



Defense Acquisition: An Industry View

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LOCKHEED MARTIN



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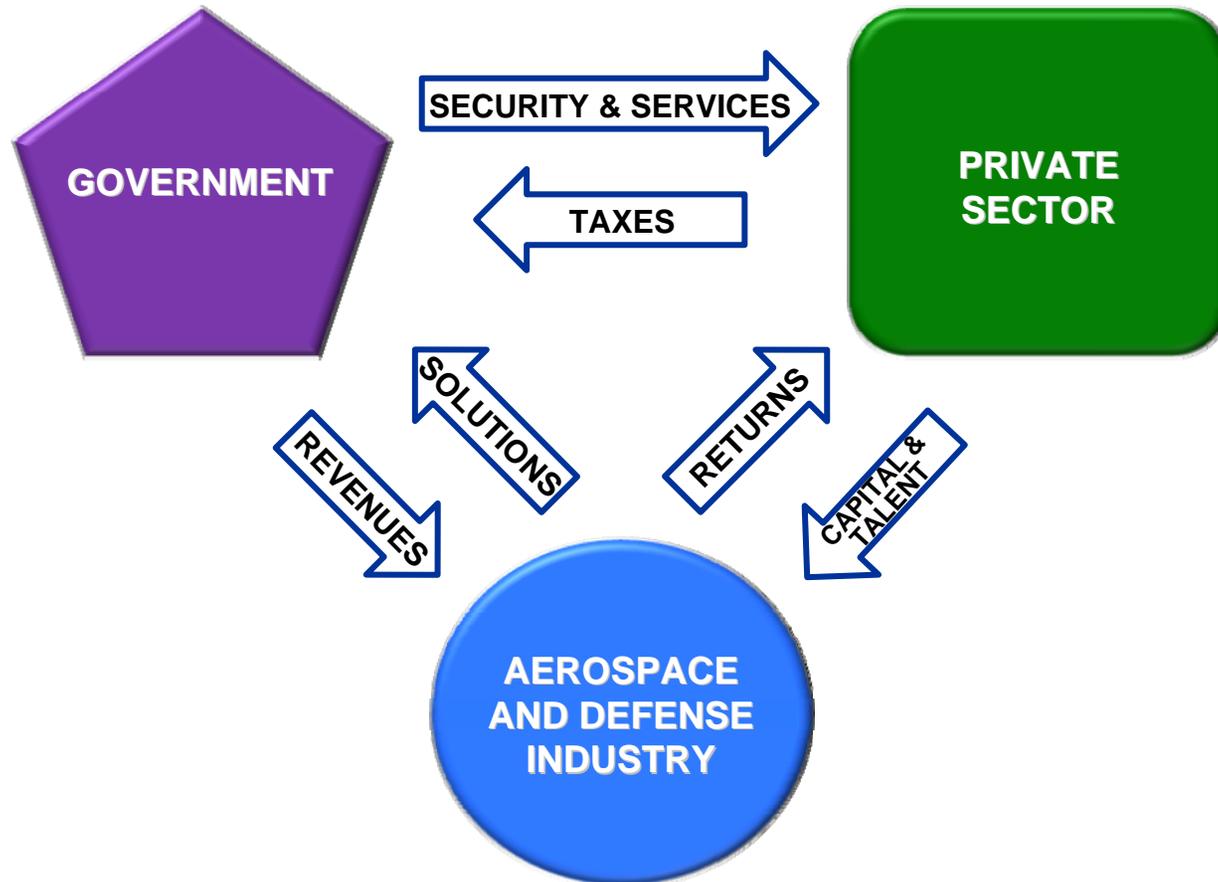
What All Successful Businesses Have in Common



- **Effective Business Rhythms**
 - **Strategy for Success and Determination to Execute It**
- **Strong Cash Flow**
 - **Processes Enabling Financing, Sales, Execution, and Collection**
- **Prudent Management of Risk**
- **Reasonable Returns**

