FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter-one 2010 Argon ST earnings conference call. My name is Jeff and I will be your operator for today.

At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions) As a reminder this conference is being recorded for replay purposes.

I would know like to turn the conference over to your host for today, Mr. Terry Collins, Chief Executive Officer.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Thanks, Jeff. Good morning, ladies and gentlemen. I am here today with Kerry Rowe, President and Chief Operating Officer; Aaron Daniels, Chief Financial Officer. Aaron will cover our financials today, Kerry will review operations and I will provide a summary.

Now I will turn it over to Aaron.

Aaron Daniels - *Argon ST, Inc. - VP, CFO & Treasurer*

Thanks, Terry. Appreciate that. I would like to begin with our Safe Harbor statement.

The news release today and this conference call contain certain forward-looking statements within the meaning of federal securities laws. Investors are cautioned that all forward-looking statements involve risks and uncertainties that could cause actual results to differ and sometimes materially from those anticipated or suggested by such statements.

Risks and uncertainties are contained in our periodic reports, including our Form 10-K for the period ending September 30, 2009, filed December 4, 2009, as well as our other SEC filings such as our Form 10-Q for the period ended January 3, 2010, which we intend to file this week.

We undertake no obligation following the date of this release to update or revise our forward-looking statements or to update the reasons actual results differ materially from those anticipated in these forward-looking statements. We caution you not to place undue reliance upon any forward-looking statements which speak only as of the date such statements were made.

Now I would like to continue with a discussion of our financial results.

We were pleased to report that we are executing well against our plan to achieve a strong fiscal year 2010 and continuing to position ourselves with our customers to create significant opportunities for growth. Management remains focused on growing the Company and generating significant value to the Company's stakeholders.

As a reminder, the first fiscal quarter starts out our annual growth cycle and is typically our lowest volume quarter due to government procurement cycles as well as fewer work days in the heavily holiday-laden first quarter.

Our financial highlights for the quarter include -- revenue of $73.2 million closely aligns with our initial expectations for the quarter, although it does represent a decrease of 12.9% from $84 million in the first quarter of last year. Operating income of $7.5 million for the quarter, or 10.2% of revenue, represents continued improved margins as compared to $7.6 million, or 9.1% of revenue, for the same quarter of the prior year.

Record first-quarter adjusted EBITDA of $11.6 million, or 15.8% of revenue, for the quarter representing a 7.4% growth over adjusted EBITDA of $10.8 million, or 12.8% of revenue, for the same quarter of the prior year. Net income in the first quarter was $4.6 million compared to $5.2 million in the same period last year.

Fully diluted EPS of $0.21 for the quarter on 22.1 million shares and equivalents as compared to fully diluted EPS of $0.24 for the same quarter of the prior year on 22 million shares and equivalents. Bookings of $49.5 million for the quarter with ending backlog of $209.5 million. And, finally, a healthy balance sheet with $25.5 million in cash and no debt.

As you know, our industry has an operating in a challenging political and economic environment and our plan for FY '10 took this into account. We anticipated a lower first half in revenue and bookings and our first-quarter results were mostly in line with our expectations. We understood that it was possible we would see continued delays at the government level in finalizing and awarding procurements and that these delays could impact our ability to deliver on our plan.

While there have been some delays, which Kerry will cover in more detail, we are pleased to report that so far we remain on track against our plan for the year. At this time we reaffirm our annual guidance as communicated on our December call. We continue to focus on driving new business generation, cash flow, and of course profitability.

In response to feedback from many of our analysts and investors we have consolidated our formal comments and concentrated our discussion of financial results in several areas to allow for additional time to discuss future business and strategic developments as well as Q&A. For those of you who would like a more comprehensive analysis of our financial results, please refer to our press release.

Additionally, as I stated at the beginning of the call, we plan to file our Form 10-Q with the Securities and Exchange Commission this week.

As discussed previously, our first fiscal quarter of any given year tends to be our lowest volume quarter. Driven primarily by lower backlog coming into the year on December's call we set expectation that the first half of fiscal '10 would be lower than the first half of fiscal '09 by approximately 10% to 12%.

At $73.2 million for the quarter our revenues decreased from the prior year by approximately 13%. The expectation of a lower first half of fiscal 2010 as compared to fiscal 2009 continues and is trending to the upper end of that 10% to 12% range.

Beginning backlog for fiscal 2009 was at a record level. As a result, revenue in the first quarter of fiscal 2009 remained strong despite generally lower first fiscal quarter activity from low labor generation during the holidays. During fiscal year 2009 we experienced lower than anticipated bookings resulting primarily from delays in contract administration.

While we believe the opportunities and programs still exist, the resulting lower backlog and delay in the programs resulted in lower revenue generation in the first quarter of fiscal 2010. A few key programs driving this decrease include the C and OG2 programs.

While there were other decreases in revenue due to timing and lower backlog across other programs, including our airborne reconnaissance contracts, we anticipate remaining fiscal 2010 bookings will positively impact revenue during the remainder of fiscal year 2010.

Operating income in the quarter was $7.5 million, or 10.2% of revenue, compared to $7.6 million, or 9.1% of revenue, in Q1 of FY '09. We are pleased to see the continued improvements in margin despite a higher mix of typically lower margin cost type work and we anticipate continuation of these advances, even if moderate, over the remainder of the year.

The mix of cost reimbursable type work increased to 44% during the first quarter compared to 39% in the first quarter of last year. As discussed on prior calls, our ability to increase margins over recent quarters, even with the trend towards a higher mix of cost type work, is evidence that our program execution and cost containment measures are each having a positive impact on margins. We have been and will continue to be focused on the delivery of exceptional shareholder value through solid program execution and profit improvement efforts.

Adjusted EBITDA for the quarter was a record $11.6 million or 15.8% of first-quarter revenue. This compares to adjusted EBITDA of $10.8 million or 12.8% of revenue in the first quarter of the prior year. The improvement to this record Q1 level is driven primarily by improvement in our operating margins as previously discussed. Also stock-based compensation, which has increased year-over-year as a result of our increased stock price among other factors, is excluded from adjusted EBITDA.

As we have outlined on previous calls, we are very well-positioned to maintain our competitive cost offering to our customers and a high-margin return to our shareholders. Our objective is to create operating leverage by continuing to scale the business on a relatively flat fixed cost base of support while also keeping a keen eye on opportunities to invest in technologies and new business development.

