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# THE WALL STREET TRANSCRIPT

**Questioning Market Leaders For Long Term Investors**

THE FOLLOWING REPORT IS EXCERPTED FROM  
**THE WALL STREET TRANSCRIPT**

## COMPANY INTERVIEW

**MARK S. NEWMAN**  
DRS Technologies, Inc.

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# DRS Technologies, Inc. (DRS)



**MARK S. NEWMAN** is Chairman of the Board, President and Chief Executive Officer of DRS Technologies, Inc. He joined the company in 1973, four years after its founding, and became President and CEO in 1994, after serving many years as the company's Chief Financial Officer. He was named a Director in 1988, and in 1995, was elected Chairman of the Board. Under Mr. Newman's leadership, DRS has become an established market leader on several of the most important 21st century military platforms and

holds a key position in the markets it serves. Mr. Newman is active with many important professional organizations. He is a member on the Board of Governors of the Aerospace Industries Association and a Director on the Boards of Business Executives for National Security and the New Jersey Technology Council. He also serves as a member of the Navy League of the United States, the National Defense Industrial Association, the Association of the U.S. Army and the Surface Navy Association, among other professional affiliations. He is a past Chairman of the American Electronics Association. Mr. Newman is also a Director on the Boards of Congoleum Corporation, Refac Optical Group and EFJ, Inc. Mr. Newman earned a Bachelor's degree in Economics from the State University of New York at Binghamton and a Master of Business Administration degree in Financial Management from Pace University. He is also a Certified Public Accountant. Mr. Newman has received numerous awards and honors. He is a recipient of the RADM John J. Bergen Industry Award, presented by the Navy League of the United States, as well as the Marine Corps Scholarship Foundation Semper Fidelis Award. Other honors include induction into the New Jersey High-Tech Hall of Fame and the Tri-County Scholarship Foundation Hall of Fame. He is also a past winner of the Ernst & Young Entrepreneur of the Year Award.

## SECTOR – AEROSPACE/DEFENSE

**(AFS603) TWST: Would you give us a brief historical sketch of the company and a picture of the things you're doing at the present time?**

**Mr. Newman:** We are a leading provider of defense technology systems and services. We support all branches of the US military and intelligence agencies, all the major aerospace and defense contractors, what we call prime

contractors, and international military forces. So it's a huge customer base. We are on a March 31 fiscal year, so if you look at our guidance to Wall Street for this year, revenue guidance is in the \$2.70-\$2.75 billion range for the fiscal year ending in March. We have an enterprise value of about \$4 billion, and we employ 10,000 people in about 24 states in the US, plus Canada and the United Kingdom.

From a historical perspective, the company has been in business since 1969. We started as a Navy contractor from scratch, basically with just a few employees, and then began doing some study work in antisubmarine warfare and acoustics signal processing. That led to the growth of the company through mostly Navy contracts. We took the company public in 1981 and continued to grow through the 1980s to about only \$70 million in annual revenue, but we basically grew from nothing to \$70 million.

In the early 1990s, after the Berlin Wall had come down in 1989, the business slowed. The company retrenched itself, and then in 1993, we took a hard look at where we were going to go and how we were going to survive in the industry, because the industry was consolidating at that time. If we were going to survive in the industry, we had to become what we termed a “mid-tier” defense technology leader. In those days, we said mid-tier could be about \$500 million in annual revenue, and we were about \$60 million then. So that was a tall order to get to that point, but we said we were going to accomplish it through a combination of acquisitions and internal organic growth. That is what we set out to do.

We probably have bought 30 companies since the early 1990s, and that, combined with some very good organic growth, has taken us to the point we’re at now. In the early days, the vast majority of our business was with the Navy, probably 80%. Now, we’re divided pretty well between all branches of the armed forces and the intelligence world, too. One point of interest is that we branched out beyond military spending into homeland defense, and we think that is going to be a good part of our business going forward.

If you looked at the technologies that we have today, we’re a world leader in thermal imaging

technologies, more commonly known as night vision. We make some of the most advanced night vision equipment for everything from a soldier’s rifle sight to big target acquisition systems that you find on aircraft or heavy ground vehicles, such as Bradley Fighting Vehicles and other tanks. We’re one of the largest producers in the world of very ultra rugged computers for the battlefield, and we’re on all of the major battlefield digitization programs. We make more Naval displays than anybody else in the world. If you are on a Navy ship, and you needed to see radar and sonar information maps, you would do that on one of our displays. And I already mentioned intelligence as another area where we are leaders. We’re pretty big in communications intelligence, signal intelligence, and now we’re also involved with service and support contracts involving satellite communications. We’re a very highly diversified company. Essentially, we’ve gone from a little Navy contractor to a very diversified, high-tech defense company.

