Good day and welcome, everyone, to the Lockheed Martin Fourth Quarter and Year-End 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 F. Kircher

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

Let me remind you that 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.

Robert J. Stevens

Okay, thanks, Jerry. Good afternoon, everyone. Thanks for joining us today. All of us here hope that your new year is off to a very good start.

Let me begin with a quick summary of 2011. In the fourth quarter, we booked almost $20 billion in new business awards from domestic and international customers and finished the year with a record backlog of almost $81 billion. Strong program execution, coupled with ongoing cost-reduction initiatives, enabled segment operating margins to increase to 11.5% for the quarter and 11.4% for the year, which reflected improvements over prior-year levels.

Cash generation was exceptional with $1.1 billion in cash from operations in the quarter after making accelerated pension contributions of $1 billion and over $4.2 billion for the year, surpassing the prior year by more than $450 million. We paid $325 million in dividends in the quarter and $1.1 billion for the year as we continue to execute our $4 a share annual dividend payout.

Share repurchases continued in the quarter and totaled almost 32 million shares for the year, enabling the retirement of 7% of the outstanding shares. With this focus, we generated a 21% total shareholder return with 16% stock price appreciation and a 5% dividend yield. These results reflect the quality of our workforce, the dedication of our leaders and the strength of our corporation and the focus we all have on delivering value to our customers and to our shareholders. Thanks to everyone in the company who played a role in driving these results.

Since we last spoke in October, we've seen an expansion and in some cases, an amplification of the uncertainty evident in the global security environment and in world economic conditions. The events playing out in Afghanistan, Pakistan, Iraq, Iran, Syria, Egypt, North Korea, China and many other regions of the world underscore the complexity and the volatility embedded in the mission of maintaining global security. Many signs of economic stress remain, and the global recovery appears to be, at best, uneven and slow.

On the domestic horizon, we see change as well. Earlier this month, the administration released a new security strategy highlighting priorities for our 21st century defense. Citing the strategic turning point after a decade of war that is now concluding, the joint force will be reshaped to be smaller and leaner, but more agile, flexible, ready and technologically advanced. Forces are to be rebalanced with more emphasis on the Asia-Pacific region and the Middle East while assuring additional focus on the critical priorities of Space and cyberspace, Intelligence, surveillance, reconnaissance communications and navigation systems, counterterrorism and irregular warfare and effective nuclear deterrent and counter weapons of mass destruction capabilities. There will be an emphasis on air and naval forces while reducing land forces, and on building more effective security cooperation partnerships with friends and allies.

The President's 2013 budget is also set to be delivered to Congress on February 13. And Secretary of Defense, Leon Panetta, gave an executive summary look at the DoD portion just 1 hour ago in a press conference at the Pentagon, which actually may still be ongoing.

The Secretary described a fiscal '13 budget request of $525 billion in the base budget that compares to a $531 billion defense budget in fiscal '12, along with a request for $88.4 billion for overseas contingency operations. This new budget reflects the new security strategy and includes the effects of last year's Budget Control Act that triggered the administration's proposal to reduce the defense top line by $487 billion through 2021, with $259 billion of that reduction occurring between 2013 and 2017. This significant and substantial $487 billion reduction, in conjunction with the new security strategy, assures that commitments to deficit and debt reduction are met while maintaining an adequate security posture necessary in the uncertain and volatile world that we see today.

While we'll gain additional details about specific program funding levels in the budget as more information becomes available, the clear contours of the new strategy align exceedingly well with our portfolio and our experience. This alignment is no accident. Even as our national focus was appropriately on ground operations in Iraq and Afghanistan after having committed forces there, our assessment of the global security environment suggests that the long arc of our national strategic interest would orient toward the Asia-Pacific region and the Middle East. That regional security there would be influenced by China, North Korea, Iran and others who are investing heavily in advanced technologies. That these technologies would include sophisticated anti-access and area-denial capabilities, the advancement of nuclear and other weapons and the missile systems necessary for their delivery, and an increasingly elaborate series of cyber systems and methods, all of which would require a response, and further that sustained pressure in world economic conditions would continue to impose constraints on the resources available to government, leading to more cooperation on shared security objectives.

That's why we took action years ago to refine the architecture of our products to assure they would incorporate the most advanced sensor fusion and communications capabilities, such that real-time intelligence, surveillance and reconnaissance information could be leveraged, and that our systems would be flexible and adaptable in meeting emerging challenges. And that's why the architecture of our business model was structured on promoting sustainable security cooperation partnerships where interoperability would support more effective coalition action and leverage the global supply chain.

While we clearly recognize there would be challenges with this strategic approach, requiring us initially to deal with additional measure of innovation and the complexity that results from that innovation, our strategy is proving to be durable and well aligned. The result is a robust and increasingly mature portfolio of relevant global systems that are meeting the needs of our customers in addressing global challenges, systems like the Joint Strike Fighter, supporting 3 U.S. services, 8 initial partners and the needs of an increasing number of international customers, most recently Japan; or our missile defense capabilities, including Egypt's PAC-3 and THAAD, which are setting the standard for U.S. and allied defenses as reflected in the recent selection of THAAD by the United Arab Emirates; or the Littoral Combat Ship that is driving innovation and adaptability to a more affordable solution to meet the expanding array of demands clearly present in the littoral waters around the globe; or our space-based assets, including Advanced EHF, MUOS, SBIRS, GPS III and other satellite systems that enable unparalleled situational awareness, secure communications, precision navigation and prompt global response.