During the first quarter of fiscal '10 we increased our investment in research and development efforts as well as in business development resources dedicated to building our pipeline. As a result of the timing of these investments, as well as our first quarter typically having lower direct labor, our rate variance was $4.6 million as of the end of the first quarter.

We did anticipate this increase in rate variance in the first quarter of fiscal '10 as compared to fiscal '09 due to an increased number of holidays that fell into Q1 as well as the timing of these additional investments in R&D and business development. We expect to converge on our target rates by the end of the fiscal year.

The tax rate for the first quarter was 38.1% as compared to 31.8% in the first quarter of fiscal year '09. In FY '09 the reenactment of the federal research and development tax credit was passed on October 3, 2008. This reenactment reinstated the R&D tax credit retroactively to its expiration date of December 31, 2007. As a result of this change we recorded a catch-up benefit for eligible R&D tax credits for the period January through September 2008 during the first quarter of fiscal year 2009.

This same tax credit expired again on December 31, 2009. As such our annual effective rate only reflects one quarter of this credit. In the event the R&D credit is reenacted we will experience a decrease in our effective rate. We expect that for fiscal year 2010 our annual effective tax rate will fall in the range of 37% to 39%. The reenactment of the R&D tax credit would push us to the low end of that range.

Now a few comments on our balance sheet and cash flows. As of the end of the first quarter we continue with a healthy balance sheet and no debt. We ended the quarter with $25.5 million in cash compared to $43.1 million at the end of September 2009 and $3.6 million at the end of the first quarter of last year.

As discussed on the last call, we anticipated the decline in cash balances in the first quarter. This decline in cash is typical and we have seen this in recent years as government payment infrastructure typically slows down during the first fiscal quarter, especially during the holiday season.

During fiscal year '10 we project improvement in free cash flow generation through solid program execution and working capital management, offset partially by an increase in investment and strategic capital expenditures. As a result, our expectation remains that we will be at a free cash flow ratio of 0.5 to 1 times net income for the year.

Now I would like to briefly mention accounts receivable and DSOs. I remind you that additional detail may be gleaned from our press release and 10-Q. We ended our first quarter with a total accounts receivable balance of $135.9 million, representing DSOs of 140 days. As discussed previously, our accounts receivable balances in the first quarter tends to be slightly higher due to government payment cycles.

The DSOs at the end of the first quarter of the prior year was 132 days. Among other factors the increase in DSOs from the prior-year first quarter is due to milestone billing provisions on several of our programs. Excluding these programs, our DSOs would be significantly lower and we expect that these program milestones and resulting billings will release during the remainder of the year.

We expect continued progress and improvement in reducing our billed and unbilled accounts receivable balances, although the timing of milestones will always cause fluctuations both up and down in the billed and unbilled accounts receivable. Current projections are showing a meaningful reduction in overall DSOs by the end of fiscal 2010.

Now I would like to discuss some of our metrics. Backlog coming into the year was at a low point for us and we continue to see some delays in our anticipated bookings. While there is always a risk in the timing of anticipated bookings, we are confident in the win probability of our pipeline.

We believe that some of the planned key wins in our core business, primarily in the second and third quarters, will replenish our backlog levels in fiscal year 2010. Kerry will discuss further details when he covers operations.

As we have indicated on many occasions, we see a book-to-bill ratio between 1.1 and 1.2 over the long term and we continue to expect to achieve that, although quarterly and fiscal year boundaries may cause individual periods to be lumpy. In that regard, we continue to expect that the FY '10 book-to-bill ratio will be between 1.0 and 1.2.

Internally, we measure the backlog potential that exists in already awarded contracts that have ceiling values against which additional tasking can be booked. This sort of future backlog is not publicly reported as bookings or backlog until it is fully tasked by the government consistent with our policy.

It nonetheless represents easily order work that we believe should be realized as bookings, largely in the coming year. It excludes both IDIQ and Omnibus type contract vehicles for which future bookings are less certain.

While we are not going to begin to report this potential backlog since we believe it is not appropriate, we do note to investors that this figure continues to be substantial. Despite the lower level of bookings in recent quarters, we believe that our backlog, including this type of unreported backlog, in combination with high-probability bookings anticipated in the coming quarters provide a clear path for achieving our objectives for consistent delivery of excellent shareholder value.

We are reaffirming the guidance that we communicated in our December call. In summary, revenue between $390 million and $410 million, operating income of $39 million to $44 million, and adjusted EBITDA of $55 million to $60 million.

For the year our forecasts are based on the assumption that we will not see significant delays in government procurement cycles at the level we saw in fiscal 2009. Should we see such delays, we anticipate we will be at the lower end of our revenue guidance range.

To recap, revenue of $73.2 million closely aligns with our initial expectations for the quarter, although it does represent a decrease of 12.9% from $84 million in the first quarter of last year. Operating income of $7.5 million for the quarter or 10.2% of revenue represents continued improvement in margins as compared to $7.6 million or 9.1% of revenue for the same quarter of the prior year.

Record first-quarter adjusted EBITDA of $11.6 million or 15.8% of revenue for the quarter represents a 7.4% growth over adjusted EBITDA of $10.8 million or 12.8% of revenue for the same quarter of last year. Net income for the first quarter was $4.6 million compared to $5.2 million in the same period in the prior year.

Fully diluted EPS of $0.21 for the quarter on 22.1 million shares and equivalents as compared to fully diluted EPS of $0.24 for the same quarter of the prior year on 22 million shares and equivalents. Bookings of $49.5 million for the quarter with ending backlog of $209.5 million, a healthy balance sheet with $25.5 million in cash, and no debt.

Now I would like to turn it over to Kerry who will highlight some of our new business efforts and provide an operational update. Kerry?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Thanks, Aaron. Good morning, everyone. I would like to bring everyone up to date on the significant operational progress of the first quarter across our core business domains -- airborne ISR systems, network communications, cyber solutions, and maritime systems. I will also provide extended inside in areas where Argon ST's software product line approach and advanced technologies are providing important differential advantage for our war fighters and first responders and providing new opportunities for significant growth for the Company.

Argon's systems, products, and personnel performed well for our customers in Q1. Around the world our deployed ship born, submarine, airborne, and ground-based systems brought critical information to the fight and our systems under development passed important milestones on their way to production and deployment. In addition, recently awarded efforts moved through early program successes and numerous opportunities made progress toward contract award.

