



communications



**Presentation To
Defense Acquisition Performance
Assessment Project
August 10, 2005**

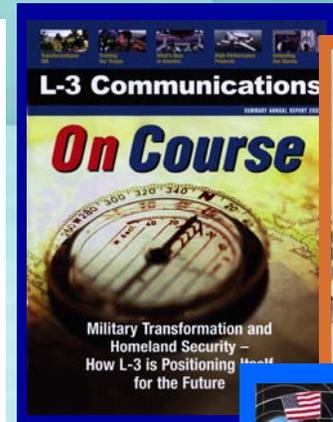
Frank C. Lanza Chairman & CEO

The L-3 Communications Story

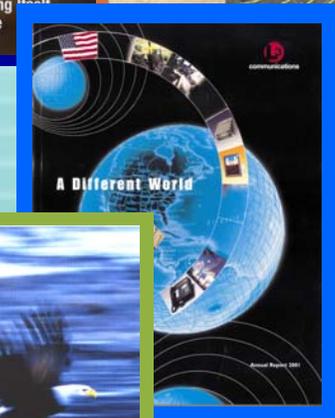
- ✧ Consolidate Fragmented Merchant Market Base
- ✧ Merchant Supplier of High Technology Products
- ✧ Broad Base of Products
- ✧ System Capability to Supplement Primes
- ✧ #1 in Niche Markets
- ✧ Sustainable 20% Annual Growth - Top and Bottom Line
- ✧ Maintain Legacy Platforms
- ✧ Greater Than \$500m Annual Investments in Products (IRAD)



2004 Annual Report



2003



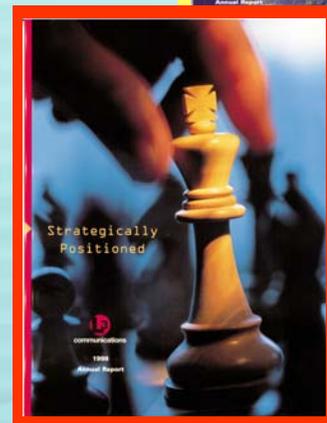
2001



2000



1999



1998

What Are We Today?



- ✦ Major Growing Supplier of Broad Range of Products
- ✦ Growth to Major Subsystem Supplier
- ✦ Becoming System Supplier In:

✓ ISR

✓ Training

✓ Aircraft Modernization & O&M

✓ Government Services

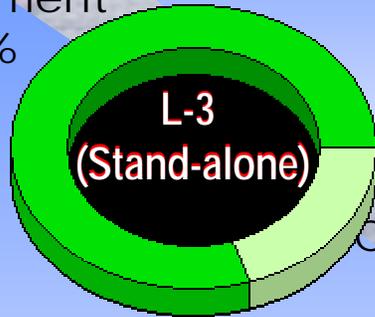
Business Mix – CY 2004 Actual

Customers

Business Mix

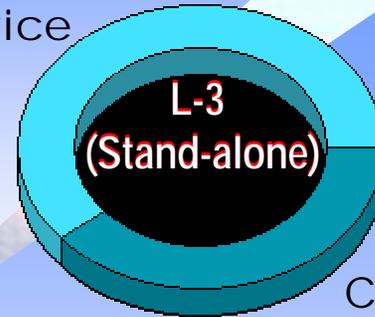
Contract Type

U.S.
Government
80%



Commercial
& Foreign
20%

Firm
Fixed-Price
61%



Cost-
Reimbursable/ T&M
39%

U.S.
Government
84%



Commercial
& Foreign
16%

Firm
Fixed-Price
51%



Cost-
Reimbursable/T&M
49%

L-3 Communications Business Segments

**Estimated CY05
(FY05 Before Titan)**

**Secure
Communications
&
ISR**

**Training,
Simulation
&
Government
Services**

**2005E Sales
\$1.8 B**

**2005E Sales
\$1.4 B**



**Aircraft
Modernization,
O&M and
Products**

**Specialized
Products**

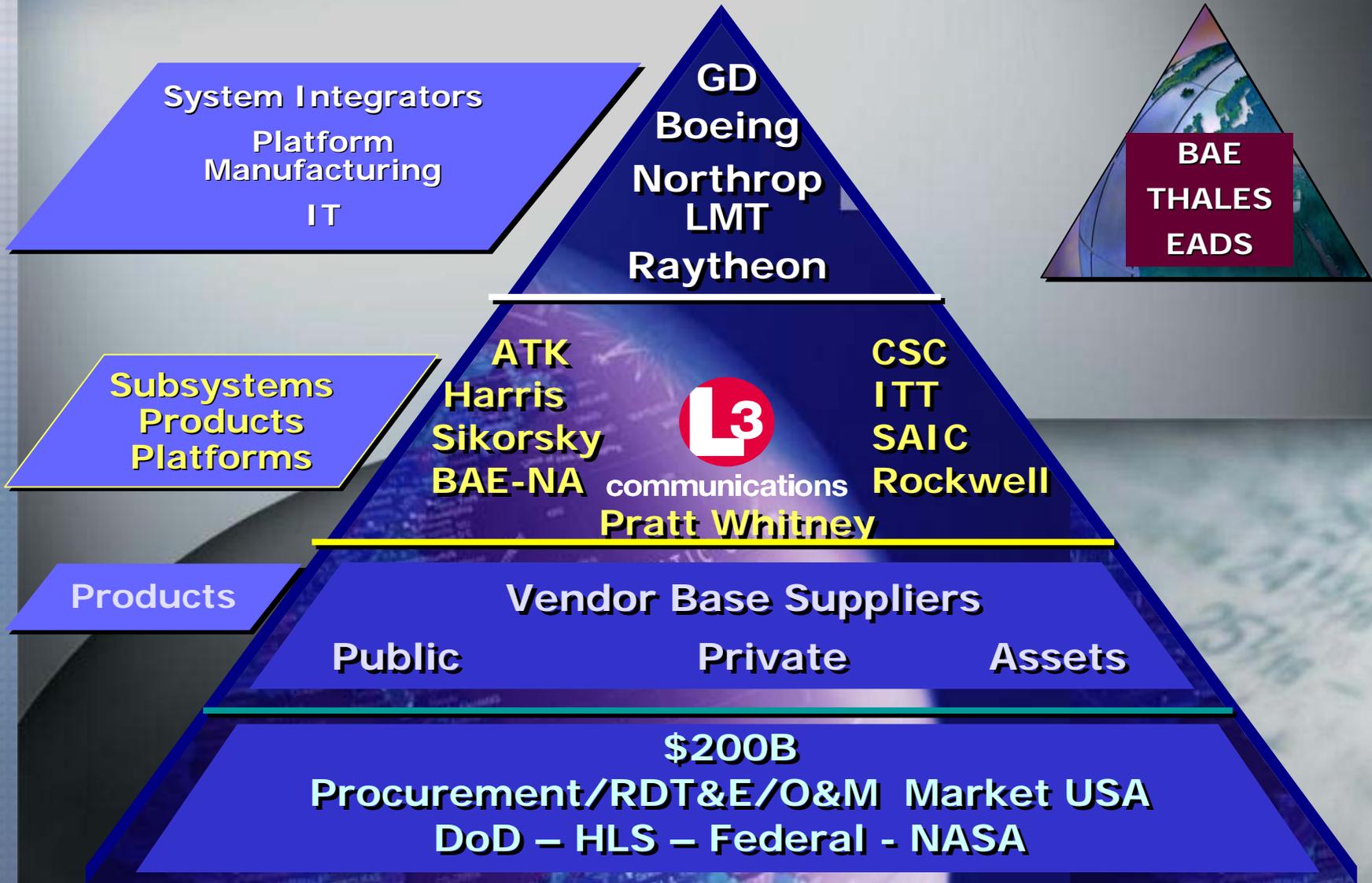
**2005E Sales
\$2.6 B**

**2005E Sales
\$2.4 B**

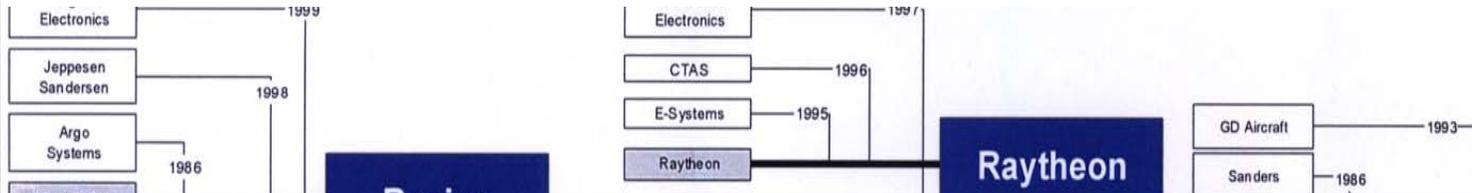
**Consolidated
> \$9.3 B**

Consolidation '04

L3 communications

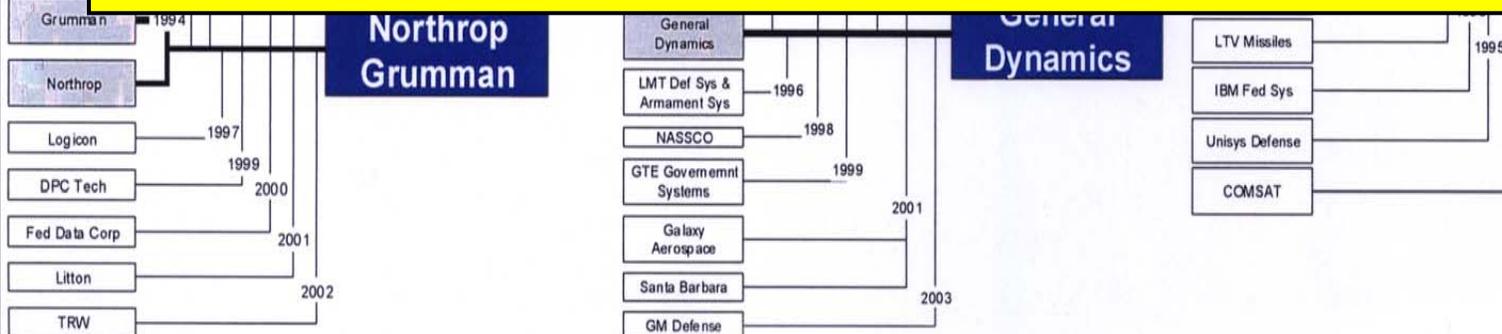


Narrowing Down the Field: Primes Consolidation



Feb '97: Lockheed Martin's Norm Augustine...if prime contractors act on new vertical capabilities to "freeze out competitors' key product or to shut out 2nd and 3rd tier suppliers" it would tend to "unfairly favor the largest suppliers with the broadest component and technology base. As such this is a trend about which our government...should be evidencing a great deal of concern"

