margin F-16 business. There was not a significant difference between profit adjustments first quarter last year versus first quarter this year. The 1 exception to that might be last year, if you recall, we did have in the early Low-Rate Initial Production contract from the F-35, we actually had some step-ups a year ago. And those were not replicated in the current quarter. Other than that, again, I think we're fairly consistent from an overall booking perspective quarter-to-quarter. As far as U.S. F-35 growth for the year, I still think we're looking at just about $1 billion of total growth from the 2010 level of F-35 sales to what we're expecting to see in 2011. And you should think of that as being less than, what, probably 45% or so of the sales of the Aeronautics Corporation, Aeronautics business area in total. So growing fairly consistently as we predicted even with the little slower ramp rate on the production in large part because the development contract has, in fact, extended out to the right as well.

Operator

Our next question comes from Howard Rubel with Jefferies.

Howard Rubel - Jefferies & Company, Inc.

Bob, I'd like you, if you could, talk about how the benefits of VESP started to show up in terms of what you're seeing in operational flexibility and improved profitability. And then if you also might address the congressional language in the appropriations bill about eliminating some of these undefinitized contacts and how that might also help you.

Bob Stevens

Yes, thank you, Howard. So we've described to you a series of actions that we began last year with considerable earnest, really oriented around the discussion about affordability and affordability initiatives. We've heard Secretary [Robert] Gates, [Under] Secretary [Ashton] Carter and others in the Department of Defense talk about them, provide some outlines, some general orientation, some specific objectives. We felt it was incumbent on us as partners in these mission areas to develop our own set of affordability initiatives. They involve facilities consolidations, reducing expenses, travel airshows, we just highlighted because it's kind of a higher visibility thing, the voluntary executive separation program and scrubbing all expenditures and all budgets here. The reason is the seriousness of purpose that we know and share about the new reality that we're in where these global security demands are going to stay substantially high and the resources that are available to meet the demands are going to come down, and we need to do our part. I would tell you our sense back then and our sense now is let's get an early start, let's make significant moves on our part on the recognition that will take some time to see the effect of these changes in both the cost of our products to our customers and our ability to generate returns for our shareholders. I'll tell you I think we're starting to see the effect, and it would be, I think, an observation, Howard, that you would find familiar after taking these actions, but there should be more to come. In the interim, we are looking at what additional actions we can take because I think this is going to be an environment where continuous improvement and continuous reduction is necessary. I'll just offer 1 cautionary tone. We've been in this business a long time. I personally have done it a long time. I've gone through a lot of cost reduction initiatives. It's very important not to cut programs in a way that reduce their quality or their ability to perform over time. And I'll tell you some of this can be a little insidious, so we're trying to bring all our experience forward. Because if you cut spares, if you cut CAS or applications in some area, you won't see the adverse effect of those reductions in cost now. But you will see diminished mission capability, diminished operational availability, more cost falling into operations and maintenance because we have a longer sparing cycle and so forth. So I think we are in a good position to communicate our experiences here with our customers, and I think that dialogue is going to be ongoing. So expect more of the same with regard to a focus on cost take out for us. Relative to undefinitized contract actions, I think you know that we would prefer to be in a position of developing a proposal, submitting it and negotiating it fully and completely before we begin the execution on the mission capability that's defined in the contracts. But there are extension fees to date that I think appropriately drive our customers to want to move out with greater velocity and try to do some things in parallel, and that's how you end up with a portfolio of undefinitized contract actions. I think that we can professionally respond in either environment. We're certainly supportive of reducing the number of undefinitized contract actions as the line, which suggests. I think our customers would like to do that, but I also know our customers are faced with some of these enormously demanding challenges where they've got to take actions, change direction, perhaps buy some new things, perhaps change the acquisition of things they're pursuing. And that's what the UCA [ph] is for and I think if they use it judiciously and in a disciplined way, we can certainly contribute in that regard.

Operator

Our next question comes from Myles Walton with Deutsche Bank.