We believe that Argon ST remains poised to be the beneficiary of the DOD's current thinking on a number of mission areas and realignment of budget priorities. For example, a long-term competitive pursuit of ours, the Army's Aerial Common Sensor Program has now been defined as an umbrella program that has multiple elements and platforms within it.

One key element of the Army's Airborne ISR strategy is the Enhanced Medium Altitude Airborne Reconnaissance and Surveillance Systems or EMARSS. We are very excited that our continued development and rapid fueling of new technologies, together with our technology enabler and platform enabler contracts with the Army, position us positively for this developing opportunity.

Another example is the DOD's resetting of the future combat systems brigade combat team program to the less far-reaching brigade combat team modernization efforts. With BCTM, near-term test requirements now demand test infrastructure opening up potential opportunities for our already fielded common range integrated instrumentation system rapid prototype initiative units to provide real-time casualty assessment.

One more example which we were just awarded in late January is the recently announced $23.8 million reward for ground-transportable perimeter security systems. Purchase of these Argon ST systems is in support of operational forces abroad to provide perimeter defense at forward operating bases. As we rapidly integrate and field these systems, we are pursuing a number of related program opportunities with this and other customers.

We maintained our focus on execution this quarter running our operations cost effectively, achieving our customers' objectives on time and within budget, and operating competitively. All while also maintaining our strong emphasis on business development.

While Q1, as predicted, was a slow bookings quarter, recent awards and contract actions that I will discuss today are very encouraging. With the signing of the 2010 Defense Appropriations Bill in late December we are confident that Q2 will grow our backlog and position us to reestablish our historical top-line growth throughout the remainder of 2010.

Now for the operational details of the quarter. Our airborne ISR systems business continues to deliver advanced systems and products in support of NAVAIR's Maritime Patrol and Reconnaissance Aircraft Program office. With the recent successful completion of factory acceptance testing for Banshee systems for the EP-3E JCC Spiral 3 program, we are now actively supporting our prime contractor, L-3 Communications, in platform integration efforts.

As highlighted in previous earnings calls, Banshee is a proven airborne variant in the Navy's maritime cryptological systems for the 21st century MCS-21 family of ISR systems. Argon's satisfaction of this important test event facilitates the systems movement towards an important operational test milestone.

With the official announcement this week of the cancellation of the Navy's EPX program we are maintaining our focus on our current development and maintenance activities for the EP-3. We stand fully prepared to support the Navy and its airborne reconnaissance mission as they assess platform modernization, configurations, and alternatives going forward.

For the Army our program efforts in support of the project manager Aerial Common Sensors continues with both quick reaction and program of record activities. In Q1 our high band COMINT system was certified for flight as part of airworthiness flight testing conducted on a Northrop Grumman Mission Systems Guardrail modernization program. We continued to deliver high band COMINT production system B kits under this effort.

We also successfully completed the delivery of an initial quick reaction prism airborne COMINT product for OCONUS deployment and negotiated a series of enhancements to the core product family that are expected to be funded in Q2. We continue to aggressively invest in advanced airborne products increasing effectiveness and value of our current systems as well as expanding their technical capabilities.

Argon is nearing the completion of two new small size, weight, and power, or SWAP, variants of our standard product offerings and anticipate the Q2 release of both the SSV 621 signal acquisition and processing unit and the Lighthouse airborne DF engine, or LADE, and channel direction finding unit. These new products fill a worldwide niche for simple to operate, low SWAP, low-cost collection and direction finding systems.

Additionally, across our family of systems our software product line is being updated to include emerging signal processing algorithms to ensure airborne mission effectiveness in a modern combat environment. Argon software being open and portable across processing architectures is key for the incorporation of Argon technology on to new platforms. Efforts already underway, including porting software from our flagship COMINT product lines, Lighthouse and Prism, to established hardware platforms to enable Argon's expansion on to many more Army and Air Force systems.

Turning now to our network communications business. The operational tests tactical engagement system communications upgrade for the United States Army and the ORBCOMM Generation 2 satellite payload development for Sierra Nevada Corporation made significant progress in the quarter. In our FY '09 Q4 year-end call we mentioned that the OT-TES Comms Upgrade program entered production qualification testing. We successfully completed this testing and address a limited number of items for regression testing at the end of Q1.

The Army has recently decided to proceed to a comprehensive developmental test in February after which we believe they will authorize FY '10 low rate initial production funding. We expected the award of additional R&D funds in Q1 to extend OT-TES capabilities. However, as was the case with several of our programs, the award and initiation of this activity was delayed. We fully expect these efforts to be initiated in the year.

In Q1 we continue to demonstrate the OT-TES CU solution to a number of potential users in the test and training community. One demonstration held during December's Interservice/Industry Training, Simulation, & Education Conference in Orlando, Florida, was exceptionally well received as we accomplished a realistic training scenario at the conference site with our high-performance networking.

We believe extending OT-TES technology to the training market is a significant opportunity in FY '10 and beyond. To this end we have just begun an effort with one of the joint tactical radio system providers to assess the compatibility of OT-TES CU networking software, our high net software product line, for test and training purposes.

Throughout the quarter our low Earth orbit communications satellite payload development program, ORBCOMM Generation 2, continued integration and test activities. These activities are expected to continue through Q2 and culminate in a production readiness review. At that time we will produce the remaining payloads and prepare for initial deliveries to Sierra Nevada's satellite integration facilities.

As mentioned on previous conference calls, we view a successful OG2 program as an entree to support tactical satellite payloads and to penetrate both commercial and military space initiatives. We are now pursuing a number of new opportunities and we believe one of these opportunities will come to fruition in the next 90 days.

Our global data solutions business has continued to develop and deliver new products, establishing Argon ST as a provider of commercial and special purpose communications solutions. Recent accomplishments include the field testing of two new product families that leverage our wireless multi-carrier communications infrastructure that supports MESH, cellular, and commercial satellite networks.

Within the GDS business our mine safety product family developed for Strata Worldwide has undergone field testing and will be unveiled by Strata at their East Coast open house next week. This completely wireless coal mine communications and tracking system is currently being certified by the Mine Safety and Health Administration with certification expected in the near future.