We're continuing today to apply the very same energy, rigor, talent and resources to further integrate systems at [ph] a more effective command and control, constructing more resilient networks and preparing the information technology environment for the hazards of expanding cyber threats while driving greater levels of efficiency and affordability across our company. There is much more work yet to do, which is why we are greatly distressed by the prospect of sequestration. That element of existing law mandated by the failure of the Super Committee to find additional spending reductions. The resulting automatic across-the-board budget cuts and sequestration would approximately double the $487 billion top line reduction already reflected in defense funding with an additional $52 billion reduction in 2013.

Secretary of Defense Leon Panetta has spoken in the strongest possible terms against sequestration, which he described as having catastrophic consequences to our defense. We support this view completely. The sequestration process has occurred independent of any correlation with strategy, core [ph] structure, technology needs or operational reality. While the precise detailing of the adverse impacts of sequestration are yet to be determined, the United States would likely have the smallest ground force since 1940, the fewest number of ships since 1915 and the smallest Air Force in our nation's history.

The impact on industry would be devastating. With a significant disruption of ongoing programs and initiatives, facility closures and personnel reductions that would severely impact advanced manufacturing operations, erode engineering expertise and accelerate the loss of skills and knowledge, directly undermining a key provision of the new security strategy, which is to preserve the industrial base.

We understand well the fiscal pressures our nation faces and have not hesitated in realigning the cost bases in our business through expense reductions, rebalancing the workforce, consolidating facilities and the like, and we'll continue to do so. And we recognize that the Department of Defense is committed to $0.5 trillion reduction over the next 10 years, an ambitious initiative that we fully support. But our position on sequestration is very clear. We must not let an automatic budget trigger, a default position in effect only due to a committee failure, to become the dominant force for allocating resources and shaping our nation's security posture, and we strongly urge action to stop this process.

Before I ask Bruce to give you some color and details on our performance, I want to highlight an organizational change we announced this morning. After 37 years of distinguished service, Ralph Heath advised of his plans to retire from our company. I have worked with Ralph for a very long time now, and found him to be an exceptional executive in every respect. He's been dedicated and professional in every assignment, and he's set the standard for ethics and business conduct.

Ralph's decision highlights why we've invested so much time and energy in our talent management, our leadership development and our succession planning process over the years, subjects we really don't talk a lot about on this call, but subjects vitally important to our future success. Through this process, we now have an outstanding cadre of highly qualified executives ready to assume additional responsibilities and take our business forward.

Effective April 1, Larry Lawson will serve as Executive Vice President of our Aeronautics business replacing Ralph, and the business could not be in better hands. Larry brings a proven track record of success in all that he has done.

Orlando Carvalho will succeed Larry as Vice President, General Manager of the F-35 program. You may recall that Orlando jointed Aeronautics in August of 2011 after serving as President of our Maritime Systems & Sensors business. Orlando's 30 years of experience in complex systems and in organizational leadership equip him well for the demands of the F-35. Lorraine Martin will serve as Orlando's deputy on the F-35 program, moving from the C-130, and George Shultz will assume responsibilities for C-130 operations. I mention these names because they represent the breadth and depth of talent in this company. Each has decades of experience, worked in diversified assignments, driven higher levels of performance and have built superb teams. When I tell you that it's a privilege for me to work in this company, I'm talking about the opportunity to work with leaders like Ralph, Larry, Orlando, Lorraine and George, and I thank them all.

So I have Bruce now go through some of the details of our performance, and then we'll open up the lines for questions. Bruce?

Bruce L. Tanner

Thanks, Bob. Good afternoon, everyone. As I highlight our key financial accomplishments, please follow along with the web charts that we've included today.

Let's begin with Chart 3 and an overview of the full year for 2011. We grew sales for the company by 2% over our 2010 level and given the environment we operated in throughout the year, we're pleased with those results. We're even more pleased with the record backlog amount for the full year driven by almost $20 billion in orders in the fourth quarter, as Bob said.

Segment margins were 40 basis points higher than last year, reflecting a strong performance year for us with much of that improvement stemming from cost-reduction actions that we took earlier this year -- or last year, excuse me. Our earnings per share from continuing operation were 11% higher than 2010, and we generated $4.3 billion in cash from operations while accelerating $1 billion in pension contributions previously planned for 2012. So overall, 2011 was a very strong execution year, and our results reflect that performance.

On Chart 4, we'll look at sales by the 4 business areas. Two of the 4 business areas grew sales for the year led by a strong 10% increase in Aeronautics sales over 2010 levels. Electronic Systems had 2% growth for the year, better than what we premised when the year began. As anticipated, IS&GS declined by 5%, driven mostly by the absence of the U.S. Census activity this year. And Space ended the year relatively flat compared with 2010 as we expected.

Turning to Chart 5, and our backlog to end the year, all 4 business areas grew backlog in the fourth quarter, and the company increased backlog by about $8 billion in the third -- from -- over the third quarter level. Key orders recognized in the quarter included: additional funding for the F-35 LRIP 5 contract, as well as F-16 awards from Oman and Iraq in Aeronautics; additional domestic and international PAC-3 orders; a $1 billion order to upgrade Warrior fighting vehicles in the U.K.; and our first international order for the THAAD program electronic systems; the award of the NSF Polar contract to IS&GS and the FY '12 installment of the Fleet Ballistic Missile contract in Space Systems along with an award for the initial launch of an unmanned Orion capsule in 2014.