N. Augustine, "Unhappy Birthday: American's Aerospace Industry at 100," *Aerospace America*, February, 1997, pp. 24-31.



What is an L-3 Communications Company?

Consolidator of Fragmented Vendor Base & Largest Supplier of Merchant Market Products

TODAY

- ✦ Major Provider to Merchant DoD Market of High-Tech Products Over a Broad Spectrum Through Growth, Acquisition & Partnership with 2nd Tier Suppliers

PROBLEM

- ✦ Ten Years of Platform Provider Consolidation & DoD Bundling, TSPR, LSI

RESULTANT LANDSCAPE

- ✦ Limited R&D Flow Down
- ✦ Product and Subsystems not Competed Due to LSI /Vertical Integration

Help Needed...

- ✧ R&D Flow Down to Vendor Base
- ✧ Vertical Integration Used to Eliminated Product Base
- ✧ Super Teams Further Amplify This Condition
- ✧ Prime Contractor Require Make or Buy DoD Oversight
- ✧ Large Turn Key Programs with Primes are Essential but Vertical Integration Embedded in Primes Destroy Vendor Base, Best Value and Will Produce Inferior Weapon Systems Long Term if Continued Without DoD Oversight and Firm Compliance

- Primes Have the Right to Compete on System Products within the Level Playing Field
- Primes Should not Abuse System Authority Stated by DoD and not Solicit Vender Base Where Available

Recent Attempt:

- Secretary Wynn Memo on Vertical Integration Ignored by Primes

CONSEQUENCES

- ❖ **Vendor Base in Jeopardy of Meltdown**
- ❖ **Few Mezzanine-tier Companies Left for Subsystem Prime**
- ❖ **U.S. Platform Superiority Will Be Compromised**
- ❖ **Creative Product Innovation Will Go Commercial**
- ❖ **Warfighters Lose When Contractors try to Satisfy Critical Capability Requirements without Choosing the most Innovative, Best-value Suppliers**
- ❖ **DoD has a Responsibility to Ensure Warfighter Technological Superiority and to Understand the Health of Competition and Innovation**
- ❖ **Industry has a Role to Provide Best Cost/Value to Address Warfighter Needs**

... Thoughts for Consideration

- ✧ **Insert 'Make or Buy' Language in Request for Proposal**
- ✧ **'Make or Buy' as a Discrete DAB Item**
- ✧ **PM's need to actively monitor the prime, retain the right to exercise disapproval of decisions to make instead of buy, and approve any exceptions in the formal program make/buy policy. Also monitored should be how the prime partitions the system and how this may restrict supplier choices for these key items.**

SELECTION OF CONTRACTOR FOR SUBSYSTEMS AND COMPONENTS POLICY GUIDANCE JULY 2004



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-0000

DPAP/PAIC

MEMORANDUM FOR THE SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Selection of Contractors for Subsystems and Components

The Defense Acquisition System is built on the premise that the government benefits from innovation, reduced life cycle costs, and increased quality when Major Defense Acquisition Programs provide for competition at the prime contractor and subcontractor levels. This includes an expectation that prime contractors will foster a robust competitive environment for the selection of prime and critical contractors and

“When developing acquisition strategies, program managers and contracting officers shall establish insight into a prime contractor’s plan for assembling a team to deliver the required system capability, and foster the use of competition.”

When an offeror or prime contractor proposes to use its own capability without considering other sources, it should demonstrate why this is in the government’s best interest, particularly where similar capabilities exist in outside sources. For example, as a program design proceeds through the system engineering process, close attention should be paid to challenging designs that unnecessarily restrict subsystem or component choices. Also, consideration should be given to investing in alternate capabilities to increase the material choices available for the system design.

When another division of a potential offeror might be a competitor for a potential subsystem, the subcontractor selection process should be subject to government



"Make or Buy"

Prime Contractors who provide major weapon or combat systems and/or are responsible as the selected integrator of a major DoD initiative must maintain and adhere to a formal, published "make or buy" policy. The make or buy policy is designed to protect the integrity of the process, foster maximum competition consistent with the approved acquisition strategy and insure the government receives the best value for the system, subsystem and component procurements being managed by the prime/integrator. While the Government will generally not interfere with an integrator's internal procurement processes, the Government reserves the right to disapprove any action taken under that process. The goal is to insure that products normally available in the industrial supplier base are competitive, where available, and equitably procured even when equivalent products are demonstrated to exist in the prime contractor's base. Any exceptions to the published make or buy policy must be approved by the appropriate procurement official. The prime/integrator will provide the detailed business rationale for this exception to competition, including an explanation of why this exception is in the best interests of the program.

Enclosure from a Letter sent by Frank Lanza on July 15, 2003 to Ms. Suzanne D. Patrick, Deputy Under Secretary of Defense for Industrial Policy.