We believe that this range of capabilities and programs is key to Argon ST's growth in network communications and overall company growth.

Our cyber solutions business continued to add key technical staff on multiple contracts with a critical intelligence community customer. The group also leveraged our recently enhanced business development process to rapidly grow a strong opportunity pipeline which includes three ongoing proposals with the Navy and an important US cyber customer.

In another cyber-related activity in Q1 we successfully transitioned our United States Air Force air operations center installations, both CONUS and OCONUS, consisting of over 1,200 seats of provisioned applications in a networked, virtualized environment, an application called PAVENet, from development to operations and maintenance. We are encouraged as we expect our OCONUS O&M activities to be renewed and expanded in Q2 to provide increased ongoing support to this important customer.

We believe that there are significant opportunities to apply this technology throughout the DOD as operation centers become the focus of cyber activities for tens of thousands of war fighters.

During the past quarter we have placed additional emphasis on developing our organic technical talent in areas like forensic analysis, reverse engineering, cyber operations, virtualization, and analysis. This strategic investment in our staff has put us in a strong position to rapidly staff the contracts we have already won as well as the contracts for which we are currently competing. Based on early market indicators we plan to continue to hire and train additional staff to meet the growing demand for technical clients and services in the cyber domain.

Moving now to our maritime systems business. Our SSEE Increment E system for surface ships is about to complete its sixth and final production lot in Q2. As you are aware, our follow-on system, SSEE Increment F, is expected to dovetail production with SSEE Increment E. In Q1 we complete all SSEE Increment E/F engineering development model tests and evaluation milestones including factory acceptance testing, developmental testing at sea, and an operational assessment at pier-side.

The overall testing assessment was very positive and enables the Navy to move forward. We see no barriers to the Navy proceeding to their low rate initial production decision in the near term.

With the validation of SSEE Increment F we achieve an important acceptance of our next generation SIGINT product line, Lighthouse 3.0. The product line approach allows us to leverage the modular capabilities of the SSEE Increment F into other Lighthouse product line systems, be they retrofit or brand new systems. We see this enhanced product line as a significant competitive advantage for Argon ST.

In addition, with a successful culmination of testing we anticipate that our SSEE Increment F systems will garner increased international customer interest. Our business development efforts have been focused on these important international partners who are now planning their next generation SIGINT systems. Given our very favorable reception to date, we continue to expect strong uptake with these allies in 2010 and beyond.

Our critical new Lighthouse system for the United States Coast Guard is on schedule and the first system, both topside antennas and below-decks equipment, has completed shipboard installation. The end-to-end initial checkout was successful and the ship will be immediately deployed with a full complement of operators. We have met the critical mission need for this system and in partnership with the Coast Guard will continue to aggressively ready the next system for installation.

Our Maritime area also leads the United States Navy's surface ship torpedo defense program, the SLQ-25. We are providing continuing support as the design partner with the US Navy to define and develop the next-generation SLQ-25 system as it will be the core platform for integrating a comprehensive, layered torpedo defense system for the US Navy.

We are also succeeding in our strategy of combining our core expertise in acoustics with our world-class manufacturing capability to compete in the torpedo component market. The Mark 54 torpedo program discussed in previous calls represents the first step in that market push and we expect this area to continue to grow in the coming year.

Yet another highlight of our maritime business is our subsurface programs where we have delivered over 100 SIGINT systems to the US Navy, including both carry-on specialty systems and permanently installed core systems to meet tactical and strategic requirements.

Consistent with our strategy to expand into international markets our success has led directly to significant foreign military sales opportunities, one of which was awarded in Q1. Despite some appropriation-drive delays in the fiscal year 2010 contract awards, our maritime systems business maintains a robust pipeline of near-term opportunities, new products, new customers, and potential sole-sourced contracts to support growth in fiscal year 2010.

Naturally, our deep expertise in signals and communications lends itself to supporting information operations. Argon ST continuously provides national asset expertise to cutting-edge information operations products, capabilities, and activities. Several recent bookings for development, integration, and support signify our strong position in this expertise-based market. We believe a recently completed study will form the foundation of several development efforts and additional opportunities for Argon ST in FY 2010.

We are also leveraging the very unique market advantage we have as a small, agile prime contractor for a host of sensor programs across multiple services to address the challenges of information dissemination. Through existing programs Argon ST is developing multi-sensor capabilities that bring intelligence access directly to the war fighter.

Beyond our core businesses and as I will now describe, Argon ST is leveraging its advanced technology and extensive applications base to address the near future needs of our nation's soldiers and first responders. One rapidly growing technology area for Argon ST is electro-optics for surveillance and reconnaissance. As mentioned earlier, we recently received a $23.8 million award for ground-based perimeter security systems which will be deployed in support of operational forces.

Our broad expertise with electro-optical systems and strong manufacturing capabilities made this a natural fit for Argon ST. We are actively tracking several new, related opportunities within the Department of Defense and the Department of Homeland Security.

Other electro-optic developments this quarter include the delivery of our first 10-inch, high performance gimbal and receipt of customer support for enhancements to a family of gimbals that establish a new price performance benchmark for the industry. We also received orders for our pre-shot, handheld sniper detection systems which allow snipers to be detected prior to a shot being fired.

Finally, one very exciting area of Argon ST's advanced technology is GPS-denied navigation. Argon ST Robust Surface Navigation program is our foundation program in GPS-denied and GPS-degraded technologies. Sponsored and managed by DARPA the program addresses the need to navigate in urban settings when even military-only modes of GPS may be unavailable.

During Q1 we completed extensive data collection for our RSN solution. Last week we completed a successful critical design review with our DARPA customer and multiple other government agencies. This important transition review clearly demonstrated a well-constructed system design for this important national capability and we, therefore, expect to be awarded the next phase of RSN no later than Q3 of this year.

As part of this expanding business, RSN and related technology programs are allowing us to consider other challenges and opportunities, such as underground navigation for DARPA and precision location of first responders for the Department of Homeland Security.

In summary, from the operational perspective we were very satisfied with many aspects of our performance in Q1. Developmental programs such as SSEE Increment F, OT-TES CU and ORBCOMM Generation 2 made significant progress in integration, testing, and customer acceptance as each program prepares for production.