Chart 6 highlights that we grew backlog in 2011 by over $2 billion to $80.7 billion, a record for the corporation. This is the second consecutive year we've grown our backlog, and ending backlog is about $2 billion higher than our expectations at the start of the year.

Moving to Chart 7. You can see the significant improvement in margins for both the fourth quarter and total year compared with 2010, again resulting from strong program execution and our cost reduction actions. And these cost reductions are benefiting our customers as we price new business.

On Chart 8, we'll discuss our earnings per share. Our EPS from continuing operations increased 11% to $7.85 for the year. I'll remind you that last year included charges for our VESP program and the elimination of Medicare

Part D subsidies. However, when adjusting both years for the negative impacts of the FAS/CAS adjustment, our pension adjusted earnings per share grew 21% over 2010 levels.

Turning to Chart 9. You can see the effects of our cash deployment actions returning $2.5 billion back to our shareholders through share repurchases and $1.1 billion in the form of dividends during the year. Combined, we returned 109% of free cash flow to shareholders in 2011 and returned almost $200 million more than the prior year's amount.

On Chart 10, we show the impacts of our share repurchases over time. 2011 was the second straight year that we've reduced outstanding share count by 7%, and we've reduced shares outstanding by more than 100 million shares over the last 5 years.

Chart 11 shows that our total shareholder return last year was significantly outperforming all of major benchmarks. The TSR reflects both the strong execution in the year and the cash deployment actions from the prior chart.

Beginning with Chart 12, we'll discuss our outlook for the year 2012. Our sales for the year are expected to be about 2% lower than 2011 at the midpoint of our guidance. And segment profit generally falls to sales volume with our segment margins expected to remain above 11% for the year. I'll discuss both sales and segment operating profit in greater detail in the next chart.

Moving down the chart, our FAS/CAS adjustment has improved from the trends we gave in October, I'll also speak more about this change in a couple of charts. Our earnings per share guidance for the year is $7.70 to $7.90 per share, and as a reminder, does not include any consideration for the R&D tax credit being extended into 2012. Think of that R&D tax credit being worth about $0.10 per share of benefit in 2011.

Finally, our cash from operations guidance is $3.8 billion, up slightly from what we described last quarter. I should point out that we expect the phasing our cash from operations this year to be different from prior years, and that our cash will be significantly higher in the second half of the year versus the first half. We'll be making the planned pension contributions in the first half with around $500 million in the first quarter and the remainder in the second quarter. And we also have a tax payment in the first quarter, while we had a tax refund in the first quarter of 2011.

Chart 13 provides our guidance ranges for both sales and segment operating profit by the 4 business areas. For sales, we now expect both Electronic Systems and Aeronautics to remain relatively flat at the midpoint compared with 2011, while IS&GS and Space Systems are expected to see a reduction in sales. You'll recall that when we discussed our trend data during the third quarter call, we had expected sales to remain relatively flat compared to 2011. Two key events occurred at the end of the year that changed that outlook.

First, we were unsuccessful in our bids to win the GMD competition. This results in sales in our Space Systems segment being lower than expected when we spoke in October. Second, we've reduced our guidance for IS&GS as a result of recent customer directions to stop activities on the AMF JTRS program by the end of February. Our segment operating profit guidance is driven mostly by the sales volume. The margins for Aeronautics Space and IS&GS are expected to be down slightly, reflecting a lower dollar amount of profit rate adjustments planned for 2012 as compared to 2011, while Electronic Systems is expected to have consistent margins with what we saw in 2011.

Chart 14 shows the changes that impacted our FAS/CAS adjustment from what we described last quarter. We ended the year with a slightly higher discount rate of 4.75% versus the 4.5% we discussed in the third quarter. And this improved the negative FAS/CAS adjustment by $115 million. We also had other updates, which partially offset the impact of the higher discount rate by some $25 million, resulting in the 2012 FAS/CAS adjustment of an $835 million headwind on reported earnings.

And finally, on Chart 15, we have our summary. 2011 was a strong year by any measure and reflects the focus that our team demonstrated throughout the year. 2012 is expected to be a solid year, building on the strategic alignment of our portfolio, our record backlog and the strong cash generation we've demonstrated for many years.

With that, Jovan, I think we're ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from Jason Gursky with Citi Investment.

Jason M. Gursky - Citigroup Inc, Research Division

Just a quick question on the guidance and the Secretary's comments that he made this afternoon. Does your guidance reflect the things that he had to say this afternoon or is there a potential risk either to the upside or to the downside after you parse through his comments?

Bruce L. Tanner

Yes, Jason, I'll take that one on. Obviously, we're still sorting through what the Secretary is saying. But I think in any event, I don't think there is a change to the 2012 guidance. Essentially, anything that would happen at least that I'm aware of in the conversations that he had today would affect 2013 and beyond, but we've still got some sorting out to do to see exactly what that impact would be. Bob, offer any other comments as you might want...

Robert J. Stevens

Jason, just another thought. I think the Secretary gave some executive summary views, and so we and others could get a sense of the shape and overall feel. But I think our experience has been entirely valuable to get into the details, the time phasing and other facets of the budget proper, and I don't think that's going to be available to us until February 13. So I think we'll give you -- we'll be able to give you much better insight as to our overall reaction to what is just really breaking news today when we next speak with you. But as Bruce said, it doesn't feel likely that we're overly sensitive in fiscal -- in our current fiscal year.