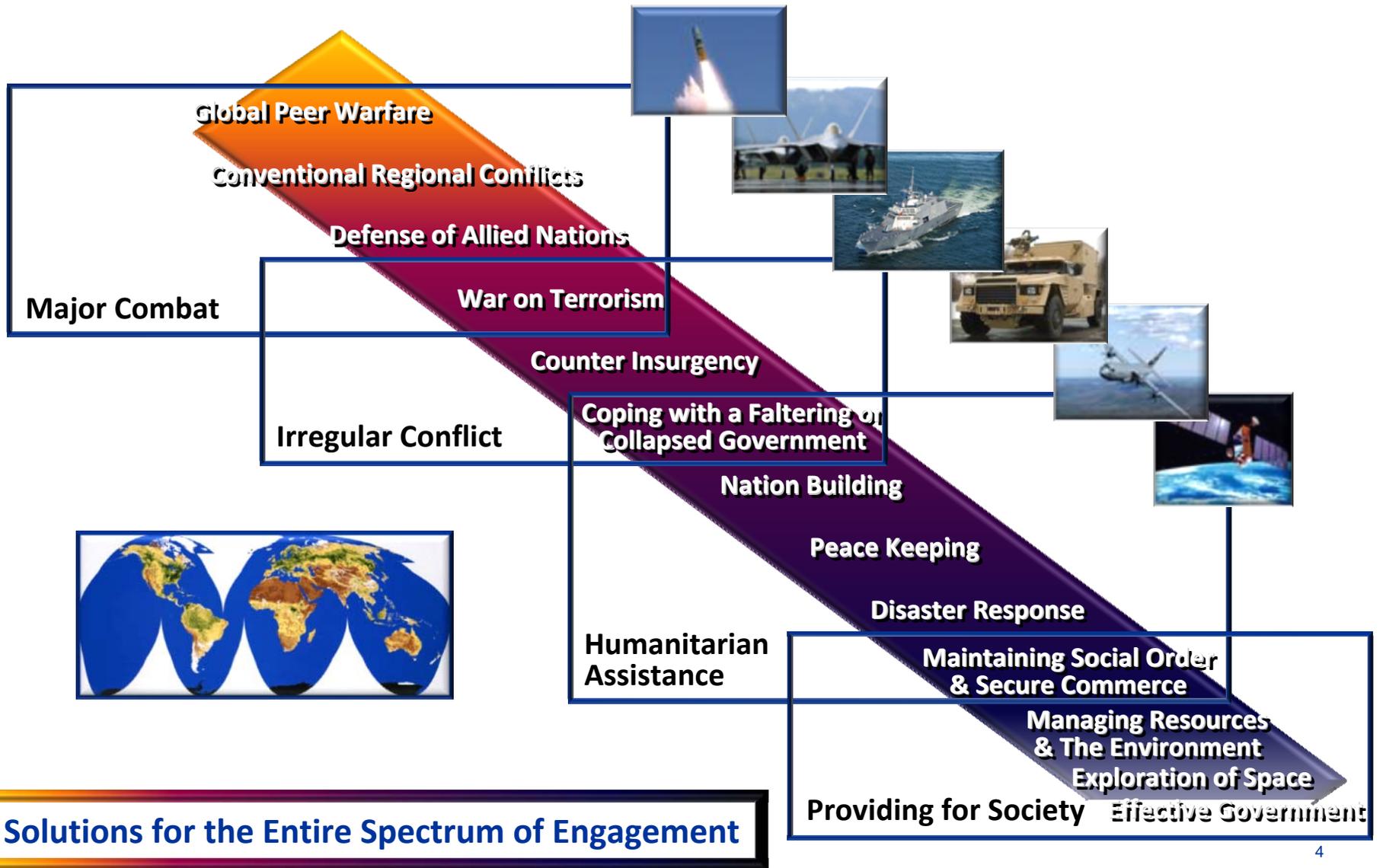
Returns Enable Success

A&D Industry's Unique Role



Translating Private Sector Resources into Public Sector Solutions

A&D Industry Supports Global Security



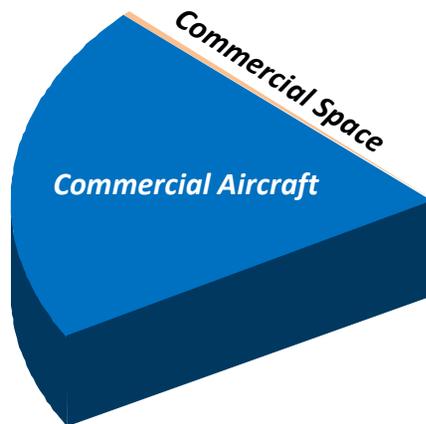
Superior Systems for Warfighters



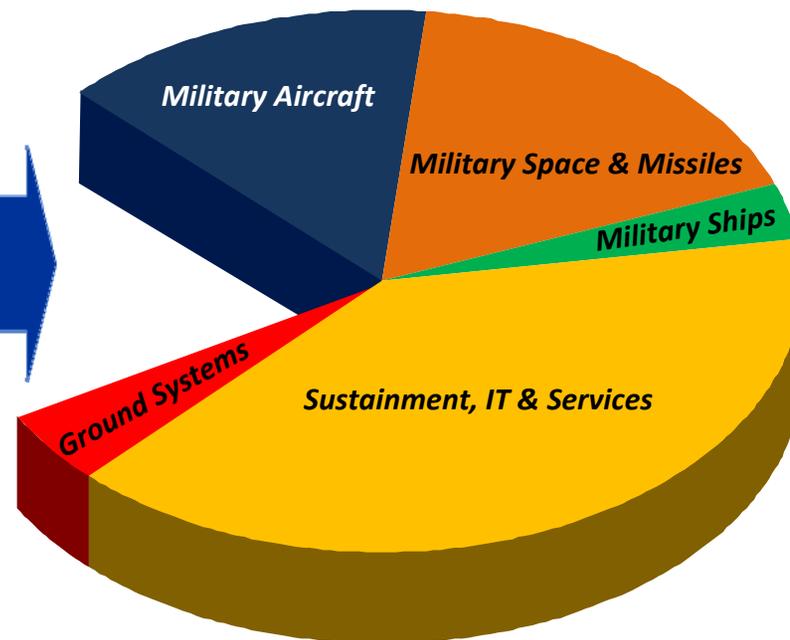
Aerospace & Defense Elements



Commercial



Defense



**Commercial and Defense Sectors Share Technical Skills,
But Possess Segmented Business Systems**

Commercial vs. Defense Contractors



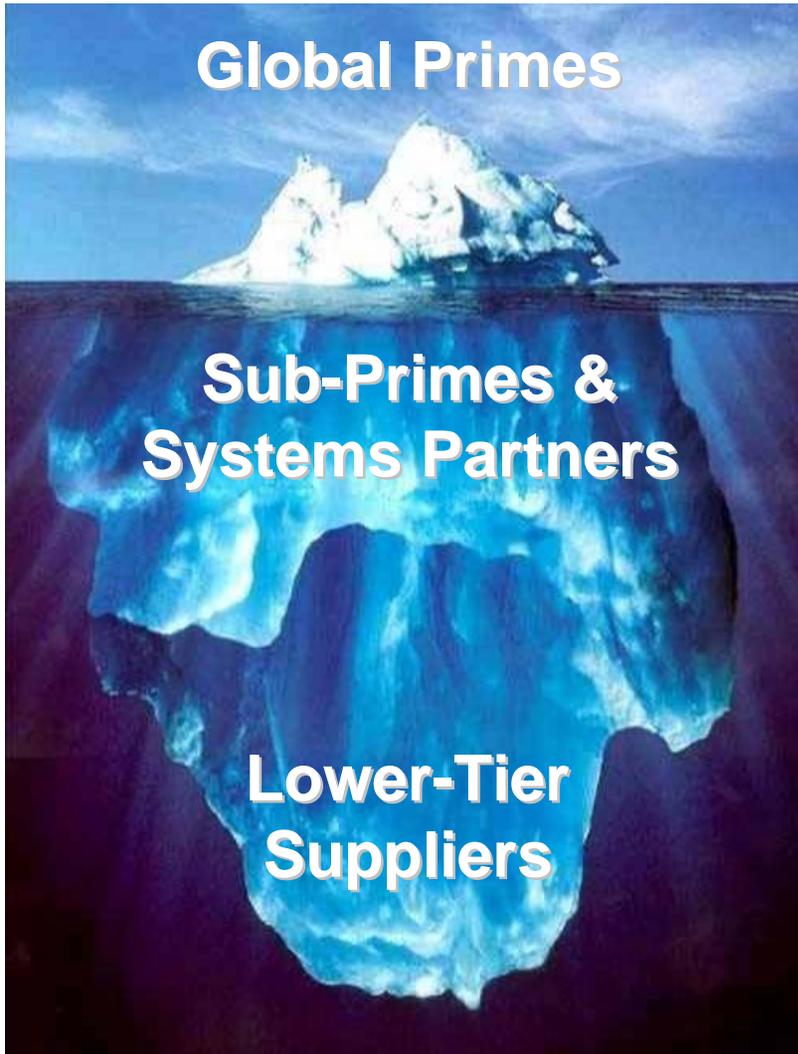
Commercial Business	Defense Business
<ul style="list-style-type: none">• Open Markets<ul style="list-style-type: none">• Multiple Customers With Individual Transactions• Anti-trust Limits• Price-based Business Model<ul style="list-style-type: none">• Closed Books• Maximize Sales• Upside/Downside Unlimited• R&D Investments Recouped in