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***“We’re well positioned in what we call the ‘sweet spot’ of the defense budget. We have technology solutions that are desired right now by all branches of the armed forces. They’re coming to us for a lot of products and support. I think we’re highly diversified with both product and service offerings and also are diversified in our customer base. So there isn’t any one significant part of the defense budget that plays a huge role in our business.”***

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**TWST:** Apart from the external circumstances that helped you, what is it about the company internally that has made it so successful?

**Mr. Newman:** One of the interesting things about DRS is that most small companies start out as subcontractors in this business, whereas DRS started out as a prime contractor. We were tiny, but

# Investors Brief

## DRS Technologies

Ticker (exchange)

DRS (NYSE)

Price close 1/31/07

\$55.40

12 Months Price Range

\$35.83 - \$59.50

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### Corporate Officers

**Mark S. Newman**  
Chairman, President & CEO

**Robert F. Mehmel**  
EVP & COO

**Richard A. Schneider**  
EVP & CFO

**Nina Laserson Dunn**  
EVP, General Counsel and Secretary

**Michael L. Bowman**  
EVP, Washington Operations

### Corporate Business Description

DRS Technologies, Inc., headquartered in Parsippany, New Jersey, provides leading edge products and services to defense, government intelligence and commercial customers. Focused on defense technology, DRS develops and manufactures a broad range of mission critical systems that uniquely positions the company to support the military's near-term force modernization and emerging transformation initiatives. DRS's high-technology products and services are used by all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military forces and industrial markets. Incorporated in 1968, DRS has served the defense industry for 38 years. The company holds leading market positions in thermal imaging devices, combat display workstations, electronic sensor systems, power systems, battlefield digitization systems and deployable flight incident recorders. It also provides communications and surveillance systems, diagnostics and test systems, and training and simulation systems. DRS's products are deployed on a wide range of high-profile military platforms, such as DDG-51 Aegis destroyers, LHD-8 Amphibious Assault Ships, M1A2 Abrams Main Battle Tanks, M2A3 Bradley Fighting Vehicles, High-Mobility Multi-purpose Wheeled Vehicles (HMMWV), OH-58D Kiowa Warrior helicopters, AH-64 Apache helicopters, F/A-18E/F Super Hornet and F-16 Fighting Falcon jet fighters, C-130 Hercules cargo aircraft, and on many others for both military and nonmilitary applications. The company also has secured contracts that support future military platforms, such as the DDG-1000 Zumwalt class destroyer, CVN-78 next generation aircraft carrier, Littoral Combat Ship (LCS), Virginia class submarine and Future Combat System (FCS). DRS employs approximately 10,000 people in 23 U.S. states, Canada, and the United Kingdom.

### Mission Statement

The mission of DRS is to build stockholder value through a commitment to high ethical standards and a superior performance culture focused on customers, employees, financial results and corporate citizenship. The company seeks to earn the respect of our customers, suppliers, competitors and fellow employees through its commitment to the highest standards of ethics, quality and responsiveness. DRS works to enhance stockholder value through its commitment to internal growth and to the acquisition of companies that complement its business, expand market position or benefit from the transfer of its core technologies.

### Vision Statement

It is the vision of DRS Technologies to be the leading defense technology company.

### Products and Services

DRS Technologies operates through four business segments: **C4I, Reconnaissance, Surveillance & Target Acquisition (RSTA), Sustainment Systems and Technical Services**. These segments are comprised of strategic lines of business and subsidiaries in over 40 locations.

Through the **C4I Segment's** four business areas, DRS is a market leader in:

- **C3** (Command, Control & Communications)- Display systems, ship communications systems, radar, sensor and homeland security systems, air combat training and control systems, electronic warfare threat simulation systems, and electronic manufacturing and system integration services
- **Power Systems** - Naval and industrial power generation, conversion, propulsion, distribution and control systems
- **Intelligence Technologies** - Signals intelligence, including data collection, processing and dissemination equipment, mission and flight recorders, and unmanned vehicles
- **Tactical Systems** - Battle management tactical computer systems and peripherals

Through the **RSTA Segment**, DRS is an established leader in thermal sighting, targeting and weapon sensor systems, electro-optical manufacturing services, , image intensification (I2) night vision, combat identification and laser aimers/illuminator products, remote sensors and infrared countermeasures.