We also demonstrated our ongoing commitment to invest wisely in technology and business development. As Terry commented in our earnings release, our realized bookings for the quarter were tempered by the availability of government FY '10 funding and delays in a number of awards. However, our early Q2 bookings activity is very encouraging and we look forward to continued booking strength in Q2 and the remainder of the year.

I would like to now return to Terry for his comments and your questions. Terry?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Thanks, Kerry. I would like to discuss a few of the highlights of the last quarter and we will begin with the positive testing that the government conducted on the SSE Increment F system.

The government concluded a number of factory, pier-side, at-sea, and operational tests during the last quarter. And although the official evaluation is not yet complete, we believe that the testing of this advanced system was successful and that this new generation of critical mission equipment will start production in our current quarter.

A key part of our strategic plan is to grow the Company by using advanced technology in innovative ways to solve difficult operational problems. This system certainly satisfies that objective.

More importantly, we also have a mission to provide the men and women of our armed services with the tools and the intelligence that is needed for them to protect our families and our country. Making the transition to production is an important part of what we do to satisfy this mission.

We are excited about providing unmatched performance capability to our service Navy with a system that allows both local operation and remote in-network operation. The performance results also validate the test readiness level of our next generation of Lighthouse systems that we plan to supply to undersea, ground, and airborne platforms.

Paralleling this important maritime program is the Army OT-TES Communications Upgrade program. This program is currently undergoing testing, expected to successfully conclude this quarter, and to move rapidly into production providing critical communications and data collection to the test and training ranges.

A second highlight of the quarter is the advancement in new technology that we are making in a number of domains important in the ISR market. Although most government-funded R&D is spent to mature technology to reach operational readiness on systems such SSEE and OT-TES, a substantial amount of government-funded R&D coupled with internal R&D is used to explore new techniques, algorithms, and technology to take on even more difficult problems.

These investments have allowed us to be successful at capturing a new set of important technology programs related to geolocation, navigation, communications, acoustics, countermeasures, and SIGINT, and will provide the foundation for future generations of systems needed to solve complex ISR challenges. These new efforts are focused on smaller size, weight, and power, or SWAP, novel signal processing capabilities that achieve accurate solutions more rapidly and methods to facilitate the integration of intelligence from disparate sensors to satisfy the needs of our war fighters and first responders.

Although we do not expect that all of these efforts will be successful, we have formed many exciting teams with our customers focused on not just meeting current operational needs but leapfrogging current technology and providing precise and timely locations to the emerging ISR requirements.

A third highlight is our customer diversification. We continue to work hard to satisfy our existing customers while expanding into a broader set of customers and we are making progress on that goal. A larger customer base offers more growth opportunities, cross-fertilization of technology and requirements, and more stability in operations.

Our customer base has continued to diversify with recent programs supporting the Department of Homeland Security, Customs and Border Patrol, US Air Force Operation Centers, and a commercial contract to provide mine safety and instrumentation monitoring. We believe that these new relationships offer substantial new growth opportunities.

Additionally, our maritime systems, including both surface ship systems and submarine systems, are likely to experience increases in sales over the next few years with foreign customers.

Before concluding, I would like to discuss briefly the state of the airborne reconnaissance market. We have a well-recognized position in the very competitive and dynamic US airborne reconnaissance market. While many of our government's recent efforts for smaller airborne platforms and UAVs have focused primarily on imaging systems, we are currently seeing more interest in small SWAP SIGINT solutions for high-demand tactical platforms.

Our ISR solutions for this space are both mature in terms of test readiness level and advanced in terms of capabilities, and are well suited to achieve many of the needed SIGINT requirements. While programs such as ACS and EPX have been canceled, delayed, or morphed into classes of platforms with differing requirements, airborne ISR requirements are not going away. Although platforms may change, advanced SIGINT in small, reconfigurable packages is in demand and we believe that we will continue to see strong funding in future growth in this market.

We are well-positioned within the US Navy airborne market and have continued to provide critical capability to our Army customers. Additionally, we provide important products to a number of Air Force platforms.

We are pleased that we were also selected by the government to develop some important new capabilities to solve airborne missions. This rapid development is expected to begin testing later this year.

Our pipeline is strong with many momentum and follow-on programs in negotiation or pricing at the current time. We expect a significant set of these programs will be awarded in the near term and expect the rate of program bookings and backlog will be increasing this quarter and next. And we are looking forward to an excellent year.

Thank you for your attention and I will now open the lines to questions. Jeff?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Myles Walton.

Myles Walton - *Oppenheimer & Company - Analyst*

Thanks. Good morning, guys. First off, Terry, a question, and obviously the elephant in the room, could you give us some color, if at all, on the strategic options being pursued, progress, timing? Any additional color you could provide would be helpful.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

As we stated in our January 12 press release, we do not intend to comment unless and until the Board of Directors has approved specific information.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay. We got that one out of the way. A couple things, what is the size of the next phase of the RSM?

Kerry Rowe - *Argon ST, Inc. - President & COO*

It's on the order of $10 million, Myles.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay. And just to clarify on the awards in 2Q, the Cerberus award, is that a 2Q award or was that included in the 1Q?

Kerry Rowe - *Argon ST, Inc. - President & COO*

No, it's Q2, Myles. It came in on January 26.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay. So it looks like you have Inc F coming probably on the order of $30 million. You have this award coming on the order of $25 million or so. So it looks like 2Q in hand your bookings are already showing some pretty good strength, is that right?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, I think that is what we tried to highlight in our prepared remarks, Myles.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay, great. On the [jitters] compatibility test that you are doing, are you doing that on both HMS and GMR or just one of the clusters?

Kerry Rowe - *Argon ST, Inc. - President & COO*

It's just one right now, Myles. It's a small evaluation contract effort, if you will. It's hundreds of K to look at high net for [jitters].

Myles Walton - *Oppenheimer & Company - Analyst*

So is that with GMR?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yep, I believe it is. I can double check that for you.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay, and the satellite opportunity you talked about in the next 90 days, obviously OG2 was a larger contract. Is this a significantly smaller effort or could you give any more color around that?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, there is actually a multiple. The one we are highlighting -- we are bidding a couple that are larger, but the one we are highlighting is significantly smaller. What we are talking about are doing communications, processing assemblies for tactical satellites, as well as some potentially adjunct payloads for other flavors of tactical satellites.

