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Private and Confidential

Macro Market Trends

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2010 Defense Outlook Forum

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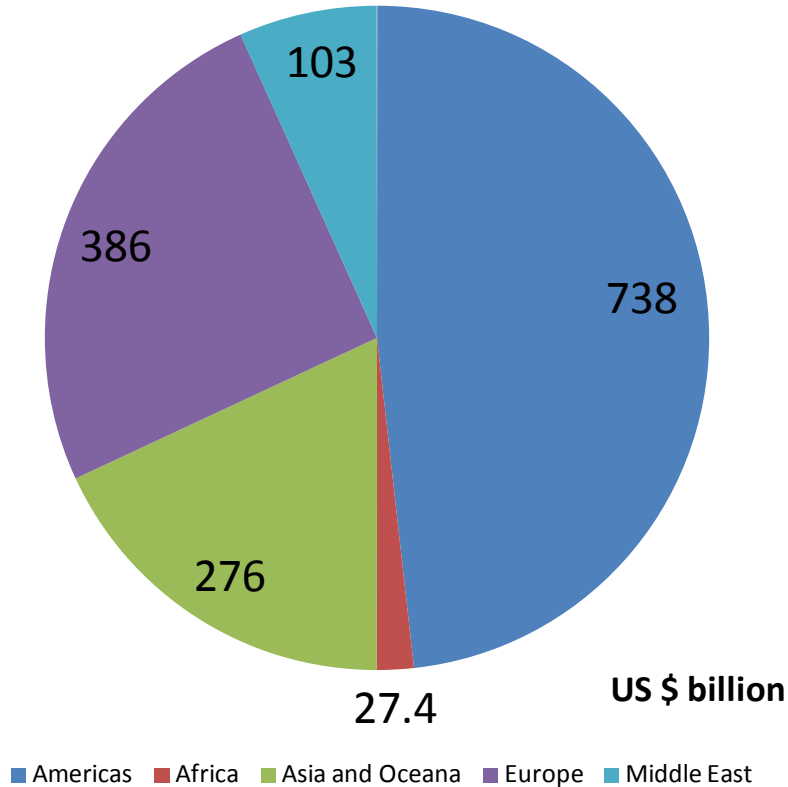
- Review of Global Defense Spending
- Global Trends

Theme 1 – conflict between jobs/national industrial base and efficiencies possible with multi-national collaboration and industry structure

- U.S. Defense Spending
- Acquisition Reform in the United States

Theme 2 – conflict in “acquisition reform” history between desire for efficiencies and prevention of any notion of fraud or abuse