Our **Sustainment Systems Segment** is a leading provider of environmental control systems, mobile electric power, battlefield systems integration, power conditioning, force projection, integrated trailers/shelters, ground support equipment/automatic test equipment, chemical/biological defense, integrated security systems, radar systems, and fuel and water distribution systems.

Through the **Technical Services Segment**, DRS is an industry leader in engineering and logistics services, technical documentation, manpower support, integrated communications services, supply chain management and access security systems.

### Recent Company Highlights

- **January 4, 2007** — DRS was awarded a five-year contract, valued at approximately \$109 million, including options, to provide replacement Environmental Control Systems for the electronic equipment and personnel of the Minuteman III Intercontinental Ballistic Missile (ICBM) launch and missile alert facilities. The Minuteman III ICBM is an element of the United States' strategic deterrent forces.
- **December 18, 2006** — DRS received a new multi-year contract valued at approximately \$145 million, including options, to produce Driver Vision Enhancer (DVE) A-Kits for installation on a wide range of frontline U.S. Army tactical wheeled and combat vehicles. Increasing drivers' vision capability, survivability and mobility in hazardous, low-visibility conditions during the day or night, the DVE systems are supporting U.S. Army and Marine Corps units engaged in Operation Iraqi Freedom and Operation Enduring Freedom.
- **December 13, 2006** — DRS received a \$46 million order to repair more than 200 U.S. Army M1000 Heavy Equipment Transporter (HET) trailers. The order is part of a five-year Indefinite Delivery/Indefinite Quantity (IDIQ) reset contract that was awarded to DRS in October 2004 by the U.S. Army's Tank-Automotive and Armaments Command (TACOM) in Warren, Michigan. The M1000 HET trailer is designed and manufactured by the company's DRS Sustainment Systems unit.
- **November 21, 2006** — DRS was awarded approximately \$24 million in new orders to provide production, spares and services for the U.S. Navy's AN/UYQ-70(V) Advanced Display Systems. These computer display workstations are being installed throughout the U.S. Navy's surface, subsurface and air fleet, including the LHA class amphibious assault platforms, CVN-68 USS Nimitz class aircraft carriers and SSN-774 Virginia class NSSN New Attack Submarines, as well as DDG-51 Arleigh Burke Aegis class surface ships and E-2C Hawkeye aircraft.
- **November 6, 2006** — DRS received approximately \$76 million in new orders to produce next-generation Thermal Weapon Sights II (TWS II) for U.S. Army ground force applications.

we sold directly to the government. Then, as we began to grow the business, we always did it from the point of view of our end user. So we became a mini-prime contractor because we were so tiny. We've placed a huge emphasis throughout the whole history of the company on people — people development, hiring the best possible people, and always preparing for the next stage of growth so that we would have those people on board that could help take the company to the next stage of growth.

We have been very fortunate in that we've been able to attract top scientists and engineers as well as very experienced management talent, to the company with everybody having one single purpose — to do an incredible job for the men and women in uniform. It is a focus that has been able to propel us. If I had to look to what has made us special, it would have to be our people. Obviously, with good people you eventually develop good technology, so there is no question we became a leader in most of the fields that we're in because of our people. We always had the vision of being number one or two in our fields. In the defense area, that isn't that difficult, because there are limited contracts for any one particular program. So, if you can get a good position on a program, you can continue to develop that position and become a leader in the things you do.

**TWST: Would you go further in describing the competitive landscape?**

**Mr. Newman:** It's highly competitive in that you've got a handful of large prime contractors who can do everything. We find ourselves competing with all of the major primes, but also teaming with them. So, you align yourself with different companies as they go after programs. In areas where we are a subcontractor, we tend to become a partner with the prime. In areas where we prime (and we prime about 50% of the time), then

we go up against the vision of all of these large companies, as well as some smaller companies. You have to write a top-flight proposal, you have to have the right technical approach, and you have to have the right pricing. So we've always tried to keep our cost in line and our technology advanced so we could go out and win our lion's share of the programs we compete for.

I think we never looked at our situation as a tiny company going up against a big company. We always looked at it as folks in our business going up against folks in the competitor's business, and how we could provide the best solution. Although it's highly competitive, there aren't that many defense contractors in the world. There are a lot of tiny support contractors, but when you think about DRS at our size now, \$2.7 billion in annual revenues, we're probably in the top 25 of defense companies in the world and probably in the top 15 in the United States. It's a fairly small landscape in which you're competing. So you just have to be nimble, you have to have the best solution, and you have to do a good job for your customers.