So they run the gamut, but you should think of it, at least in the near term, as smaller than the OG2 contract.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay. And I think, if I got it right, you said the source of the year-on-year declines primarily out of SSEE and OG2. When do the OG2 compares dissipate?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

What is the question, Myles?

Myles Walton - *Oppenheimer & Company - Analyst*

It sounded like the year-on-year declines were driven by SSEE and OG2?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Right.

Myles Walton - *Oppenheimer & Company - Analyst*

Is that correct? And if so, when do the OG2 compares go away?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

It really will be you on order of magnitude more towards Q4.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Yes, we had a pretty robust year last year. And there is still a lot of work going on but it's the shape of the curve.

Myles Walton - *Oppenheimer & Company - Analyst*

And relative to the profit on that particular program, I know early on you were booking it pretty low. As you get towards the end, have you already started to see or should we anticipate that the booking rates for profit will pick up?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

On that program, I think we are looking at steady state at this point. We still got a bunch of runway ahead of us so we are going to have to wait and see, but I would guide you to kind of steady state.

Myles Walton - *Oppenheimer & Company - Analyst*

Okay. All right, thanks again.

Operator

Michael Lewis.

Michael Lewis - *BB&T Capital Markets - Analyst*

Thank you so much. Good morning, everyone. Hey, Kerry, with regard to Cerberus light, there is some content I think on that platform from FLIR with the Recon III camera and then [Telphonics] provides some of the tactical radar. So that is embedded in that prior, from what I understand now.

Specifically related to Argon, what is the content that you anticipate you will provide on that and what proportion of that total contract, about $23 million, $25 million that we see out there, is actually going to be derived by Argon direct work?

Kerry Rowe - *Argon ST, Inc. - President & COO*

First of all, we are the prime so the entire amount of the contract and revenue flow through us. You are correct in that it is really an assembly and integration job of kind of existing payloads, trailers, masts, that type of technology.

We do have some NRE involved in the some of the control systems, software, firmware types of things, and communications. But you are very right to think of that program as an assembly and integration job.

Michael Lewis - *BB&T Capital Markets - Analyst*

Okay, yes. And what I was trying to get at was what proportion of that is actually going to be the not low margin pass-through related revenue? What was going to be some of the higher margin revenue for you?

Kerry Rowe - *Argon ST, Inc. - President & COO*

This is a fixed-price job and we will have to see how we go. I will tell you that it's a very fast-moving train, as you might imagine, Mike. All these systems will be delivered this year and virtually all the revenue will be experienced this year. There will be a small amount associated with spares and so forth that may go out of the year, but this thing is moving very quickly.

Michael Lewis - *BB&T Capital Markets - Analyst*

Got you. And then -- so we have EPX which dropped away. We now ACS is gone for good. So you are in a focus on EP-3. EMARSS is a newly emerging opportunity for you as well as other competitors.

What about the UK's Nimrod upgrade program? Are you looking at any opportunities to provide some of that tactical SIGINT on that platform?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Well, let me kind of -- since you brought them back up, if you don't mind, let me kind of speak to Navy, Army, and then I will speak to UK. How is that?

Michael Lewis - *BB&T Capital Markets - Analyst*

Great.

Kerry Rowe - *Argon ST, Inc. - President & COO*

On the Navy side, Mike, we really don't believe the Navy is going to give up this mission. We believe that the Navy will continue -- we talked about last quarter and we have talked about even since then, the Navy was doing an EPX analysis of alternatives and that was due to read out in the spring. I think April type timeframe.

And my sense, our sense is that that analysis of alternatives will continue. The Navy will keep this mission. The Navy wants to keep this mission. I think they are going to continue to look at things involving high altitude UAVs, like [EVAMS], as well as wide-bodies to include potential variants of P-8s and so forth. So I believe the Navy will continue and we certainly feel like we are in good stead there with regard to our ongoing work.

Should a P-8 be considered, we certainly have a good relationship with Boeing and understand how to get our technology there.

So that is kind of how we view what is happening with Navy airborne reconnaissance given Secretary Gates' testimony this week and the cancellation of EPX. So we feel very good about where we are in naval reconnaissance.

On the Army side, and you probably read Rob Carpenter's interview in Defense Systems here recently, and I have tried to capture some of that flavor in terms of, yes, the ACS program as a stand-alone program was terminated but the project manager for Aerial Common Sensors is viewing this as an umbrella set of programs, much like the Navy's Analysis of Alternatives, I think, for which EMARSS, which is -- EMARSS is an [ODEN] MARSS type of approach analogous to Liberty for the Air Force.

So, yes, we feel good about what we are doing for the Army, as I mentioned in my remarks. We definitely feel like the Army wants our technology on EMARSS and we are just going to have to see how the EMARSS program goes forward. There was, I think, an industry day scheduled for next week which I think I heard this morning has been delayed. So we will just have to see how that plays out with the Army, but we obviously stay in close contact there.

And then moving to the source of your question there on the Nimrod in the UK, it's our understanding that going way back -- and you probably remember this -- going back to the ACS days when the original ACS program was alive and well, the Brits were looking at either an ACS-based solution or a Rivet Joint-based solution for the Nimrod. Since the Lockheed ACS solution went away, I believe that they are now focused on an L-3 Rivet Joint-based solution.

I think there is potential for us there. As you have heard, we talked a lot about boxes and technology and products that people can incorporate in their architectures. So I think we have an opportunity there, but I think L-3 is really going to drive that train for the Nimrod.

Michael Lewis - *BB&T Capital Markets - Analyst*

Okay, yes. And thank you so much for that detail. One more question and I will get out of the way here. With regard to the increased investment that we have seen in the business development, can you help us quantify the pipeline here and offer any trends that you may be seeing right now as of this quarter going forward?

Kerry Rowe - *Argon ST, Inc. - President & COO*

I don't think we want to quantify our pipeline. In terms of trends, I think we have tried to capture a lot of those in what we have said already today.

The trends towards high-test, readiness level equipment, Mike. You are seeing RFPs come out and they really -- the government really doesn't want to spend a lot on research and development. You need to be prepared to come forward with, in the case of an airborne program, a box or an architecture that has flown, preferably flown in theater, at a very high TRL, test readiness level, 8, 9, something on that order.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

If I might elaborate, a little bit of that has to do with the fact that in trying to get things to the war fighter that a lot of technology was oversold in terms of providing capability that worked once in the lab and got to the theater and didn't work well in sand or in mountains or in heat or cold. And so I think the services were a bit burned as a result of that.