Operator

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

Douglas S. Harned - Sanford C. Bernstein & Co., LLC., Research Division

I wanted to get an update on your views on the F-35 right now. I know when -- Bob, when you talked after Q3, there were issues when you look at LRIP 5 in terms of the structure of that program, the risks involved in potentially having to –- pay for work on prior airplanes. So if you could, if you could update both on LRIP 5 where that stands today, and then also when you're looking at some of the technical challenges on the airplane such as the arresting hook, helmet-mounted display, could you give us an idea how some of that progress is going and when you expect a resolution of some of those issues?

Robert J. Stevens

Sure. I'll do my best, and you'll let us know if it's thorough enough, Doug. So when we last spoke, we had a very unique issue on LRIP 5, and it had to do with risks associated with concurrency costs. And the in -- at the time of our discussion, the formulation that we were reviewing from the government had a substantial risk transfer to industry, our company and our partners and our suppliers. Through negotiation and discussion that unfolded subsequent to the call, we negotiated the parameters associated with concurrency, and I would tell you, put it into a formulation that both we and the government felt was appropriate with regard to risk and execution, where we are accountable and they are accountable, and that's what partners do. So I think that matter is resolved. We are in the process of negotiating Lot 5 now. I don't have a time horizon where I can give you some assurance that negotiation will be complete, but we are leaning forward in an attempt to negotiate the final terms, conditions, pricing and provisions of Lot 5.

Relative to some of the technical issues that you described, Doug, and I think a number of those over time were associated with the STOVL variant of the Joint Strike Fighter, I tell you we're making progress along each of the items that are identified. I think that progress was reflected in the 2011 performance of the program overall, certainly, the flight test program that ran a little bit ahead of schedule. I think most people would have noted that the STOVL variant was removed from probation after personal involvement by Secretary of Defense Leon Panetta. The Secretary visited the Pax River Naval Air Station. He spoke directly with the pilots and the maintainers and others familiar with the airplane. These are folks in the government, as well as folks in industry. I believe he went through a careful and detailed review, item by item and issue by issue. I must tell you I admire very much the personal level of due diligence from a person as busy as Secretary Panetta to get personally involved to understand the details. With that understanding, he removed the jet from probation.

We know there are challenges. This is a development program. I've spoken to you as honestly and straightforwardly as I possibly can about our assessment of the development program. And I would tell you, this feels ordinary and traditional for complex airplanes of this type. It doesn't mean we're pleased when we have to modify an arresting hook or adapt a helmet-mounted display or work some thermal issues in the propulsion system. But these are observations that are the types that are relatively familiar with complex aeronautical systems like this. We've aligned our resources well. We've got great cooperation from the Naval Air Systems Command, from the Joint Program Office, from others in the government. Everyone is leaning forward. So when I tell you we had a better year on the Joint Strike Fighter, I don't mean we, Lockheed Martin. I mean, we, our partners, our suppliers, as well as all those in the government who support this effort, who understand the need. But what you will consistently hear is the underscoring of the criticality of having fifth-generation capabilities in this complex security environment. You heard that from Secretary Panetta today. You heard that from the President of the United States and Secretary Panetta when the new strategy was rolled out. We take that responsibility seriously.

We have international partners who expect us to deliver on this program, and we will. We have an increasing number of foreign military sales participants, most recently, Japan, who can look at any airplane around the globe and pick the best airplane in which they have the most confidence that will meet their security demands. They selected the F-35. That's a huge honor and responsibility for the F-35 team. And finally, Larry Lawson's leadership on this program has simply been exceptional, and he is a very seasoned and skilled executive. He's built a lot of sophisticated airplanes, including the F-22. The team that he assembled -- has assembled is first-rate and we're ready for the challenges that we face. So I will tell you the momentum is in the program. Yes, there will be some quantity reductions. We've talked to you before about the new reality. This is part of the new reality where there are complex global security challenges and scarce resources available to governments to meet those security challenges. We'll make the adaptations. We'll incorporate the new quantities once we understand their time phasing. We will drive hard to have a successful, effective, affordable program.

Operator

And next on the line, we have Rich Safran with Buckingham Research.

Richard Tobie Safran - Buckingham Research Group, Inc.

I wanted to ask a question on your backlog. So taking a look at your book to bill was pretty hefty, 1.6x this quarter. You finished the year greater than 1x as you said last year. Following last year's greater than 1x book to bill. Not meaning to sound like someone who's saying what have you done for me lately, just wanted to know if you could comment on the opportunity set for 2012. What's your view on 2012 book to bill? And what I'd really like to get a sense of is do you feel -- do you kind of feel that book to bill has peaked in 2011 or do you see an ability to repeat that this year?

