

Given the Administration's emphasis on affordability and the need to find further efficiencies in the management and operations of DoD, the need for more affordable logistics and sustainment, expansive use of information technology and knowledge-based solutions, and vastly improved levels of network and cyber security, all appear to continue to be national priorities. To address these priorities, we continue to focus on growing our portfolio in these areas, diversifying our business, and expanding into adjacent businesses and programs that include surface naval vessels, rotary wing aviation, and land vehicles.

Our products are represented in almost every aspect of land, sea, air, and space-based missile defense, including the Aegis Combat System, the Patriot Advanced Capability-3 (PAC-3) missile program, and the Terminal High Altitude Area Defense (THAAD) transportable defensive missile system. Even as future quantities may be adjusted to reflect reduced government resources for defense, we continue to perform on contracts to develop and deliver essential munitions, missile, and other systems, such as Hellfire, Javelin, Guided Multiple Launch Rocket Systems, and Q-53 (formerly EQ-36) radar systems, and the Persistent Threat Detection System (PTDS). We also have unmanned systems capabilities, including air, ground, and underwater systems.

We have a significant presence in the support and modernization of the DoD's information technology systems. We see opportunities for expansion of our sustainment and logistical support activities to enhance the longevity and cost-effectiveness of the systems procured by our customers, and for improving global supply chain management.

### ***Non-Department of Defense Business***

Our experience in the defense arena, together with our core information technology and services expertise, has enabled us to provide products and services to a number of government agencies, including the Departments of Homeland Security, Justice, Commerce, Health and Human Services, Transportation, and Energy, the U.S. Postal Service, the Social Security Administration, the Federal Aviation Administration, the National Aeronautics and Space Administration (NASA), and the Environmental Protection Agency (EPA).

As with the DoD, all other departments and agencies were impacted by the Budget Act. For fiscal year 2013 there is a separate non-security discretionary spending cap applied to all non-DoD entities that were not included under the security cap. The result would be that budgets for fiscal year 2013 and beyond will be reduced further below last year's estimates.

We have continued to expand our capabilities in critical intelligence, knowledge management, and e-Government solutions for our customers, including the Social Security Administration and the Centers for Medicare and Medicaid Services (CMS). We also provide program management, business strategy and consulting, complex systems development and maintenance, complete life-cycle software support, information assurance, and enterprise solutions. We believe that there will be continued demand by federal and civil government agencies for upgrading and investing in new information technology systems and solutions in order to reduce costs of operations, but at a slower pace in the near term.

Consistent with our DoD business, more affordable logistics and sustainment, a more expansive use of information technology and knowledge-based solutions, and improved levels of network and cyber security all appear to be priorities in our non-DoD business as well. Homeland security, critical infrastructure protection, and improved service levels for civil government agencies also appear to be high customer priorities. The continuing strong emphasis on homeland security may increase demand for our capabilities in areas such as air traffic management, ports, waterways and cargo security, biohazard detection systems for postal equipment, employee identification and credential verification systems, information systems security, and other global security systems solutions.

### **Other Business Considerations**

#### ***International Business***

We remain committed to growth in our sales to international customers. We conduct business with foreign governments primarily through Aeronautics and Electronic Systems. Our international sales are comprised of FMS through the U.S. Government and direct commercial contracts. In Aeronautics, the U.S. Government and eight foreign government partners are working together on the design, testing, production, and sustainment of the F-35 Lightning II, while other countries such as Israel and Japan have selected the F-35 as their next generation combat aircraft. We expect the first international deliveries of the F-35 to begin in 2012. The F-16 Fighting Falcon has been selected by 26 customers worldwide, including recent orders from Iraq and Oman, with 54 follow-on buys from 15 countries. We continue to expand the C-130J Super Hercules air mobility aircraft's international footprint with customers in 15 countries. In global sustainment, we are leveraging our value as the original equipment manufacturer (OEM) for our major platforms and have set up new production capabilities to provide service life extension, including new wings and support for the U.S., Norway, Canada, and Taiwan's P-3 fleet.