Military Expenditure by Region
\$1531 billion in 2009

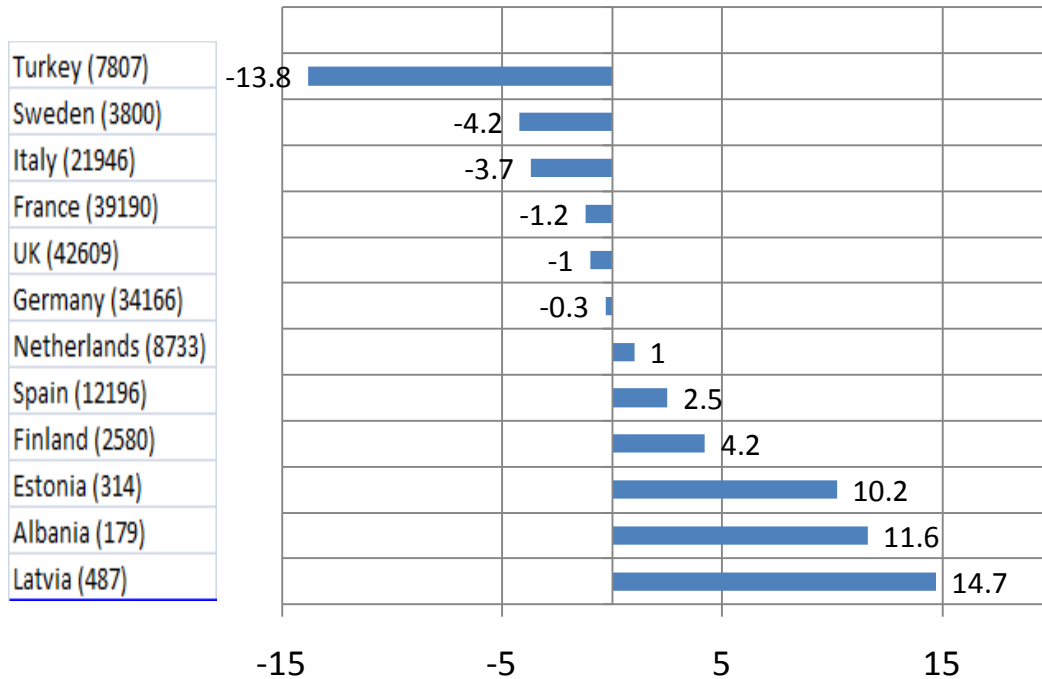


- Represents 2.7% of Global GDP in 2009
- Increase of 6% in real terms from 2008
- Increase of 49% since 2000

Country	Spending \$b	Share
USA	661	43
China*	100	6.8
France	63.9	4.2
UK	58.3	3.8
Russia*	53.3	3.5
Japan	51	3.3
Germany	45.6	3.0
Saudi Arabia	41.3	2.4
India	36.3	2.4
Italy	35.8	2.3

**SIPRI Estimates*

Representative European Defense Spending
01-'09 CAGR



Constant FY'09 Euros millions – Figures next to countries represent the nations defense expenditures in 2009.

- Real European Defense spending had a negative 1.8% compound annual growth rate over the period
- End Strength declined faster than defense spending
- 2009 – only four European nations exceeded NATO goal of 2% of GDP
- Trend for defense spending in real euros over decade peaked in:
 - Turkey in 2001
 - Italy in 2003
 - France in 2006
 - UK in 2007

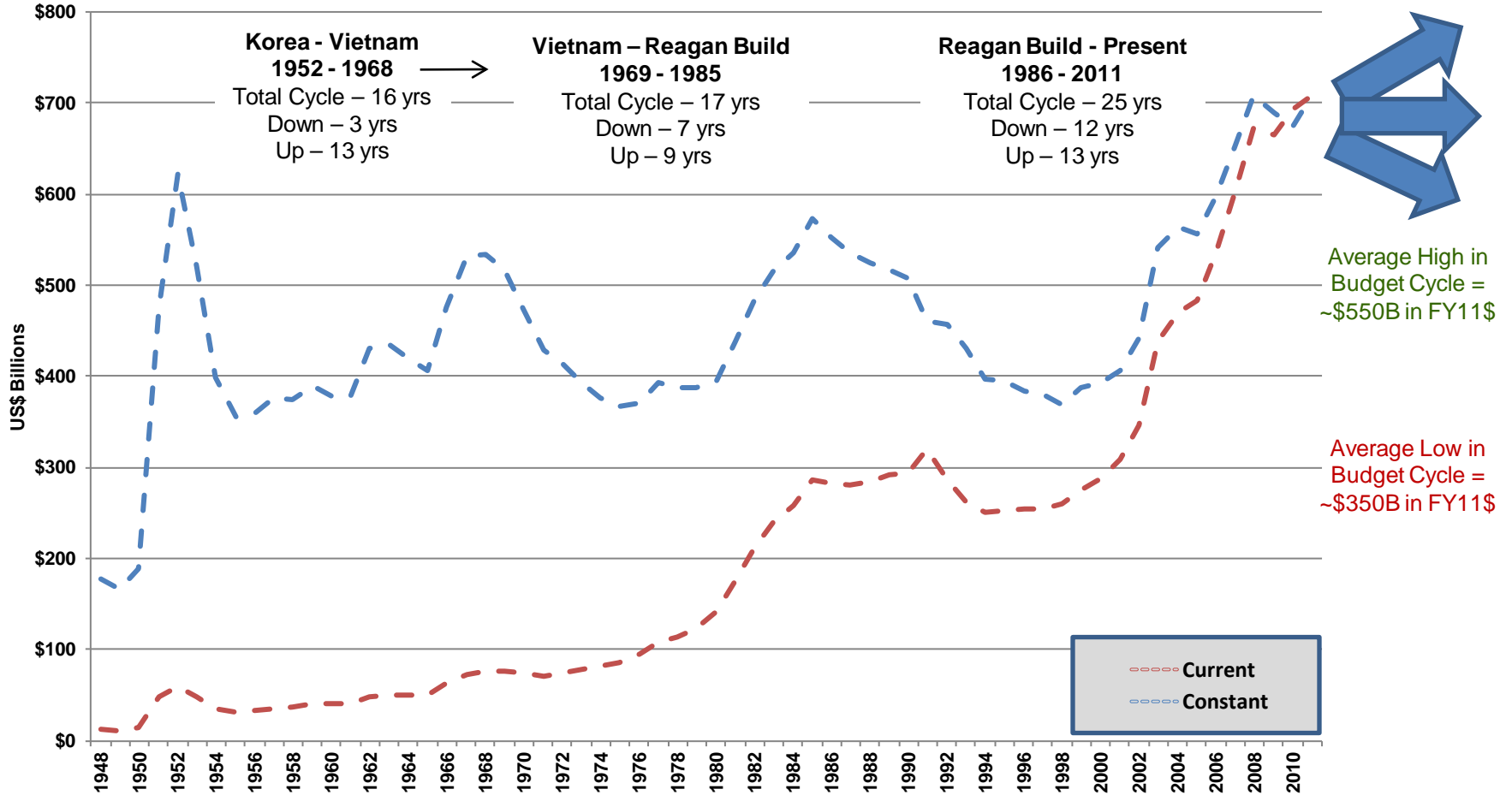
- Efforts at greater collaboration in producing nations ... but...
 - US export controls review and new treaties
 - European efforts at market reform
 - Capability sharing
- Downward budget pressure in Western Nations
 - Debt servicing
 - Entitlements/Social Structure
- Global demand shifting
 - Likely growth in Middle East, India, Asia
 - Challenge of offsets to build indigenous capability
 - Some of these markets are slow to close
- Growing markets will be challenged to compensate for declines in Western Nations
- Markets will be highly sought after, but not always easiest to serve