Bruce L. Tanner

Hey, Rich, I'll take that one also. Hey, I was looking at this actually recently, we kind of did a review of the plan for 2012 and the outyear look as well. The thing that struck me as I was looking at that is there's not just a large number of I'll say high dollar awards in the first quarter or practically for that matter, in the first half of 2012. So what I think we're going to see, at least in the first half of the year, is some reduction in that backlog. So our book to bill will be lower than 1.0. I'm trying to think off the top of my head some of the larger orders we have in the first quarter, but things like the fiscal year '12 F-22 sustainment contract as one example. The authorization under a UCA in all likelihood of the F-35, LRIP 6 contract, and some international sales within Aero, perhaps for some C-130s might be highest dollar items in the first half of the year. I think we will likely have greater than 1 point. At least as we sit here today we'll likely have greater than 1.0 book to bill in the second half of the year. In the third quarter, a little bit different maybe than years past, which has always historically been our lowest quarter of the year from an orders perspective, and we've always dropped backlog more in the third quarter than any other quarter. I think that might change somewhat at least as we see here today that the third quarter will actually see some backlog growth. And I'm hoping, Rich, that by the end of the year, I think we might see some slight reduction. But I'd like to think we can be around the $80 billion mark for the year. And I don't think that's -- I guess that's a stretch goal I'd like to have for ourselves to kind of keep the backlog starting in the 80s. That's not a slam dunk by any stretch, but that's, again as we sit here today, that's the way I think about it, Rich.

Operator

And next on the line, we have Heidi Wood with Morgan Stanley.

Heidi R. Wood - Morgan Stanley, Research Division

Bob, 2 questions for you. One simple and the other more big picture. First, when do you get to rate on the F-35? And the second question is can you talk about the state of IR&D? The DoD doesn't seem to be clear about where their R&D priorities are going to be beyond bomber? So where does your IR&D future look like since DoD may be a less reliable source of R&D going forward?

Robert J. Stevens

Yes, thanks, Heidi. On both of these fronts, the answer has gone a little -- it would be a little bit, we're going to have to wait and see. For example, rate on the F-35 is going to be function of we think of new quantity adjustments that will phase out. I'll give you our best understanding today. Phase out of the nearer-term lots, some of the build cycle probably more or less leveling the quantities at around 30. Again, we'll look for the detail, and then accelerating out of there. I think in conjunction with that, Heidi, our understanding today is that the total quantity to be procured domestically remains at 2,443. So we're looking at a phasing, the phasing will have dual advantages of lowering the budget demands, aligning to fiscal pressures, as well as creating some time for the maturation of the airplane that might minimize some of the revisions to the configuration. Both of those things we think makes sense. I think the other aspect of rate or volume at least in the near term, we will, in the very short term, get some clarity and insight as to the U.S. government's buy plan. And we'd like to anchor that as a foundation. And then revisit with each of our international partners and each of our potential foreign military sales customers not just those who are already on board the program like Israel or Japan, but maybe future purchasers like South Korea where there is a tender and others, and begin to then build this revised acceleration plan that will lead to rate so that we can do that in the most efficient and effective way possible. So I think that's about the best summary of F-35 volume over time to rate that we have today. And we'll get you some more details when they're available to us.

We continue to make investments internally in the areas that we think will be most relevant to the forces described in the strategy that was released. And I'll say it to you again, I think that our portfolio as defined in products and services, but also our portfolio of research and investigative initiatives aligns pretty well with the strategy that was described to the extent that we have those broad contours. For example, a number of years ago, we established, through this research and development facility, a cyber laboratory so that we could begin to much more thoroughly exercise the resilience in systems and the resilience in networks. So I think some of our actions there have aligned very well. I think the future of the overall portfolio and I very much resonate to the spirit of your question in an era of more fiscal austerity. How will the apportionment of the top line budget reduction flow between and among expense accounts like operations and maintenance and personnel and the investment accounts of procurement and research and development? And how will resources available for research be thrifted? So that's sort of an open watch item for us because we don't want to see an attrition in our engineering facility. We don't want to lose some of the innovative expertise that is fueled by access to this type of funding. And here again, I think the best we can do is look for the details over time, but we're not in possession of today and maybe, be sure to follow on with you in that regard.

Operator

And next on the line, we have Cai Von Rumohr with Cowen and Company.

Cai Von Rumohr - Cowen and Company, LLC, Research Division

So on the F-35, looking through your commentary, it looks like revenues last year were down about -- were up about $700 million on both parts of the program, and profits may be off $35 million, so the margin's off may be 1 point. Could you give us any sense now that you seem to have the concurrency issues resolved? Do we have any opportunity on margins this year -- or excuse me, moving into the future?

Bruce L. Tanner

Hey, Cai, it's Bruce. I'll take that one on. Look, without commenting on your math, your math is usually pretty accurate. But without commenting on it, the way I'd look at 2012, let's start with the revenue on the F-35 program. I think the F-35 LRIP contracts are growing somewhere in the 9-ish to 10% range year-over-year. So we're still seeing some good growth there. That's being offset because the development contract, the SDD contract, is going down compared to 2011 as you might expect. I think net-net, the F-35 is up some mid-single digits growth year-over-year. As to your question on margins, I would expect us to see some margin improvement on the F-35 in 2012, primarily because if you just sit back and think about what we're going to accomplish in the year, we're going to deliver a lot more aircraft this year. We're going to deliver, and I'm quoting this from memory here. We're going to deliver all the LRIP 2 aircraft, all the LRIP 3 aircraft and a good portion of the LRIP 4 aircraft all in 2012. And so as you might expect, we have a historical practice of not booking from a booking rate perspective at the at-completion position or as we expect the programs to run at their end or at their completion until we've retired the risk on those contracts. And so as you might expect, we've got some risk retirement that we're expecting to become finalized with the final delivery of those aircraft. And again, because a good chunk of those 3 LRIPs are all finishing in 2012, we would expect to see some margin improvement compared to 2011 for the F-35.