And so I think there is a better focus on what actually works. Working technology is better than technology that is great but doesn't work when you get to theater.

Kerry Rowe - *Argon ST, Inc. - President & COO*

Exactly. And so, Mike, in terms of kind of a summary trend, what that means to us and certainly others in the community is I can tell you that we, as a company, are spending significant amounts of independent research and development, IR&D, on furthering the technology and making these boxes, improving these boxes, improving these systems so that we can be prepared for these procurements.

Michael Lewis - *BB&T Capital Markets - Analyst*

Thank you so much.

Operator

Chris Donaghey.

Chris Donaghey - *SunTrust Robinson Humphrey - Analyst*

Good morning guys. Again, congratulations on the Cerberus contract, Kerry.

It has obviously been a very significant growth area over the past few years. I am hoping that you can kind of help us frame the quantitative opportunity here. This initial award, I am assuming -- does it have options? Can you talk about, at least from a high-level perspective, the number of systems that are out there?

And from talking to some other companies in the industry, you kind of came out of nowhere and won that. How can you create barriers to entry in this business to make sure that if and when the next competition comes around you are well-positioned for the next contract?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, that is great, Chris, and we appreciate your comments there.

In terms of coming out of nowhere, I would offer to you that we have been working this effort and related efforts for quite a long time and have done a lot of face time with customers, a lot of demonstrations of technology with customers. I think the key going forward is going to be our ability to deliver.

As I said, these systems are all going to go out the door this year and go into theater and protect troops. They need to work when they get there. And so we control our own destiny from that regard and we fully intend to perform well.

There is a kick-off with a customer today. As I mentioned, this train is moving very quickly. We have had an internal kick-off already. So we are excited about this and we are going to do our daggone best to make sure these things are successful for a lot of reasons.

I might make one comment in case it doesn't come up later on on the bookings and book to bill. This job actually was scheduled to occur and book early in Q1. In fact, it slipped out of the quarter as something that we worked really, really hard to try to get, to make it happen and come through. Unfortunately, it fell into the first month, late in the first month of Q2.

It won't have a revenue impact in the year. The revenue will still be experienced this year, but a comment I will make here, Chris, is that had it booked in Q1 our book to bill for the quarter would have been on the order of one, one times. So that kind of gives you a feel for when something like this kind of gets delayed in the contract shop with the government, it can have that kind of impact.

In terms of opportunity though, I believe that -- and the customer doesn't want us to get too specific on any of these things. But I believe the objective inventory for this particular system -- I won't give the number, but it's certainly over twice the number of systems that we are currently on contract to provide.

And as you know in following this, there are opportunities with Customs and Border Patrol. There is a couple of those we are bidding now. The Marines long-term have a program called GBOSS, ground-based operational surveillance system, and the Marines are talking about 600 systems and three variants over five years. That one right now I think is scheduled as a 2011 RFP.

But as you very correctly point out this is a tremendous opportunity. We are very, very excited about this opportunity and really, really tickled that we were able to get this first one going. And as I mentioned, we have got a lot of focus on in and we intend to deliver.

Chris Donaghey - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And then just on the contract structure itself, is this a one-time contract or is there a multi-year flavor to this or are their options that --?

Kerry Rowe - *Argon ST, Inc. - President & COO*

I can't give you -- I don't want to give you too much detail. The contract certainly has the ability for the customer to add options should he choose. It's a fixed-price contract but it certainly has the ability to be expanded.

Chris Donaghey - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And then just quickly on EMARSS as well, has there been any indication on the number of aircraft they are kind of targeting for EMARSS?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, I heard tens, Chris. When you talk to people in the government and you talk to OSD and when you talk to the Army, you will hear numbers like 30 to 40. I have seen those types of numbers.

Chris Donaghey - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Thanks a lot, Kerry.

Operator

Steve Levenson.

Steve Levenson - *Stifel Nicolaus - Analyst*

Thanks. Good morning, everybody. Just a couple other questions on Cerberus because that is really sort of a surprise award to me. Obviously, you guys knew about it.

But am I correct, is that a program of record that sort of falls under the GBOSS [NETC] umbrella?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Again, without saying too much Steve, and our customer has asked us to be very -- they like us to be kind of restricted in our overall discussion of the program. But if you go back to their -- the announcement, the government announcement, which was on the 26th, there is some pretty good information there. But I think you would be correct in assuming that it is part of a larger program of record.

Steve Levenson - *Stifel Nicolaus - Analyst*

Okay, thanks. Am I correct too, it's a short-range program? And if that is the case, is it replacing or did it -- was this competitive and you beat somebody for the contract?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, I can't -- again, Steve, I can't give you that that kind of detail.

Steve Levenson - *Stifel Nicolaus - Analyst*

Okay. Then just switching over to what looks like the termination of EPX. Do you think EP-3 upgrades and refinements are going to end up being equal to, less than, or greater than?

Kerry Rowe - *Argon ST, Inc. - President & COO*

You know, crystal balls are wonderful things. Mine works sometimes, but not all the time Steve.

It's going to be very interesting to watch, because while EPX was still an official program of record there was discussion within NAVAIR of sun-downing the EP-3. And looking at sundown types of curves that kind of culminate in a 2016, 2017 type time frame.

Hard to say what is going to happen now. I believe, as I have said, the Navy is committed to this mission. I believe that modernization efforts will continue. They have to continue. And I really think that when they read out on this analysis of alternatives, I think that something like a variant of a P-8 which -- and hopefully flying Argon's COMINT gear will warrant serious consideration. And I think it will.

Steve Levenson - *Stifel Nicolaus - Analyst*

Okay. Last one is on Increment F. When you do see the award, do you expect it to be a multi-year procurement with an initial purchase amount or do you expect them to come one at a time?

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

It will be very similar to this SSEE Increment E contract where the government has negotiated options that it can exercise on an annual basis the quantity that they want. And as the money becomes available.

Kerry Rowe - *Argon ST, Inc. - President & COO*

Correct, Steve. And just a little color there. The current Navy's production installation plans call for four full rate production lots. They run FY '11 through FY '14 type of timeframe.

Steve Levenson - *Stifel Nicolaus - Analyst*

Thanks very much.

Operator

Kevin Ciabattoni.