- Waning public interest
 - American public priorities
- Waxing public debt
 - Effects of radically increased public leverage on the Federal Budget
- Shifting political landscape
 - Cloudy Crystal Ball

Source: RSAdvisors analysis

US Department of Defense Total Spending, 1948-2011

Budget Authority Including Supplementals/OCO



Source: RSAdivisors analysis

- Threats Have Shifted and Unlikely that World Will Appear Peaceful
 - Forces likely to stay busy
 - Different scale
 - Different ways
- Very Different Industrial Sector
 - Consolidation of the Primes
 - Rise of Services
 - Nature of R&D Cycle
 - Conventional Wisdom on Contractors
- Customer Environment Shifting
 - Gates Imperative
 - Rebalancing Capability
 - Efficiencies Initiative
 - Carter Guidance
 - Target Affordability and Control Cost Growth
 - Incentivize Productivity and Innovation in Industry
 - Promote Real Competition
 - Improve Tradecraft in Services Acquisition
 - Reduce Non-Productive Processes and Bureaucracy
 - Need for Growing Capabilities at the Traditional Seams
 - Information, Knowledge, Speed
 - Advancing and Protecting Networks
 - Growing capability of existing platforms and forces

Source: RSAdvisors analysis

- Target Affordability and Control Cost Growth
 - Mandate affordability as a requirement
 - Drive productivity through will cost/should cost management
 - Eliminate redundancy in portfolios
 - Make production rates economical and hold them
- Incentivize Productivity and Innovation in Industry
 - Incentivize supply chain management and indirect expense management
 - Adjust progress payments to incent performance
- Promote Real Competition
 - Competitive acquisition strategy at each milestone
 - Require open systems architecture and set rules for acquisition of tech data
- Improve Tradecraft in Services Acquisition
 - Senior official in charge, common taxonomy and better define requirements
 - Limit time and materials and award fee contracts
- Reduce Non-Productive Processes and Bureaucracy

Questions?

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