Production Price	<ul style="list-style-type: none">• Monopsony<ul style="list-style-type: none">• Single Customer Comprised Of Multiple Constituencies• Industrial Base Policy Limits• Cost-based Business Model<ul style="list-style-type: none">• Truth In Negotiations Act (TINA)• Maximize Sales• Upside/Downside Capped• R&D Investments Funded or Reimbursed by Government

Commercial vs. Defense Contractors



Commercial Business	Defense Business
<ul style="list-style-type: none">• Limited Government Oversight• Not Subject To Federal Acquisition Regs• Limited Export Control• Multi Year Projections• Consumer Driven	<ul style="list-style-type: none">• Significant Government Oversight• Subject To Federal Acquisition Regs• Export Licenses Required to Sell Overseas• Annual Funding• Government Policy Driven

A&D Industry Tiers



- Critical systems and materials suppliers
- Companies in all 50 states & worldwide
- Includes small, disadvantaged and minority-owned businesses

Typically, 60-75% of Work Content is Performed by Sub-Primes & Lower Tier Suppliers

Defense Program Reductions



B-2 Bomber
Programmed: 132 Built: 21



Expeditionary Fighting Vehicle
Programmed: 1025 Being Built: 593



F-22 Fighter
Programmed: 750 Being Built: 187



V-22 Tiltrotor
Programmed: 913 Being Built: 458

Terminations for Convenience



RAH-66 Comanche
\$9 Billion Spent



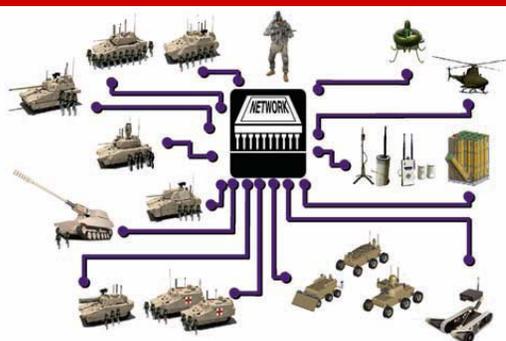
TSAT/TMOS
\$10 Billion Spent



VH-71 Presidential Helicopter
\$5 Billion Spent



Airborne Laser
\$7 Billion Spent



Future Combat System
\$24 Billion Spent



XM2001 Crusader
\$2 Billion Spent

Government vs. Industry View of Profit

Government Perspective

Total Allowable Cost	\$9,000,000
Profit/Fee @ 12%	<u>\$1,080,000</u>
Price	<u>\$10,080,000</u>
Return on Sales	10.7%