Myles Walton - Deutsche Bank AG

Just a first clarification on the slide that has your portfolio of programs with growth, stable and down. What's the base here that you're thinking about for that growth? And the other kind of clarification is, can you give us some color if, over the last 12 months, the kind of pace of the programs that are in the growth category, which ones have accelerated and which ones have decelerated?

Bruce Tanner

Miles, I'll try a shot at this. I hope you found this chart useful. I think it's 1 of the things that, as we look at our portfolio and maybe the portfolios of others, 1 of the things that we have is a lot of high-dollar programs that a lot of the other peers in the industry do not have. And what we were trying to do with this chart is to give the opportunity to say these are some of the bigger-ticket programs in the portfolio, and this is our view of how these programs are going to perform over the next 2 or 3 years, with the base year to your question being 2011. And our action is even go out and take a look at the budget data yourself and convince yourself as you see fit as to whether or not these programs are appropriately aligned in the categories that we've put them in. But again, these are big drivers of the overall sales in the corporation. I think if I was to go kind of around the horn, if I understood your question on the green category, and say which ones are growing faster or lower or slower than others, F-35 obviously is going to continue to ramp up as we've said for at least the foreseeable future until we hit sort of the peak production rate. C-130J has got at least another year before likely probably peak at the production rate of 36 aircraft a year, and then it'll likely be fairly constant for at least a few years after that at that level. F-16 we've talked about in the past is going to spike in 2012 with likely about 40 aircraft deliveries for the year, and then we've got some work to do in 2013 to keep that number back up there or else it will, in fact, drop off at that level. Aegis is likely going to see some growth as we see, in particular the Aegis Ashore, but also the retrofit of some of the DDG 51s and the destroyers in the U.S. Navy. Patriot and THAAD are lumped together and say those we expect to have growth over the next 2, 3 years as well. LCS, again, once we get ramped up at the 2 shipped per year level, which I would guess we won't get in that sort of that steady state until the 2012 time frame, would be my expectation. And then we'll stay fairly constant there as we build out the other,, expectedly at least, 10 ships in the options. And then Advanced EHF [Advanced Extremely High Frequency] is likely going to see a little bit of growth. We've got another couple of I think vehicles 4 through 6 coming up and awards in the not-too-distant future that'll keep and those will be higher-dollar awards than the previous satellite. So I think there's going to be some growth there. And then GPS III obviously is really just not quite in its infancy stage but very early in its development program. I think we just completed the critical design review, and we're still a ways away from production. So that one's got its future growth out in front of it. I hope that helps, Miles.

Operator

Our next question comes from David Strauss of UBS.

David Strauss - UBS Investment Bank

A follow-up to that, Bruce. Could you talk about the 9 programs that you have listed here as growth? Can you talk about what percentage of the portfolio they represent in terms of revenues today? And given what you see on this chart, what does it mean overall for the margin profile of the company? And then a quick follow-up on ES [Electronic Systems]. Could you comment? It looks like growth came in better than you would have thought in the first quarter yet you kept your guidance for ES sales growth unchanged for the year, which implies down from here. If you could just comment on that. Thanks.

Bruce Tanner

Thanks, David, for the questions. There's only a little over the top of my head. The top programs in the green category on that chart are probably -- I'm trying to do math in my head here. I going to guess they are less than the 40% levels of overall sales in the corporation. That's 9 -- there's probably little less than 40% would be my guess, and the rest that make up the other 5% or so of the sales of the corporation. I think relative to -- you asked a question on the Electronic Systems, its performance in the first quarter, and I'll say we were -- I'll speak for myself. I was pleasantly surprised by the quarter results. We kind of expected or I kind of expected that we might see actually some headwind in the first quarter primarily because of the lack of the PTDS order, the persistent threat detection system that we had some very rapid sales that occurred in 2010. We were actually able to offset most of that through a combination of things PAC-3 deliveries in the quarter. Some higher -- a number of programs within MS2. In fact, all 3 lines of business within Electronic Systems grew in the quarter. And within GT&L, the soft CLS contract grew almost $100 million compared to last year. So that more than offset the lack of the PTDS contract. As I look for the rest of the year for Electronic Systems, I actually think we are going to see sequential growth quarter-over-quarter. And I'll say, first quarter was probably a little bit early to call but I think we could have some upside there on sales, particularly if we receive another PTDS order, which we're in conversations with the customer about as we speak. And I also think, quite frankly, that EBIT is looking strong for the year relative to guidance. I think margins should be at the 12% ROS level per quarter going forward. And if there is some upside there, I think it's potentially driven by Missiles & Fire Control for the rest of this year.

