Accurate
Credible
Defensible

DoNCAS Presentation:
NAVSEA Portfolio Assessment Team

Morris Fields
September 16, 2010
“What can we afford?”

“Our industry partners provide the Navy and the Marine Corps the most capable ships, the most capable aircraft and the most capable weapons systems the world has ever known......But the issue is not the complexity, the issue is not the skill, the issue is affordability. What can we afford? As complexity has grown, so has the price. And it has grown at a rate faster than the top line that we have, a rate faster than inflation, a rate faster than anything, frankly. We have to do everything in our power to control those cost. And I’ll repeat, if we don’t do something now, we won’t be able to build the fleet that we have to have in the future.”

Remarks by the Honorable Ray Mabus, Navy League Sea-Air-Space Expo - 5 May 2010
We are now buying half the ships as 30 years ago with an equivalent amount of TOA.

How are we going to buy ships more efficiently?
“…Defense Secretary Robert Gates announced he wanted to find $100 billion in overhead savings over the next five fiscal years, starting in fiscal year 2012”

“…Pentagon officials have created five teams to lead the effort to improve efficiency across the Defense Department...each team will work on a different area that the Pentagon believes can lead to cost savings....those areas are affordability, incentives, contract terms, metrics, and service contracts.”

“…for incentives, the question is what will really make a difference to the contractor.”

“…One of the things we were talking about was it might not necessarily be a concern as to how much profit a contractor makes as long as the cost to the government is lower, the product is better and more sustainable”
Purpose of Executive Comp

- Successful accomplishment of business goals in both annual operating performance and the achievement of increased shareholder value produce individual rewards.

- Compensation will motivate and reward executives for delivering operational and strategic performance to maximize shareholder value and demonstrating the Company’s values, behaviors, and leadership competencies.

- Promote recruitment and retention of exceptional talent, to encourage behavior critical to the long term success of the Company, and to maintain a direct link between pay and individual performance.

DEFINITIONS

FINANCIAL – OPERATING PROFIT, SALES, CASH FLOW, ROIC / EVA

STOCK PRICE – TOTAL SHAREHOLDER RETURN INCLUDES STOCK PRICE APPRECIATION PLUS REINVESTED DIVIDENDS

STRATEGIC – BUSINESS GROWTH, NEW CONTRACTS (WIN RATE), PROTECTION OF EXISTING PROGRAM FUNDING, ACQUISITIONS, ENHANCEMENT OF CORPORATE REPUTATION

OPERATIONAL – COST CONTROL / PRODUCTIVITY, LEADERSHIP INITIATIVES, QUALITY MANAGEMENT, ETHICS, ENVIRONMENTAL COMPLIANCE, LABOR RELATIONS, SUPPLY CHAIN MANAGEMENT

CUSTOMER SATISFACTION – EXECUTION OF CRITICAL PROGRAMS, REALIZATION OF AVAILABLE AWARD FEES

PEOPLE MANAGEMENT - ATTRACTION / RETENTION OF TALENT, LEADERSHIP DEVELOPMENT, SKILL MIXES, DIVERSITY

Industry heavily incentivized to achieve financial goals and shareholder value
Despite poor performance on major Navy Programs, stock prices continue to outperform the S&P 500.
...there is a limited understanding within the Department of Defense of how business operates, how it responds to competition, and how it is affected by Wall Street’s expectations. The reasons for this limited understanding are not difficult to discover.

Interestingly, industry does understand the Department of the Navy. Industry hires our alumni, and runs an extensive and effective intelligence collection effort targeting us. But the Department’s acquisition program managers do not have an in-depth understanding of how industry operates, and the Department as a whole does not act strategically in dealing with industry. It is very difficult for government to hire from industry, particularly at the more senior levels. Furthermore, we do not provide the experiences or training to our uniformed acquisition professionals that would enable them to fully understand or anticipate industry. Neither government nor business can effectively operate with this gap in the government’s ability to understand business."

The Honorable Donald C. Winter, Sea Air Space Expo, 3 Apr 07
DoD/Navy Business as percent of Company Sales