Operator

And next on the line, we have Peter Arment with Sterne, Agee & Leach.

Peter J. Arment - Sterne Agee & Leach Inc., Research Division

Just a question on capital deployment. You guys have been setting the standard amongst your peers in terms of dividends and buybacks. I wanted -- how are you approaching it going forward now that we kind of have pretty good feel directionally, where the budgets are going to be and potentially a lot of moving parts amongst your peers when you weigh that against a selective M&A? How are you looking at that in terms of going forward on the strategy?

Robert J. Stevens

Well, with -- in today's environment, we're looking at cash deployment pretty much the same the way we have been, and we're not communicating with you any change in strategy or philosophy because I think you know that the first thing we do is start by getting the cash. And I don't say that lightly, but we have a very rigorous focused and disciplined process here that is institutionalized around the company that cash management matters a great deal relative to our ability to both make appropriate internal investments and then return appropriate value to shareholders. So we're rigorously focused on that, and we like the balanced cash deployment approach we have that you highlighted, a component for share repurchases and a component for dividends. We spent a lot of time talking with the investors in the company to make sure that we understand your sense about how we ought to be thinking about cash deployment, but I don't think you should expect a change in our approach.

Bruce L. Tanner

Peter, this is Bruce. I don't think I said in my remarks, but I'll say it here because it relates to your question, obviously. The guidance that we provided for 2012 assumes that we're going to have at least $1 billion of share repurchases contained within the earnings per share number that we gave you. And I think that's the at least some indication that we're going to continue the practices that we've done and demonstrated in the last few years.

Operator

And next on the line, we have Carter Copeland with Barclays Capital.

Carter Copeland - Barclays Capital, Research Division

Just for Bruce, a quick clarification on your comments around the Aeronautics margin and then a question about long-term pension funding. On the margin, back to what you were talking about on the F-35 and your sort of historical behavior pattern on EACs and risk retirement around the end of a contract, as you look to the end of the F-22, should we be expecting anything that kind of intra-year quarterly patterns of margin in Aeronautics that's worth noting in 1 quarter versus some of the others? And then secondly, you provided some commentary around pension funding. Obviously, that's in the guidance in 2012. I just wondered if you might give us some color on how that stands where we are today for 2013 and beyond.

Bruce L. Tanner

Yes. Thanks Carter. So let's say, I'll start with the sort of the F-22 question, would you see the same thing that we described. I think that was your question as we saw or as I commented on the F-35. I think there's 8 aircraft left to deliver on the F-22 production program. All of them have literally left the factory, and they're sitting in what we call our flight line operations going through, as you might expect, flight testing both with our pilots and with the government pilots. So there's not a lot of -- frankly, there's not a lot of cost left to do on those aircraft. Again, they are all built, at this point in time, they were finished last year. So most of the risk retirement that you would associate with the end of the program occurred in the 2011 time frame, not the 2012 time frame. So while there might be some opportunities for improvement, I wouldn't expect it to be as substantial, for instance, as we saw in 2011.

Longer-term pension funding, again, we accelerated $1 billion of the required payments from 2012 into 2011. As we look for and I think you're probably aware of the CAS Harmonization rules were recently passed or implemented. I think they're actually effective not until next month, but I think the notification came out at the end of December of last year. We should see cash recovery rise in the next few years, but the actual payments from the ERISA perspective looking into from 2012 into 2013, I think we're paying now about $1.1 billion in 2012. That number grows to about $2.1 billion in 2013. The flip side of that is the CAS recoveries about $1.1 billion. So think of that as being sort of a breakeven position. CAS risk -- excuse me, risk of payments out and CAS recoveries in for 2012. The CAS recovery in '13 is more like $1.4 billion. So we're getting some of the benefit of the CAS Harmonization, but not much. ERISA payments are probably at similar level in the year after and the CAS recovery grows some beyond that. So slow recovery I'll say it back to -- sort of getting back to a breakeven position, primarily because the CAS Harmonization got pushed out further than we had expected when we started first talking about CAS Harmonization. That's still expecting in the not-too-distant future for that to get close to breakeven, then start to flip the other way around where we're getting more collections than payouts.

Operator

And next on the line, we have Joe Nadol with JPMorgan Securities.

Joseph Nadol - JP Morgan Chase & Co, Research Division

Bob, on the capital deployment front, you have made maybe a subtle shift in the strategy or maybe it's just the timing, but you've done a couple of acquisitions here in the fourth quarter that were -- they weren't huge, but they were bigger than certainly than you've been doing. You've also over the last year or so divested a couple of the deals that you had done a few years ago. And I think all 4 of these acquisitions, I'm including the -- or all 4 of these deals, I'm talking about the 2 acquisitions you made in the fourth quarter as well as Savi and PAE, they're in adjacencies. So I was wondering if you could maybe characterize big picture how you're viewing acquisitions in adjacencies? And then maybe a little bit on each of the deals and why you decided to divest Savi and then acquire these other 2?