Operator

Our next question comes from Sam Pearlstein with Wells Fargo.

Samuel Pearlstein - Wells Fargo Securities, LLC

Just the first question is, I noticed the benefit you got from cash taxes in the quarter. You mentioned some payments in the second quarter. Can you just tell us what your cash tax expectation is for the year? And then just separately, before I get cut off, can you just talk about the prospects of the government shutdown? You talked about raising cash in the quarter, I presume. That's why we saw payables jump. But can you just talk about how the customers are behaving how? Are you starting to see contract awards since the bill was signed into law? And really how is the customer behaving now and what should we see going forward?

Bruce Tanner

Cash taxes we actually did get a refund in the first quarter. I think it was some $250 million worth or so. And so our cash taxes for the total year are somewhat diminished because of that refund, but you should think of them somewhere in the north of $800 million, $850 million or so worth of cash taxes for the year. And as far as customer behavior and what we're seeing for awards post-CR or post-government shutdown threat, again, I tried to tee up in the January call that we really felt, just looking at the profile of our orders for the rest of the year back then, that unless the CR was to extend, I think we said, beyond the end of April kind of time frame, that we really didn't expect to see an impact to the guidance we're providing. And I'll say that's exactly kind of happened in April 15 right in line with our expectations, and so I haven't seen, we haven't seen a change in the first quarter and, thus far, I don't believe expect to see change for the rest of the year. I'll ask Bob to see if he's got a different perspective than I do.

Bob Stevens

Yes, Sam, I think that while it might have not been highly visible from the outside in, what happens under the CR is our customers have to go through extraordinary measures of phasing and shifting and rebalancing almost on a daily basis, and I'm not exaggerating. So I think 1 of the great benefits of not having a CR imposed but having an appropriations bill is they're back to more ordinary focus on priorities and, in fact, doing the kind of contract actions that may reduce the number of undefinitized contract actions that allow them to plan to give them the confidence that they have funds in place to go ahead and put programs under contract. So I would tell you we move from a period of extraordinary demands on the customers under the CR to more ordinary workflow in our customer communities.

Operator

Our next question comes from Carter Copeland with Barclays Capital.

Carter Copeland - Barclays Capital

First off, Bruce, thanks for the extra level of disclosure in the release. That was very helpful. I want to piggyback briefly on Cai's question on Iraqi F-16s. It's been pretty clear that the Iraqi government has been tight on funds and I think you hinted at that. But oil production has been on the rise which helped this problem and so as you look at this order, is it dependent solely on funding or is there also an element of political stability and does an extended U.S. presence beyond the 2011 sort of play a role here? Or is it simply a funding matter that's just shifted out to the right?

Bob Stevens

Well, I think the dialogue that has occurred, I'll tell you very much in the open, is about roles and missions and the recognition that the Iraqis will need to stand up, an indigenous force structure and part of that force structure is going to have to include tactical aircraft, and the selection of the F-16 was already made. In my last visit to Fort Worth, that was, oh, about 2 weeks ago now, I met with a delegation from Iraq to listen to their planning and their description of the circumstances that are driving the interest in the F-16. What was conveyed to me and what I can convey to you now is unfettered support for both the need to have tactical aircraft, the very strong desire to want to stand up, an Iraqi government that is in full flourish, with all the appointments and things that a government needs to maintain their security, as well as all the domestic programs. There was some discussion about some short-term rebalancing to meet some exigencies and, as I mentioned, we're seeing that in a number of places and, frankly, we're seeing that a little bit here at home. The shifting of some priorities and the reallocation of resources. So that didn't surprise us too much. But what was conveyed was a long-term, a recognition of the need for probably more than 18 tactical fighters and the need for that kind of capability in the Air Force and a desire to be strong security cooperation partners with the United States for a long period of time. So I think these discussions have their word, and we'll measure progress against the milestones that were discussed and have a better feel for this as our fiscal year closes. And as we get into 2012, I think we'll have greater visibility here.

