

**Marion C. Blakey
President and CEO
Aerospace Industries Association**

**Lockheed Martin Supplier Conference
Ft. Worth, Texas**

June 30, 2009

As prepared for delivery

Good afternoon. Thank you, Gary, for that nice introduction. It's great to be here and I understand that you've had a productive and informative day. It's been a busy and very interesting day for me as well.

I had the opportunity to kick the tires, as you would say, and learn more about Lockheed Martin Aeronautics, visiting both the F-35 and F-16 lines. All I can say is: pretty impressive.

The long run of aircraft that have been produced at this plant and their role in the defense of our nation makes one a bit reflective. As the head of AIA, but more importantly as an American citizen, I take great pride in this company and its role as a producer of some of the finest military aircraft in the world.

Several months ago, AIA ran an information campaign with the tagline "Aerospace and Defense - the Strength to Lift America."

The work that goes on here, and all of you who make it happen, play a tremendous role in our economy, national security and preserving the way of life that Americans have come to expect.

And it truly is the integrity, devotion, pride and technical abilities of the aerospace and defense workforce that does indeed lift America in so many ways.

Talking about the aircraft that have their roots here in Ft. Worth, I thought you'd be interested in the lineage of the word, "aerospace."

You might be surprised to learn that "aerospace" was coined in 1952 by the CEO of Martin Marietta, George Bunker. Bunker was a quiet, but driving force in the councils of AIA who advocated expanding the industry's public persona from aircraft and aviation to air and space.

His advocacy resulted in AIA changing its name from the Aircraft Industries Association to the Aerospace Industries Association a few years later. We're celebrating our 90th anniversary this year, and we've experienced a number of different names over

the years, but AIA's adoption of the word aerospace, thanks to George Bunker, has held us strong now for a good long while.

I understand that today's conference attendees came from across the globe, representing some 38 states and 10 countries. I imagine that many of you arrived here via the Dallas-Ft. Worth International Airport, one of the busiest in the nation.

But that should not be too much of a surprise given that Ft. Worth has long been a transportation hub. Back in the 1870s, the Texas & Pacific Railway arrived in Ft. Worth causing a boom that transformed the town. It led to the establishment of the Ft. Worth Stockyards Company in 1893, making cattle and cowboys the center of this western-most commerce center.

Ft. Worth became what they call in today's college parlance, a party town, as cowboys preparing to drive cattle on the Chisholm Trail to Kansas whooped it up a bit before the long trip north.

In fact, because of this, the town earned quite a reputation and the nickname "The Paris of the Plains."

I thought I would spend a couple of minutes here with AIA's crystal ball looking at how the aerospace industry is faring. And while I'm speaking about this at the tail-end of this conference, I hope my comments will help you put what you've heard today in a larger, macro perspective. Keep in mind that while your business may be in the defense sector, there is a common industrial base that is shared between the defense, space and civil sectors – so the fortunes of the industry are intricately entwined.

Overall, we feel that we're in a better than average position to ride out the economic storm. The aerospace industry ended 2008 on a high note with most of our economic indicators, even though the economy had already experienced a strong downturn. We had \$204 billion in total sales, which represents modest growth compared to the blockbuster numbers of recent years. But it still set a new record. The industry had \$95 billion in exports, leading to a positive foreign trade balance of \$57 billion – the largest of any U.S. manufacturing sector.

On the commercial transport side of the industry, we are caught in a downdraft, but have quite a bit of cushion. On the one hand, we have falling demand and reduced capacity, as well as a tight credit market. On the other hand, global air-framer backlogs still stand at a little over 7,000 aircraft altogether. The backlog is well-diversified in terms of models, geography and customer application. So the civil aviation manufacturing industry – as they say – is bending, but not breaking under the strain of the economy.

Unfortunately, however, the general aviation community, particularly business jets, has been hit hard by the economic circumstances, with deliveries and demand falling significantly.

On the defense and space side, the proposed top-line budgets for NASA and DoD show modest increases for FY2010. However, we remain concerned about the levels in the out-years.

The concern, however, is tempered in the short term by the fact that the defense side of the business, like the civil sector, is buoyed by a strong backlog and an eight-year surge in U.S. military spending.

However, as you heard earlier from Bill Inglee, we are facing huge pressures on the defense budget from all sides, along with efforts to transform our national security strategy. As we all know, the Secretary of Defense recently announced a series of program cuts and the department is undergoing the Quadrennial Defense Review that will shape future acquisition policies. We are actively involved in discussions with DoD officials as we seek to help shape the outcomes.

On the space side, the administration is undergoing a review of our commercial space policy that is being led by a highly respected former executive of Lockheed Martin, Norm Augustine. Certainly he brings great insight and understanding of the industrial implications of shifts in space policy.

Both reviews will be complete before the end of the year, which will provide industry with some firm guidance for planning the future.

On the employment front -- a leading indicator for industry health -- while we have had some layoffs, they have been much more than moderate than we have seen in other industries.

So, to sum up this picture, after all is said and done, we think the U.S. aerospace industry overall is in relatively good condition.

I noted that the theme of today's meeting is Navigating Through Change: Listening, Understanding, Delivery -- that seems very appropriate given the environment we're working in.

The new administration has less than six months under their belt, and we're experiencing change at a lightning pace in the nation's capital. To keep pace, AIA is trying to be as nimble-footed as possible to meet the next twist in the road when it comes to policy issues.

I'll touch on a few issues -- briefly -- because I know that as the last speaker on the program, I'm all that stands between you and a chance to enjoy a little of Ft. Worth or wheels up and home!