**The whole is greater than the sum of its parts….**

*Aristotle 384 BC – 324 BC*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Parent Company</th>
<th>Total Sales *</th>
<th>DOD Sales **</th>
<th>DoD % of total sales</th>
<th>Navy Sales **</th>
<th>Navy % of total sales</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Lockheed Martin Corp.</td>
<td>$45,189,000,000</td>
<td>$32,673,097,518</td>
<td>72%</td>
<td>$12,420,552,504</td>
<td>27%</td>
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<tr>
<td>2</td>
<td>Raytheon Co.</td>
<td>$24,881,000,000</td>
<td>$15,339,065,095</td>
<td>62%</td>
<td>$8,235,300,511</td>
<td>33%</td>
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<tr>
<td>3</td>
<td>Northrop Grumman Corp.</td>
<td>$33,755,000,000</td>
<td>$19,467,264,517</td>
<td>58%</td>
<td>$8,043,732,268</td>
<td>24%</td>
</tr>
<tr>
<td>4</td>
<td>General Dynamics Corp.</td>
<td>$31,981,000,000</td>
<td>$14,955,700,419</td>
<td>47%</td>
<td>$6,329,300,597</td>
<td>20%</td>
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<tr>
<td>5</td>
<td>Boeing Co.</td>
<td>$68,281,000,000</td>
<td>$22,239,786,802</td>
<td>33%</td>
<td>$5,266,715,511</td>
<td>8%</td>
</tr>
<tr>
<td>6</td>
<td>BAE Systems</td>
<td>$22,415,000,000</td>
<td>$7,261,948,633</td>
<td>32%</td>
<td>$2,293,172,273</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>$226,502,000,000</strong></td>
<td><strong>$111,936,862,984</strong></td>
<td><strong>49%</strong></td>
<td><strong>$42,588,773,664</strong></td>
<td><strong>19%</strong></td>
</tr>
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</table>

* Source: 2009 Company Annual Reports

** Source: Government Executive.com 8/15/2010 (http://www.govexec.com)

Navy provides up to 30% of annual business for Top 6 defense contractors. Why don’t we have more influence?

To assert our influence we have to act as a whole (portfolio) versus a collection of individual parts (programs)
Portfolio Assessment Team

**GOALS**

- Increase awareness and understanding of contractor’s and sub-contractor’s business
- Through strategic research, find opportunities to leverage industry data, economic data, performance data, and lessons learned to reduce cost on current and future Navy programs
- Become an integral part of the analysis being used prior to and post contract award
- Evolve into an independent and reliable source for insightful analysis for our customers which will enable them to take ACTION!

**Performance**
- Leading Metrics
- Cost/Sched
- Staffing
- Other

**Industry Insight**
- Financial Health
- Executive Pay
- Supply Chain
- Other

**Strategic Research**

**Program Support**

**Industry Exchange**

**Transforming Data into Information to Take Action**
Questions?
Backup
Defense companies’ sales and profits

Major defense contractors have enjoyed strong sales growth in recent years, but these companies are under a cloud now as U.S. budget growth is poised to slow and the Pentagon is looking to rein in costs.