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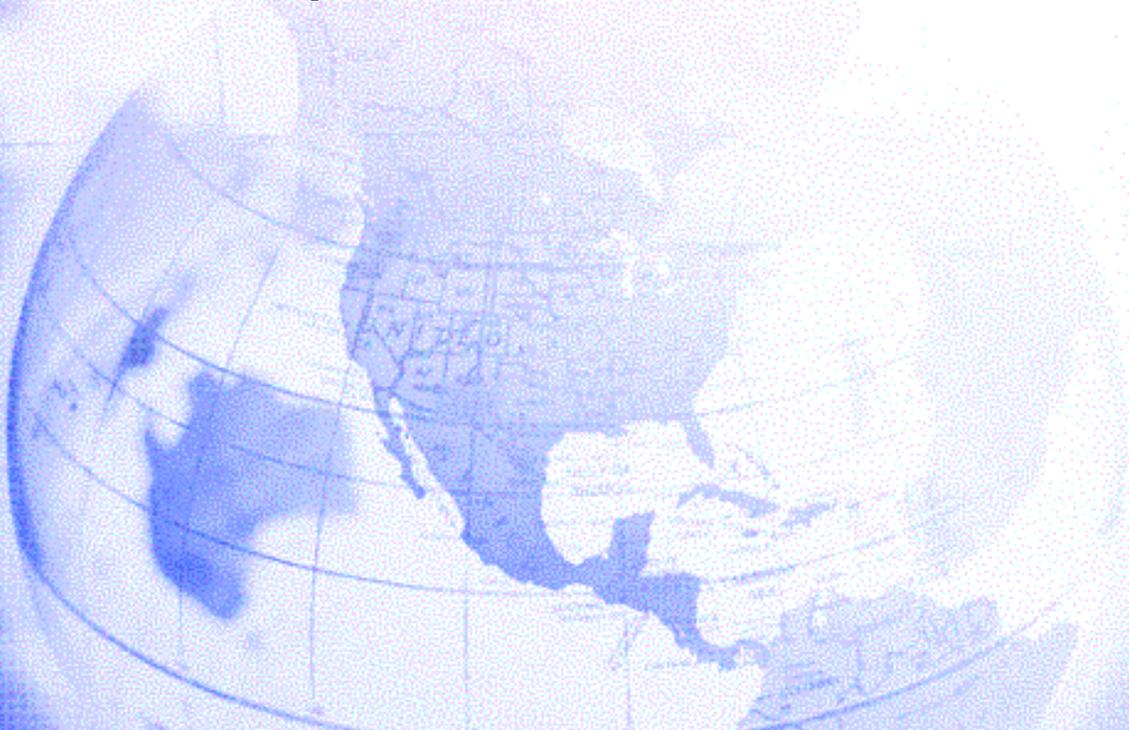
Summary – Three Steps

Three Process Steps are Proposed to Improve the Acquisition System in **Make Or Buy** Decisions:

- ✦ **First**, RFPs should require the prime to establish a formal make or buy decision process. It should be specified that the contract will have active oversight by the government to check the authority of the prime to select themselves when equivalent offerings are available in the industrial supplier base.
- ✦ **Second**, the DAB should review make or buy plans for key areas of the program. The program office should describe plans for monitoring the actions of the prime and at future DAB reviews report on progress.
- ✦ **Third**, after award, the program office needs to actively monitor the prime, retain the right to exercise disapproval of decisions to make instead of buy, and approve any exceptions in the formal program make/buy policy. During the life of the program for key subsystems and components, the program office should monitor changes from buy to make. Also monitored should be how the prime partitions the system and how this may restrict supplier choices for these key items.

General Comments

- ❖ **Oversight and Execution of Programs, Responsibility and Accountability Should be Returned to the Service**
- ❖ **Lines of Authority and “Hands On” Management must be clarified and implemented**





L-3 Overview

Communication Links & ISR (Platforms/Programs)