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***“Not only are we experiencing organic growth, but we also have a very good acquisition track record, we know how to assess companies, we know how to acquire companies and we know how to integrate them. It's a good bet that if we get involved with a business in the future, we're going to know how to turn it into something better than it was when we started with it.”***

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**TWST: Regarding the technology that you supply, approximately how much is legacy, how much is new, and how much combines legacy and new things?**

**Mr. Newman:** I would say that roughly 75% of our business would be tied to legacy tech-

nologies or programs, or the upgrading of legacy platforms or upgrading the systems that are going to go on legacy platforms. I would say the other 25% is not entirely new. So, for example, we've won a nice position with Boeing on the new Strategic Border Initiative and that is a whole new marketplace for us. But even in that marketplace, we will be drawing upon our knowledge of systems and sensors that are being used in military applications right now. But we get our huge chunk of R&D dollars, and we're always working on items for the future. So you have a very healthy mix.

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***"We are a leading provider of defense technology systems and services. We support all branches of the US military and intelligence agencies, all the major aerospace and defense contractors, what we call prime contractors, and international military forces. So it's a huge customer base."***

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**TWST: Does your R&D occasionally uncover things that weren't the original intention of the R&D?**

**Mr. Newman:** Our R&D tends to focus on improved applications in what we're doing. So sometimes what we find is we'll develop a solution that is even better than the solution we probably were going to look toward, but it's not the kind of thing where we are working on a project and all of a sudden we discover the cure for cancer. It's more an evolutionary process of taking our existing technologies and improving on them. For example, if you're talking about a thermal imaging system, it's how to get higher resolution and more capability out of that kind of technology and then to look at new types of technologies that could be applied to that challenge.

We're a big leader right now in the world of permanent magnet motors, which is an ad-

vanced type of motor that runs very efficiently, and it has application in a lot of places. We developed it originally for Navy ship capabilities to drive the propulsion system of the new classes of ships, but we found that we could make smaller versions of the motor that could be used in the oil exploration field, where they need this kind of technology. So we took a kernel and then developed that into a family of products. We find that that can be done. But we generally are more involved with applied technology than in an initial kind where we would just dream up an idea and start from scratch.

**TWST: Would you give us an idea of the outlook for the industry and for DRS in particular, both short- and long-term?**

**Mr. Newman:** The industry is very strong right now. Defense budgets are high, and I think they will stay high for many years to come. We have a very nice mix of Army business, along with business from all the other branches of service. Our biggest chunk right now happens to be Army, and that's where a lot of money is being spent — in upgrading Army equipment and platforms that are getting a lot of use. The equipment is being used up in theater. So we've got a lot of work that we're doing to upgrade, enhance and refurbish a lot of different systems. In the near term, in the next year or two, I think you're going to see some very healthy organic growth based on where defense budgets are right now. In the long-term, I think you're going to see steady growth in defense spending. It is not a big portion of GDP right now, so I don't think one needs to be compelled to cut it, and the kinds of threats we're facing are going to be ongoing for many years to come. So I think it's a good environment to be in. We're seeing a relatively healthy business certainly over the next five years.

**TWST: Do you think that more and more new technologies will develop to deal with this sort of scatter-gun approach of the terrorists around the world, small groups of people doing lots of harm in different places and almost randomly?**

**Mr. Newman:** I think that's what the military is working on right now. It's what we call asymmetric warfare. You're no longer going up against a big army on the other side trying to defend a country, but you're dealing with terrorist operations. So there are a lot of technologies that are being developed to deal with that. But by the same token, what we found was going into different countries you need a solid ground force to keep the peace. We're finding difficulties now in trying to do that because you don't have a uniform formation of forces that our troops are facing. So, I think what you're seeing is an evolutionary process that's taking place in order to understand the threat that we're seeing and how to deal with or counter those threats. I think that is going to evolve in the future. But while you're doing that, you can't eliminate the armed forces. You've got to change the way they do business, still keeping the core structure necessary to deal with a conflict with another large country or large country's forces should that arise. So, it's a dual challenge that we're looking at — how to deal with the current threat and how to deal with tomorrow's threat, as well as how to think about the threat we'll be facing in 25 or 30 years. It's a huge task, and the military has been trying to assess that.