Defense Contractor Perspective

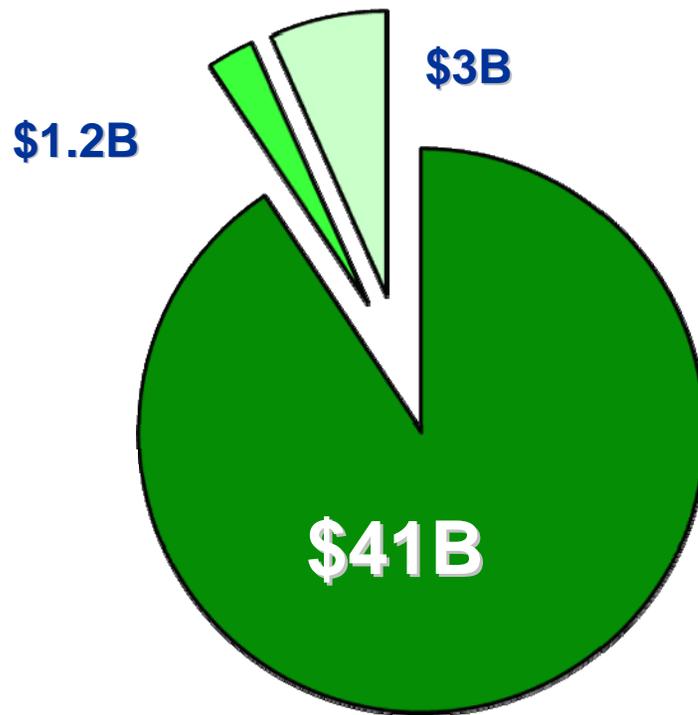
Sales	\$10,080,000
Total Allowable Cost	(\$9,000,000)
Unallowable Cost @ 3% of Sales	<u>(\$310,500)</u>
Earnings Before Taxes	769,500
Income Taxes @ 35%	<u>(\$269,325)</u>
Net Income	<u>\$500,175</u>
Net Income as % of Sales	4.96%

How 12% Yields 4.96%

Revenue Distribution



Net Lockheed Martin 2009 Sales \$45.2B



- **Cost of Sales**
- **Interest and Taxes**
- **Net Earnings**

Cost of Sales Includes:

- Subcontracts
- Direct Labor and Travel
- Materials and Distribution
- Amortized Property, Plant & Equipment
- IRAD
- Bid and Proposal
- Unallowable Compensation
- Charitable Contributions

What the A&D Industry Needs to Do

- **Generate Innovative, Affordable Solutions**
- **Reduce Costs with Targeted R&D Investments and Streamlined Production Processes**
- **Meet Government Customer Expectations on Cost, Schedule and Performance**
- **Accept Consequences of Losing Bids**
- **Retain Competitive, Global Suppliers**
- **Leverage State-of-the-Art Commercial Technologies and the Global Marketplace**
- **Recruit and Retain a Skilled and Diverse S&T Workforce**

What Government Can Do

- **Engage Industry to Promote a Common Understanding of Defense and Civil Government Strategies and Acquisition Objectives**
- **Ensure a Transparent and Defensible Acquisition Process**
- **Harmonize Program Management and Oversight**
- **Maintain Stable Program Requirements and Funding**
- **Adopt Multiyear Procurements for Mature Programs**
- **Promote a Rational Technology Transfer / Export Control Regime**
- **Support Efforts to Increase the Pool of Young, Diverse Scientists and Engineers**

U.S. A&D Industry

- **Is a Key Element of National Security**
- **Operates in a Highly Controlled Marketplace**
- **Adjusts to the Changing Needs of Government**
- **Provides a Net Positive to the U.S. Economy**
- **Sustains the U.S. Industrial and Technology Edge**
- **Enhances Allied Political, Military and Industrial Partnerships**