F-18
Sharp Pod



B-2



F-18
ATARS



F-16 TARS



F-35 JSF



E-6



E-2C



MC-130H



Compass
Call



U-2



JSTARS



AWACS



MC2A &
BMC2



Aerial Common
Sensor
Embraer
ERJ 145



EP-3



P-3



ASTOR



Nimrod



Guardrail



S-3, Lamps



JOG, SOF,
UH-60, MH-53



Sea
Sentinel

Big
Safari



Combat
Sent



RC-135
Rivet Joint



Cobra
Ball



Shadow



Phoenix



Fire
Scout



Global
Hawk

UAV
↔



Predator B



Predator A

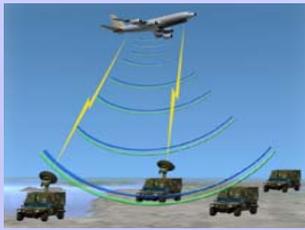


Deepwater
Eagle Eye

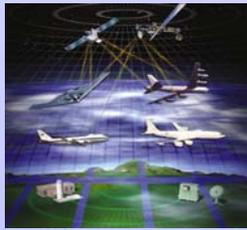
Expanded Our C4ISR Position - 05



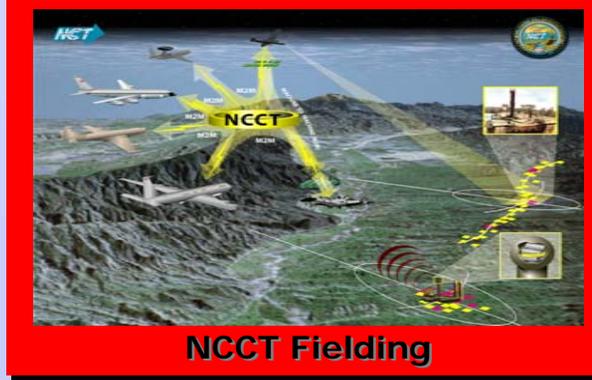
MR - TCDL



WIN - T



FAB-T



NCCT Fielding



JTRS

New Programs



Rover III



**F-35 JSF
Crypto**



DD(X) NCCT



LCS



**Swedish
Coast Guard**



**Korea
P-3**



**New Zealand
P-3**



**MR
Nimrod**



**Aerial
Common
Sensor**



DEEPWATER



**Eagle Eye UAV
Communications**



DMCS



**Surface
Data
Terminal**



**Surface
SATCOM
Terminal**



**Tactical
SATCOM
Terminal**



Phoenix



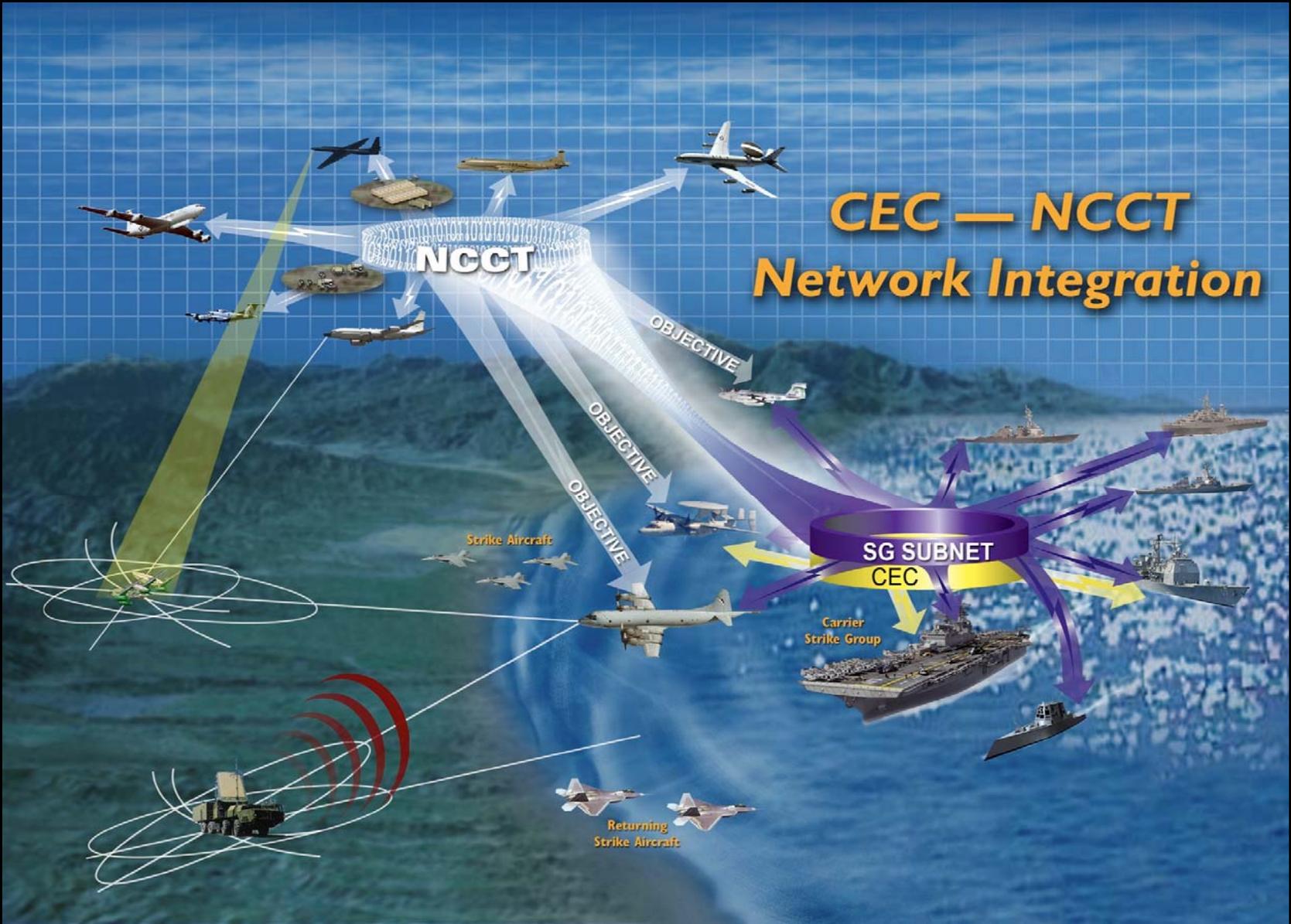
MMA



Predator B

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NCCT - Synchronizing The Battlefield



ISR & Communication Products



Training & Simulation

Marksmanship
Laser Based



Specialized
Vehicles



Weapons



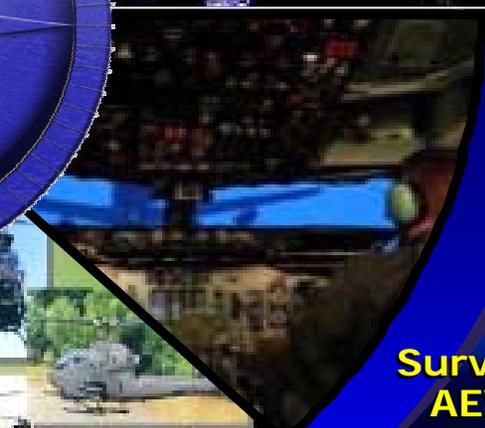
Shipboard



Computer
Based



Surveillance
AEW A/C



Tactical Air
Crew A/C



Rotary
Aircraft



Aviation Products & Aircraft Mod/Main

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Army Rotary Aircraft