**TWST: What are the key items on your strategic agenda as you look out over the year and future?**

**Mr. Newman:** From a strategic standpoint, we've decided to remain a high-tech supplier, as opposed to a platform builder. What we want to do

is develop the technologies that can be used to enhance any platform, whether it is today's platform or a future platform. For example, if the world goes toward unmanned aerial vehicles, we want to make sure that we have a family of sensor products that could support any family of unmanned vehicles. We want to make sure that we stay two steps ahead of the competition in technology, so that we can apply that technology where it's needed.

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***"We're a world leader in thermal imaging technologies, more commonly known as night vision. We make some of the most advanced night vision equipment for everything from a soldier's rifle sight to big target acquisition systems that you find on aircraft or heavy ground vehicles, such as Bradley Fighting Vehicles and other tanks. We're one of the largest producers in the world of very ultra rugged computers for the battlefield, and we're on all of the major battlefield digitization programs."***

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**TWST: What will you be looking for in acquisitions?**

**Mr. Newman:** At this point, we did a large acquisition last January. We closed it, in fact, on January 31, 2006. That company was the equivalent of buying 14 individual companies. The company was called Engineered Support Systems. What we told Wall Street at the time was we were going to spend the next 12-18 months integrating that business into the rest of our business and then concentrate on paying down debt to strengthen the balance sheet. So that is where we've been focused.

We've taken 14 companies now and turned them into seven operating entities, divided between two business segments. We're operating the total company now as four business segments, and we're concentrating on consolidation and cost reduction, which we've achieved, and on integrating these busi-

nesses with the rest of the company. All the while, we are working on building an internal culture in the company where everyone feels like they're a part of one entity. That is where we've been focused.

From this point on, as we look at acquisitions we see the strategy more as adding capability to the different areas in which we are currently working. We see the concept of bolt-on acquisitions going forward, if the right opportunities at the right prices surface. In the meantime, we have very healthy organic growth. We're achieving growth in the low double-digit percentages now, and we believe that as time goes on, we can put other businesses together that will add to the capabilities we currently have. We've never been a company that just felt it had to go out and buy everything that wasn't nailed down. We've always focused on what we can acquire to enhance our current product mix.

**TWST: What for you are the keys to cost reduction?**

**Mr. Newman:** First, we work on the supply chain, which is very important. We brought in key people focused on supply chain management, so that we can lower our material costs, which tend to be a big chunk of our overall cost. Secondly, we work on overhead and G&A costs. We do that through consolidation, through adding efficiency to existing operations that we have, and then we're always looking at the number of people that we have either running businesses or operating within the business. As you become more efficient, you don't need as many people. If you take a look at last year, we probably reduced the head count at DRS by 300 or 400 people, which has produced some cost efficiencies. When you produce cost efficiencies, ultimately you become more competitive so that you can win more programs, and that's exactly what we've done.

**TWST: Looking ahead, what problems might you worry about?**

**Mr. Newman:** The biggest thing we worry about concerns the products that you're delivering and if they are going to work when they should every time. So you make sure that people are all aligned with your concept of quality, which I believe we are, so that the product that ends up in the hands of the serviceman or woman is going to be the best possible product that they could get at that time. You make sure that everybody is aligned with that common vision.

We also want to make sure that we continue to generate the cash that we need to generate, so that we can pay down debt. I think this is important in strengthening the balance sheet, which will be good for our future. That is something we work toward. It's basically a matter of keeping our costs in line and staying competitive.

We also have the ongoing competitive pressure of making sure that your technology is the best technology and that you're investing in the right areas of R&D, so that you can develop the products of the future. You want to make sure that when the next generation of products is bid or the next programs are up for bid that you can win a fair share of them. Right now, we're pretty well set in terms of our business base. We've booked more this year than we ever have in the history of the company. Our book-to-bill ratio as of the end of our last quarter, which was September 30, was about 1.27 to 1. So, we're booking a lot more than we're shipping right now, which is building a very strong backlog. Our backlog was over \$2.7 billion at the end of September. So, we want to make sure that we continue to book programs and keep that backlog at a solid level so that we can continue to grow.

**TWST: Let's say there were a product of yours that was being used and it was found that**

**it was not 100%, that there was some problems. How quickly can you turn things around?**

**Mr. Newman:** If we find a problem with anything, we jump on it right away, and we go through an analysis of what went wrong. Is it an easy fix? Is it a hard fix? Was there something wrong with the spec, so that the spec should have been changed? So it depends on what the problem would be. Some things you can turn around very quickly. Today, you can see a fix and then jump on it; other times it could mean a redesign of a product. We don't see too many of those, but when you're under pressure to ship products quickly, not just from the corporation's point of view, but also from the military's point of view, they could expect one thing and then find that they need to change it a little bit. So, you have to work with the customer to make the changes. But I would say for the most part, everything that is shipped, once it gets shipped, works very well, and if there is a problem, it usually comes about because something is being used in a way that wasn't contemplated originally. In that case, you would have to enhance the product.