First, I would like to introduce one of my colleagues, Brian McDermott. Brian, would you stand up please? Brian is the Vice President of AIA's Supplier Management Council.

The SMC represents the supplier community at AIA. The SMC provides opportunities for networking and communication to build bridges between suppliers and primes. In these challenging economic times, the closer collaboration we can facilitate between these two cornerstones of our industry, the stronger and more resilient our industry will be.

The SMC also advocates for a number of specific issues that affect suppliers such as urging lawmakers to direct the Small Business Administration to raise the net worth limitation and make other improvements to the Small and Disadvantaged Business Program.

Another SMC priority is working with health care insurance providers on behalf of small- and medium-sized companies to pool their resources, which will allow businesses to provide affordable quality health care to employees.

These are in addition to the big-picture issues that affect small and large companies alike – enhanced supply-chain financing, export control modernization, NextGen, cyber security and adequate investment in defense and space.

Let me just touch on a couple additional issues.

AIA is actively involved in pushing measures to modernize the export control system. This is an important issue up and down the supply chain. We believe a predictable, efficient, and transparent export control system is a critical component of our national and economic security and will increase our ability to fight shoulder-to-shoulder with our allies and friends around the world.

I know that this is a particularly important issue for the F-35 program, which has nine partner nations. We are starting to see some meaningful progress in reducing license processing times, but more can and should be done.

We are working hard to get the Senate to ratify the U.S.-UK and U.S.-Australian Defense Trade Cooperation Treaties. These treaties will eliminate the need to individually process thousands of licenses associated with pre-approved projects and technologies directly supporting the U.S., U.K., and Australian militaries. This will free up the system to deal with other issues that pose legitimate export concerns.

We need to move away from the model of one-by-one approvals of individual transactions to broader approvals, especially when it comes to our military's most critical defense and security programs.

The pressures on the defense budget have huge implications for the health of our industrial base. AIA has done two studies on the issue of defense modernization and is getting ready to release a study that addresses how our industry's capabilities will change,

wither or grow depending on the decisions that are made in the on-going Quadrennial Defense Review and the budget deliberations for 2011 and beyond.

The explosive growth in personnel and operations and maintenance --which will have doubled between 1988 and 2013 -- will squeeze the ability of our military to invest, which will affect our superiority and technological edge.

AIA is recommending that DoD make a dedicated effort to contain O&M costs by developing a long-term plan to reduce costs by promoting DoD management efficiencies along with a more integrated supply chain. But this will not impact the main drivers of O&M costs: operations and end strength. People cost money, and using military forces around the world costs more than training at home.

The answer of course is not to artificially constrain operations – we need to do what’s necessary to keep America safe. Instead, the administration needs to budget adequately for the actual level of operations while including the needed development and procurement for whatever type of conflict may come next.

All of this is going to put a very unique pressure on our industry. We are going to have to deliver affordable solutions to the customer and most importantly – execute flawlessly.

I believe that this industry is the best in the world. At the same time, because we are spending tax payer dollars, we are held up to a higher standard. And despite some of the rhetoric that is out there, I do believe that day in and day out we measure up.

Before I close, I want to mention one more issue, because I know it was on the forefront of your discussion today – that is our disappearing workforce.

Nearly 60 percent of the workforce is over the age of 50 and no doubt looking forward to a recovering stock market so they can retire.

A number of AIA member companies report that within 10 years half of their workforce will be eligible for retirement, underscoring the need for action and for industry collaboration on the workforce front.

We estimate that while the United States graduates approximately 70,000 engineers each year, only 44,000 are eligible for aerospace careers as the aerospace industry competes with other industries for this small pool of talent.

Attracting capable young engineers is critical to keeping our global aerospace prominent.

AIA is advocating a series of specific recommendations including establishing and funding a strong innovation and economic competitiveness agenda, creating a cabinet-level council dealing with Science, Technology, Engineering and Mathematics

education and revising federal education law to optimize preparation for students pursuing technical careers.

AIA and our members are doing our part to attract the next-generation worker, including the Team America Rocketry Challenge – a contest AIA has sponsored for the last several years for middle and high school students to promote careers in aerospace.

This year, student teams were tasked to design, build and launch a model rocket to an altitude of 750 feet with a flight time of 45 seconds and a raw-egg payload situated horizontally to mimic the position of an astronaut. The egg had to return to earth unbroken in order for the launch to qualify.

A team from Madison, Wisconsin, won the contest at the finals this May. In true aerospace fashion, we had a fly-off with the British national rocketry winners. Unfortunately, the U.S. team lost. However, we're looking forward to an expanded competition next year.

We just announced in Paris that the French were joining the competition, and we're encouraging the Canadians, Japanese and Australians to do the same.

Sounds like fun, you bet it is. Watching these kids on the field setting their rockets up to launch is so invigorating, and it really gives you encouragement that our future workforce is out there, we just have to spend some time telling them the aerospace story.

And we have such a great story. I want to stop where I started and remind everyone that Aerospace and Defense is the Strength to Lift America.

We support more than 2 million middle-class jobs with more than 30,000 suppliers from all 50 states. Our trade surplus of \$57 billion is the largest of any manufacturing sector.

Even though the nation has huge financial challenges, the best way to keep this industry strong is to make sure investment in defense, civil aviation and space budgets remain strong. Cutting corners in these areas would be counterproductive to turning our economy around. And we must be ambassadors together to deliver that message while we are holding fast in executing excellence.

AIA is planning National Aerospace Day September 16 – another opportunity to remind our leaders about the value of our industry to the nation, the economy and our way of life.

I encourage you to keep an eye on our Web site at www.aia-aerospace.org for more details.