Source: company statements and annual reports

Reuters graphic/Van Tsui
## Big 4 Defense Companies

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<td>RTN</td>
<td>Taylor W. Lawrence</td>
<td>Jul-08</td>
<td>Missile Systems</td>
<td>10.6%</td>
<td>10.8%</td>
<td>10.8%</td>
<td>10.9%</td>
<td>11.6%</td>
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<tr>
<td></td>
<td>Thomas A. Kennedy</td>
<td>Jun-10</td>
<td>Integrated Defense Systems</td>
<td>16.4%</td>
<td>17.6%</td>
<td>16.9%</td>
<td>15.3%</td>
<td>15.7%</td>
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<tr>
<td></td>
<td>Richard R. Yuse</td>
<td>Mar-10</td>
<td>Space and Airborne Systems</td>
<td>14.0%</td>
<td>13.2%</td>
<td>13.3%</td>
<td>14.1%</td>
<td>14.5%</td>
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<tr>
<td></td>
<td>Lynn A. Dugle</td>
<td>Jan-09</td>
<td>Intelligence and Information Systems</td>
<td>9.1%</td>
<td>9.0%</td>
<td>8.1%</td>
<td>8.1%</td>
<td>6.8%</td>
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<tr>
<td></td>
<td>Colin Schottlaender</td>
<td>Aug-02</td>
<td>Network Centric Systems</td>
<td>10.6%</td>
<td>12.8%</td>
<td>12.7%</td>
<td>14.0%</td>
<td>14.0%</td>
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<td></td>
<td>John D. Harris</td>
<td>Mar-10</td>
<td>Technical Services, LLC</td>
<td>7.1%</td>
<td>6.4%</td>
<td>6.7%</td>
<td>6.8%</td>
<td>8.4%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Operating Earnings Margin</td>
<td>11.0%</td>
<td>11.1%</td>
<td>11.3%</td>
<td>12.2%</td>
<td>11.7%</td>
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<tr>
<td>GD</td>
<td>Joseph T. Lombardo</td>
<td>Apr-07</td>
<td>Aerospace</td>
<td>15.6%</td>
<td>16.8%</td>
<td>18.5%</td>
<td>13.7%</td>
<td>16.1%</td>
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<td></td>
<td>David Heebner</td>
<td>May-10</td>
<td>Combat Systems</td>
<td>11.3%</td>
<td>11.7%</td>
<td>13.6%</td>
<td>13.1%</td>
<td>13.4%</td>
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<td></td>
<td>Phebe N. Novakovic</td>
<td>May-10</td>
<td>Marine Systems</td>
<td>7.6%</td>
<td>8.4%</td>
<td>9.4%</td>
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<td>9.8%</td>
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<td>Gerald J. DeMuro</td>
<td>Oct-03</td>
<td>Information Systems &amp; Technology</td>
<td>10.8%</td>
<td>10.7%</td>
<td>10.7%</td>
<td>10.7%</td>
<td>10.5%</td>
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<tr>
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<td>12.5%</td>
<td>11.5%</td>
<td>11.8%</td>
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<td>NOC</td>
<td>Linda Mills</td>
<td>Feb-08</td>
<td>Information Systems</td>
<td>8.6%</td>
<td>9.3%</td>
<td>7.7%</td>
<td>7.3%</td>
<td>8.9%</td>
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<td>Thomas E. Vice</td>
<td>Jun-10</td>
<td>Technical Services</td>
<td>6.5%</td>
<td>5.7%</td>
<td>5.7%</td>
<td>5.8%</td>
<td>6.4%</td>
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<td>Gary W. Ervin</td>
<td>Jan-08</td>
<td>Aerospace Systems</td>
<td>9.5%</td>
<td>14.2%</td>
<td>4.2%</td>
<td>10.3%</td>
<td>11.0%</td>
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<td>James F. Pitts</td>
<td>Oct-05</td>
<td>Electronic Systems</td>
<td>11.5%</td>
<td>12.3%</td>
<td>13.4%</td>
<td>12.6%</td>
<td>12.0%</td>
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<td>Mike Petters</td>
<td>Nov-04</td>
<td>Shipbuilding</td>
<td>7.4%</td>
<td>9.3%</td>
<td>-37.5%</td>
<td>4.8%</td>
<td>6.2%</td>
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<td>Operating Earnings Margin</td>
<td>9.4%</td>
<td>9.6%</td>
<td>-0.3%</td>
<td>7.4%</td>
<td>8.9%</td>
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<tr>
<td>LMT</td>
<td>Ralph D. Heath</td>
<td>Jan-05</td>
<td>Aeronautics</td>
<td>10.0%</td>
<td>12.0%</td>
<td>12.5%</td>
<td>12.9%</td>
<td>11.0%</td>
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<tr>
<td></td>
<td>Marilynn A. Hewson</td>
<td>Jan-10</td>
<td>Electronic Systems</td>
<td>12.0%</td>
<td>12.7%</td>
<td>13.0%</td>
<td>13.1%</td>
<td>13.3%</td>
</tr>
<tr>
<td></td>
<td>Joanne Maguire</td>
<td>Apr-06</td>
<td>Space Systems</td>
<td>9.4%</td>
<td>10.4%</td>
<td>11.9%</td>
<td>11.2%</td>
<td>8.1%</td>
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<tr>
<td></td>
<td>Linda Gooden</td>
<td>Jan-07</td>
<td>Information Systems &amp; Global Services</td>
<td>8.9%</td>
<td>9.3%</td>
<td>9.3%</td>
<td>8.3%</td>
<td>11.1%</td>
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<td>10.8%</td>
<td>12.0%</td>
<td>9.9%</td>
<td>9.2%</td>
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</table>
Portfolio Analysis Team

A comprehensive portfolio analysis capability will develop and evolve over time.

Industry/Regional Trends
- Industry growth/contraction
- Unemployment rates/projections

Corporate Performance
- EVM trends
- Leading indicators

Corporate Awareness
- Financial Health
- Executive Compensation/Motivation
- Sales/Revenue growth/Profit Margin
- Growth projections
- Active contracts
- Subcontractors

A comprehensive portfolio analysis will inform stakeholders within the acquisition and cost estimating processes.

EARNED VALUE METRICS (DATA AS OF DEC 08)
(NAVSEA LEVEL - 33 PROJECT(S))

Billions
2.2B(8%)
Scope Growth
4.2B(14%)
Cost Overrun
EARNED VALUE METRICS (DATA AS OF DEC 08)
(NAVSEA LEVEL - 33 PROJECT(S))

Billions
2.2B(8%)
Scope Growth
4.2B(14%)
Cost Overrun

General Dynamics

Key Message to Leadership

TRANSFORMING DATA INTO INFORMATION TO TAKE ACTION
Navy, Industry and Wall Street Goals

This Strategic Partnership possesses shared and competing intentions

Navy / Congress
- Stable Industrial Base
- Fair and Reasonable Contracts
- On time, on / under budget, delivery of desired capability

Industry/Suppliers
- Supply Chain Management
- Cost Control/Productivity
  - Labor Relations
  - Business Growth

Defense Spending
- Customer Satisfaction
  - Performance
- Predictability
  - Measurable Performance

Wall Street
- Political Climate
- Macro Economics
- Company Leadership
- Revenue Recognition

- Healthy Cash Flow
- Stock Price Appreciation
  - Strong Backlog
  - Financial Performance

- Strong Backlog
- Business Growth
- Financial Performance

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