Kevin Ciabattoni - *Boenning & Scattergood, Inc. - Analyst*

Good morning, guys. Starting off with a question on OG2. ORBCOMM seems pretty confident in the schedule but they are still relying on SpaceX which is somewhat unproven for launch. Are there payments to you guys that kick off for the launch that would be affected by a pus-out there or is it not really dependent on that?

Kerry Rowe - *Argon ST, Inc. - President & COO*

It's really - I will start and I will let Aaron kick in, Kevin. Really where we are focused and financially driven are upon completion of the bus integration, satellite integration.

You are right; they are selecting a launch vehicle. There probably will be some flowdown in terms of impact on that, but right now what we are doing is focused on payload delivery and supporting SNC and bus integration.

Aaron Daniels - *Argon ST, Inc. - VP, CFO & Treasurer*

Yes, that is it.

Kevin Ciabattoni - *Boenning & Scattergood, Inc. - Analyst*

Okay. And then a couple quick ones on Increment F. On the last quarter's call you mentioned that you expected the outlook to be in the $40 million to $50 million range probably. Is that still the case? I apologize if you guys mentioned it earlier. I missed it.

Kerry Rowe - *Argon ST, Inc. - President & COO*

It will probably be towards the lower end of that.

Kevin Ciabattoni - *Boenning & Scattergood, Inc. - Analyst*

Okay. And then as that ramps up, you guys have done a pretty good job growing the operating margin. Is there the likelihood that as manufacturing ramps we could see that operating margin approach maybe over 12%?

Aaron Daniels - *Argon ST, Inc. - VP, CFO & Treasurer*

The way I would -- overall margin I wouldn't guide much higher than that in sort of the near-term quarters. I think what we have said on prior calls is we do expect margin expansion through 2010. We expect that to be moderate/gradual.

We are not looking for a real massive tip. Quarter to quarter things could be a little lumpy as you know and as you have seen. But it's hard to peg a specific number, but that is kind of how I would guide you. I think this is Aaron.

Kevin Ciabattoni - *Boenning & Scattergood, Inc. - Analyst*

Okay, terrific. That is all I had, thanks.

Operator

John Croke.

John Croke - *Jefferies & Company - Analyst*

Good morning. A lot of my questions have already been answered and there has certainly been a lot of questions about the Cerberus win. But wanted to ask you, if we take that contract and kind of aggregate it with all the other quick reaction, rapid fielding, or whatever you want to call it type contracts that you have picked up recently, especially in the airborne ISR world -- and I don't know if you look at these programs on this basis.

But if we kind of aggregated everything is this something that is kind of on the order of maybe $50 million or more? It seems like it has been a nice growth driver for you all.

Kerry Rowe - *Argon ST, Inc. - President & COO*

I think you can collectively look at it that way. But one thing I will caution you on John, as Aaron mentioned and he talked about where we have contracts that have lots of ceiling so that a customer can rapidly push things through, we have probably three or four of those directly with the Army right now that have tremendous amount of ceiling for our ability and their ability to react to emerging needs in theater.

And if you look at this collectively, they are even larger than the number that you put out there. But I think it's fair to think of the QRC types of activities that we are undertaking. It's because that is what is happening in theater and that is what the war fighter needs. They need these things quickly.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Well, yes. I just might add into that that one of our strategic objectives has been able to -- has been to get in place these kinds of contracts that is in alignment with what DOD wants to do.

Because to run a large program, I mean it takes the government a year to two years to write a spec, right an RFP, go out for a competitive procurement, get proposals back, evaluate those, and make an award that is solid enough. Then you have 18 months to two years to build something and it doesn't get to the theater until 2016. And that is not acceptable in today's war.

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, and I think that we set out on that path recognizing that it's very, very important to have contractual vehicles in place of this type so that the government can react. And certainly that is playing out in spades currently.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

And I am assuming they are doing that with another of other companies?

Kerry Rowe - *Argon ST, Inc. - President & COO*

I am sure they are. We are not the only ones there. But we certainly -- we enjoy the fact that we have these contracts. We enjoy the fact that our customers are willing to put them in place and get them in place quickly, and then rapidly push funds through.

John Croke - *Jefferies & Company - Analyst*

Yes, absolutely. It sounds like you have been very responsive here and it's paying off clearly.

Aaron, a question for you. I know you spent some time talking about receivables and DSOs. Clearly, we all definitely understand the seasonality factor and the nuances with the timing of the budget and whatnot. But that said, the number was still a little bit bigger than what I would have figured.

Was there kind of a distinction between billed or unbilled that was a bigger swing factor there or was this OG2 receivable possibly a mover in the quarter?

Aaron Daniels - *Argon ST, Inc. - VP, CFO & Treasurer*

Yes, I think most of the growth came out of unbilled, some of that was OG2, but there were a multitude of other programs that contributed to it. And as I said in my formal remarks, the expectation is that substantial portions of that will release during the year. They are milestone driven and it's just kind of where we are in the cycle.

It almost -- it's not tied to the bookings but it's a parallel kind of concept that the shape of the curve during the year just drove that number higher in the first quarter. We are pretty optimistic about our ability to bring that number down certainly over the remaining three quarters and particularly in the second half of the year.

John Croke - *Jefferies & Company - Analyst*

Okay, great. That is helpful. And then lastly on the OG2, are you all still performing pretty well against your cost estimates on the program?

Kerry Rowe - *Argon ST, Inc. - President & COO*

Yes, we think so. Someone brought up the launch vehicle earlier and certainly that will -- I believe there will be some flowdown from ORBCOMM to SMC to us on that. It's really -- depending on launch vehicle selection, as you probably know, it has center of gravity and logistics issues associated with how the satellites get loaded and how they are launched.

But, yes, I think overall, our predictions right now are that we are doing fine. I think that we are slightly behind collectively in getting things done, but I think overall I believe ORBCOMM'S view of us and Sierra Nevada's view of us is very positive.

John Croke - *Jefferies & Company - Analyst*

Great, good to hear. Thank you, gentlemen.

Operator

And it looks like we do not have any questions in the queue.

Terry Collins - *Argon ST, Inc. - Chairman & CEO*

Thank you very much for your attention today. We will talk to you next time.

Kerry Rowe - *Argon ST, Inc. - President & COO*

Thanks, everybody.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect and have wonderful day.