Robert J. Stevens

Sure, I'll be happy to, Joe. I think that we are -- you mentioned timing here. I think that's maybe a little bit of timing. We've had a-string-of-pearls approach. We like that approach. We look for companies that give us access to markets, unique technology, they provide a good fit, they have some ease of integration and they meet our overall test for valuations. I think the acquisitions you're referring to were Sim-Industries and QTC. They are part of an adjacent market strategy that we've had in place for a number of years now. We are certainly interested in moving this business forward in the technology areas that we think customers will increasingly value and in areas where we can back up some synergies. If you think of Sim-Industries in the market for simulators, we've been in the simulator business for a long time. This extends our portfolio. We're not unwilling to take that portfolio beyond our traditional customer sets to bring in some of those business practices into our core business. We think there is real synergy there. We'll continue to explore for businesses that fit our portfolio, fit our business model and that will now align with the contours of this new National Security Strategy and the portfolio we've put in place. So to the extent that there would be a business that would provide for us international opportunities, we will certainly look at that. With regard to the cyber domain, I think there'll be a continuing and even growing demand for capabilities in that regard. Our Systems Integration businesses is always one that we'd like to reinforce and support. And certainly the emerging field of energy and here, we're going to be selective because one size isn't going to fit all. But we do have some interest in the energy domain as well as others. I think there'll be some opportunities unfolding as we see the details in the budget domestically and maybe get a better feel for how our global customers respond, perhaps, in logistics and sustainability and support. If long-term budgets are going to be under pressure, yet operational tempos are going to remain high. If we're going to have deployments to Asia-Pacific, in the Middle East, if we're going to find innovative ways to move forces around, we think there'll be roles in our logistics business, in our support and our supply businesses there. So if there were acquisition opportunities there, we would look. We've been prudent, I think, as good stewards of the hard-earned cash position that we have. We want to maintain good credit quality. We have firepower, that financial flexibility, I think, is a discriminator of our company along with our portfolio and our selectivity about what we buy and what we do with it.

In the case of the divestitures, if there are changes in the market, changes in the customers' behavior, we are not going to keep businesses that don't align with the overall strategic arc and trajectory of this businesses, and we'll be decisive. So I think on the acquisition side we want to be selective so that we're not talking to you in the future about a lot of divestitures. But in a case where circumstances change, we're going to face the reality, deal with those changes and move the business forward. In doing so, we'll try to generate as much value as we can and share that value with investors to the best of our ability.

Operator

And next on the line, we have George Shapiro with Access 3:42.

George D. Shapiro - Access 3:42, LLC

This is for Bruce. If you take a look at Aeronautics, you disclosed this quarter that you had risk retirement of $70 million on the F-16, and another $35 million on the C-130 and C-5, and together, it's maybe 270 basis points addition to the margin. Can you just describe what they were actually related to and what the opportunity is for getting more of those next year? And is there any way we can kind of anticipate some of those coming? And then one other one in that area. The F-35 profit margin is clearly implied to be down in this quarter based on your commentary. I just want to validate that, that's probably LRIP 4 being booked in higher revenues and a lower margin that's kind of swamping your overall numbers, and there wasn't any change in any of the other program margins.

Bruce L. Tanner

Okay, let me start, George, with the first question, the F-16 step-ups and the C-130 what drove them and what's out there for next year and what should you be looking for. The F-16 we've -- I'll say a lot of that was sort of ordinary run-of-the-mill program execution, clicking off performance milestones and retiring risk accordingly. There was on one of our international contracts, a particular item that we were tracking towards that we actually reached closure on in the fourth quarter that we felt justified a step up. So that particular item, which was -- I'm trying to think off the top of my head, George, that was a pretty good chunk, probably 1/2 or so of the F-16 pick-up, that will likely not repeat next year on the F-16 program. The C-130 program is again just sort of the clicking off the normal manufacturing activities. The only thing that was a little bit unusual on the C-130 is we had a really, really good performance on the sustainment contracts on the C-130 activities in the quarter. And I'd like to think that we have the opportunity to do that in 2012 as well. We're -- I think we've really hit a stride where customers are seeing great value in the sustainment support that we are providing those, particularly obviously, the international customers is where that -- most of that happens. And I'd like to think that, that was -- be something that you'll continue to see in 2012 as well.

As far as the F-35 profit margins are concerned, I mean, there was no -- and I'm doing this again from the top of my head, that there was no profit adjustments upwardly or downwardly in the quarter. So any margin change that happened was purely volume related. We are starting to get some heavier activity in the LRIP 4 contract as you described in your question. And that's again because as I said earlier LRIP 2, 3 and part of 4 will start delivering this year. So that volume is starting to come in, and some of that margin improvement that we're looking for in 2012 will be on contracts such as LRIP 4 as we start to see production aircraft roll-off the line as we anticipate. That will be the triggering mechanism, if you will, for the risk retirements that we plan.

Operator

And next on the line, we have Myles Walton with Deutsche Bank.

Myles A. Walton - Deutsche Bank AG, Research Division

Just going back to the cash flow outlook for next year at $2.8 billion on the op cash line. Bruce, a couple of things. One, the pension expense after-tax looks like it's a $750 million tailwind or so, maybe a little bit less than that. And then is there anything outside of maybe advances or cash taxes, are those the 2 major downers to the cash in 2012? It just seems like even your usual 10%, 15% conservatism, this would be a bit lighter than you might otherwise have given the tailwind on lower pension contributions?