Training Aircraft

Science, Head of State, Special Mission

Federal Non Defense

Maritime Aircraft

Aviation, Instruments, Displays, T²CAS

Tactical Aircraft

SOF Aircraft



Aviation Products

Flight Data &
Cockpit Voice Recorders

Proximity Warning &
Collision Avoidance Systems

Cockpit Displays

Guidance
Displays

Aviation
Recorders

AVOID
Terrain

Maritime Security - Radios

HSI - Smart Deck Cockpit

AIS - Gyros

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Specialized Products

Telescopes, Optics & Stabilized Platforms

SATCOM

Antennas & Radomes

Naval Power, Control & Sonars

Explosive Detection & Check Point Systems

Navigation & Guidance and GPS

Emergency & Communication Vehicles

Propulsion Systems and Transmissions

Telemetry, Command & Control and Space

EO/IR Laser Sensors and Foundry

Microwave Products

Safe & Arm Fuzes

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L-3's Homeland Security Major Business Areas

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Port Security



Border Surveillance



Maritime Security



US Coast Guard Modernization



Mobile Communications & Control Systems

Baggage Explosive Detection & Cargo Inspection Systems



Crisis Management

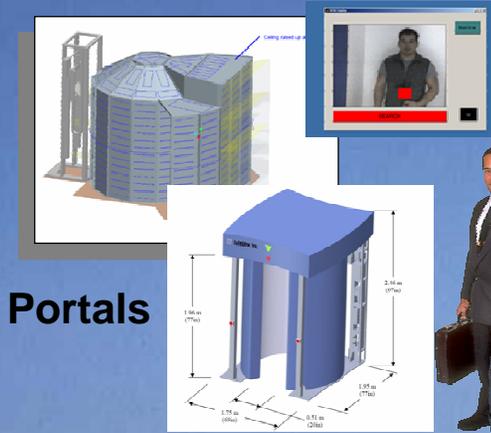


Military Base Security



Key TSA/Airport Products

3 communications



Portals



eXaminer 3DX[®] 6500 for Checked Baggage and Break Bulk Cargo



CX-450 - Dual Energy Dual View Pallet Scanner



CX-3800M Truck Scanners



Linescan 110 II TRX



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