Operator

Our final question comes from Peter Arment with Gleacher & Company.

Peter Arment - Gleacher & Company, Inc.

Bob, I guess I'll take this as an opportunity to ask move over a big picture question for you. I mean, you've seen the fiscal '12 budget in detail now and expectations are we're going to have the out-years. Or most likely, you're going to see some pressures similar to what happened here in fiscal '11. How are you thinking about getting more balance in the portfolio outside of defense? And I guess I'm thinking about your ramping up of your targeted adjacencies maybe to offset some of those pressures. And I realize you still have a very proactive process on the portfolio shaping and returning 50% of free cash flow to shareholders. But what's the desire to get more aggressive on the strategy?

Bob Stevens

Yes, I think that we are aggressive on our strategy. And by aggressive, I mean very highly, energetically looking at this portfolio and making our assessments of what the outside world is likely to look at. And I know we talked a huge amount about deficit reduction today. But there is also the need to maintain a security posture in a world that is showing much more volatility, and the U.S. military is such a reliable partner. I personally think the activities that unfolded in Egypt could have and would have been a lot more difficult had there not been long and well-established military-to-military ties where the militaries stood so tall and in such a distinguished way to maintain order in a civilian population. And I attribute a lot of that to having great close personal and professional relations with the U.S. military here. We think our portfolio is very, very well-positioned to the relevancy and the prioritization that customers will have recognizing the need for stability, the need to access ceilings to promote trade, the need to have to be able to assure that there is no domestic unrest. So in that segment of our portfolio that we call the core, we think strong execution is the best way to assure future growth. That includes a recapitalization of the F-35, as Bruce has talked about. It includes our ability to provide not only our nation but our friends and allies with very effective systems that can blunt the effect of offensive missiles that are proliferating very rapidly. We have a good family of airlifters, the C-5 domestically, the C-130 internationally. These aircraft are used in all manners of not just military engagements but humanitarian relief, fire fighting missions, all sorts of things. So I think there's growth opportunity in that core business. Additionally, when we think of adjacencies I think Littoral Combat Ship has been 1 of those areas that we regarded as an adjacency over time. I believe there's a commitment to building out a fleet of 55 Littoral Combat Ships domestically, and I think there's considerable and expanding interest in the Littoral Combat Ship internationally. And in that international interest I think there's interest in countries and regions of the world that have the financial capacity to support the program interests that they have. And then on our horizon markets, we think about cybersecurity and energy and health care information technology and we know those markets will mature at different paces. And these are market segments and customers and technology applications with which we have considerable familiarity. So the issue often becomes who you commercialize or, whatever the right words are, will you go into markets where you have less familiarity, where you have less experience with consumer behavior, where you have the different approaches to pricing and risk management? And at this juncture, we don't see any reason to do that. We don't have any plans to do that because we believe strongly in the missions in which we are involved, the need for the capabilities that we and, in some cases, almost only we can provide the critical customers around the globe. And we think that even under difficult discussions about deficit reduction that will occur over a very long period of time, discussions that we absolutely intend to participate in and do our part, there would still be a very compelling need to invest in security in recapitalization and in preparing for a very uncertain future that will determine the well-being of 310 million Americans. And we're very dedicated to that focus. So I don't think you should look to us for having any significant departure from the strategic focus that we have had on our Global Security business. What you should expect from us is to stay focused on execution, to continue to set high standards for cost reduction and quality. And importantly, we need to go out in a demanding marketplace and win new business, and we intend to do that. So for Bruce and Jerry and myself, Sean, thanks for presiding over the call today and for everybody who participated in the call, we appreciate very much your interest and the ability to have this discussion with you. And we look forward to giving you an update at the end of the second quarter. Thanks very much.