Bruce L. Tanner

Yes, hey Myles, let me -- just to clarify what I think I heard. I think you said $2.8 billion in operating cash in 2012, it's $3.8 billion for the year. And if your questions, again, when there was -- again there were a lot of receipts that got pulled into 2011 from 2012, including some fairly good-sized international receipts. And that's one of the things that enabled us to do the $1 billion acceleration of the pension plan. So we're actually ahead of the game. In fact, for the first time in the corporation's history, at least as I look back in the records, we actually have negative working capital at the working -- at the corporation level. So that's hard to replicate, and one of the reasons that you'll see are -- that your calculation from balance sheet perspective, that's the heart of your question. It's because you're seeing some of the work-off, if you will, that negative working capital coming back next year. I'd like to think even having said that, there are still opportunities. I can tell you, if you talk to any of my folks in the finance organization working in the 4 business areas, they will tell you that I am pushing hard to do better on cash flow than what we've committed to here. And I think there are opportunities to do that, but we're just not there at this point in time to change the guidance accordingly. We'll, obviously, give you updates throughout the year as we progress, and we'll come back to you and tell you how we're doing on that challenge.

Operator

Our next question comes from Howard Rubel with Jefferies & Company.

Howard A. Rubel - Jefferies & Company, Inc., Research Division

Bob, you were very successful in placing THAAD in UAE. Are there a couple more opportunities for this? And might you also address some international potential?

Robert J. Stevens

Yes, thanks, Howard. I'll tell you that relative to the THAAD in the UAE program, you know that Chris Kubasik hadn't been on the calls because he went out and got a real job as our Chief Operating Officer. And he'd been doing an excellent job in focusing on the execution of programs like THAAD, as well as assuring that we're listening carefully to the needs of customers. When we look at the Middle East and you start with an assessment of the security climate there, I think many people look at the Iranians with respect to their actions and their intentions even in the most recent discussions about prospect of closing the Straits of Hormuz, and it creates a very high level of tension. And people recognize that they have invested in the kind of technologies that include ballistic missile threats, and therefore, many in the region who have population centers, who have oil production centers, who have strategic areas of interest view missile defense as a very critical system. So that as we look at the National Security Strategy that was outlined by the President -- the Secretary when they talked about increasing security cooperation partnerships movement as you highlighted by United Arab Emirates here with THAAD, I think if you look across the -- generally, the Gulf Coordinating Council regions, you would see I think a similar level of threat and risk and a similar desire on the part of our administration to lean forward. Now you know we follow a very discreet process here that starts with government-to-government discussions. First, and nothing that we would say or do would subvert that process. But in the longer term, I suspect there'll be heightened and continued interest. I think that those interests will be viewed favorably by our government, and I think we'll have a maturing portfolio in the Middle East with regard to missile defense. I think there'll be a similar version of that experience throughout the Asia-Pacific theater, because we're watching the same or similar type of overall security risk, the proliferation of technologies, the desire to get missiles of greater performance, longer range, more precision, and the desire for governments to have some protection against that ballistic missile threat. So I think this segment of our portfolio is one that will likely grow internationally. Our focus is on making sure that we're executing the requirements under the contract that the technology stays robust. And there was a question earlier about research and development or how are you investing, well, we want to make sure that we have resources available to think in terms of next-generation technology and how can we adapt, how can we provide adjuncts to this system. Maybe it's greater range, maybe it's greater payload. But to continue to evolve these systems, and we think that's a very smart way to address the demands in the global security environment. Of course, you need a mature portfolio to start with before you can evolve that portfolio as the dynamics in the global security environment unfold themselves and we can address them. And I'm very pleased that we have the kind of portfolio you mentioned that we have it in Aegis, we have it in PAC-3. In our missile defense portfolio that forms a really good basis where some incremental investment could not only satisfy customer needs today, but satisfy them tomorrow and can enable us to adapt the system for regional demands around the globe.

Operator

Our next question comes from David Strauss with UBS Securities.

David E. Strauss - UBS Investment Bank, Research Division

Just a couple of little things. Bruce, I don't think you specifically said the tax rate you're looking for, for 2012. And then back on F-35 in terms of the mix, could you maybe breakout percentage-wise on the production side how much of the revenue base you think in 2012 will be LRIP 2 aircraft versus 3 versus 4?

Bruce L. Tanner

I'll answer the easy one first, David. Tax rate for 2012 is -- right now, we're looking at about 30%. That excludes, obviously, the effects of the R&D tax credit. But for planning purposes, think about 30%. Relative to your question on the split of the LRIPs, I'll remind you this is a contract that we’re -- the LRIP contracts themselves are contracts that were booking on a percentage-of-completion basis. So there's very little cost, I'll say, for the LRIP 2 aircraft relative to -- it is not proportional to taking simply LRIP 2 aircraft divide it by the total, because those -- the cost to build those aircraft similar to what I was describing on the F-22 program are kind of behind us. They're out of the factory. They're going through flight testing and the like, and so it's difficult to parse that out. Off the top of my head, I'll say for the total LRIP activity, that's heavily, heavily dominated by LRIP 3 and LRIP 4 activity, which you would probably expect in 2011, and that will shift over in 2012 to the LRIP 4 and LRIP 5 and a similar pattern all the way through future years.

Robert J. Stevens

Jovan, let me say thank you for your help today. We're going to take our increasingly mature portfolio of relevant global systems, focus on the needs of our customers in addressing global challenges, and we look forward to updating you with our progress next quarter. Thank you, all, very much for tuning in on the call today. Again, Jovan, thank you.