**TWST: What would you reasonably expect DRS Technologies to look like in about three years?**

**Mr. Newman:** Barring any acquisition, I would say that we would continue to grow 6%-8% organically. I think we'll continue to see that kind of growth in that three-year time frame and at the same time pay down debt to strengthen the balance sheet, which will then generate additional profit. We would expect to see profits climbing nicely, sales climbing nicely, and all the while improving the culture and the abilities of the company to compete in the future. I also would see us growing our homeland security or homeland defense business. That is going to become a larger

part of the company. I think that probably within three years time, we're going to see our Navy business growing a bit more, as some of these new ships begin to be built, and we have secured a big position on all of these new ships. It will be that combination of things.

**TWST: Since you've have done so much, what would improving the culture mean to you?**

**Mr. Newman:** To me, it's getting to all the new people who have joined the company. In the last year, we've added over 3,000 people to the corporation, and many of those people were part of companies that had a long legacy. So we try to reach those operations as quickly as possible to give them a feeling for who DRS is. We've created, for example, an ambassador program throughout the corporation, where we have various people in each operation, and we have over 40 locations, tapping into the pulse of what makes each of these operations run, and then reporting on interesting things. So that brings people together. They hear stories, technologies, products, people and information about all the different parts of the company, and they feel that they're a part of one great company. We try to enhance the concept of how can they make a difference to themselves, their communities and certainly to our important customers. We're trying to get everybody focused in that direction, because it's very easy when you sit in the corporate office to just assume everybody is thinking the way you are.

It takes a concerted effort of getting out and meeting everybody and letting them know who we are. In fact, I personally go out to visit employees at our plants. I try within a year's time to visit most of the operations that we have just to talk to people at town hall meetings, hear what's on their minds, and let them know that they are a part of something special. You can forget that sometimes when

you're just sitting in an office isolated, because what you think everybody is thinking isn't necessarily what everybody is thinking. So you've got to go out there and verbalize to people what you're thinking, and then see whether they agree or disagree. It's a matter of putting a face of the corporation to all the individuals in the company, and that's an ongoing thing. I don't think that ever stops in a corporation.

**TWST: Would you tell us about your own background and expertise and the same for one or two of your colleagues?**

**Mr. Newman:** My background is actually finance. I started my life as an accountant, a CPA, working for what is now called KPMG, but in those days was called Peat Marwick. I came to DRS as a young man in 1973. We had 32 people on top of a General Electric appliance store in a suburb of New York called Mount Vernon. That was the company I joined in 1973, and I have spent my entire career working to build this company. I've basically learned all the aspects of defense contracting from the ground floor up. It's working with all the people that we started bringing into the company, and if we didn't bring them in, we brought in consultants. I learned from consultants. From an educational standpoint, I have a Bachelor's degree in Economics, an MBA in Financial Management, and I'm a CPA. However, I spent my whole life essentially working in the defense industry for one company and growing it. The reason I ended up in this company was my dad had founded the company, while I was in college, and we got talking one day. He needed some help with the books, so I said, "All right, I'll give you a little time, and let me see if I can help you," and I never left.

Rich Schneider, our CFO, is also a Peat Marwick alumni, or KPMG alumni. But we were

in different offices, and we didn't know each other then. He ended up leaving Peat Marwick and working for various defense contractors, ultimately with a company called NAI Technologies, which DRS acquired in 1999. I was so impressed with him that I asked him to be the CFO of our corporation, and he stayed on and has done an incredible job. He has a degree from Wharton School of Business, lots of experience in the industry — probably 30 years experience now — and has done everything from financial management to acquisitions and cash management. He knows financial reporting, he knows banking, and he has been an incredible addition to the team.

Bob Mehmel, who is our Chief Operating Officer, came to us about five years ago. He has over 20 years of experience in the defense industry. He was an old Loral guy, who then ended up moving to Lockheed Martin when Loral was acquired by Lockheed Martin. Then, when Frank Lanza spun off L-3 Communications from Lockheed, he went with the L-3 group. We brought Bob in originally to do strategic planning and operations management — what some people would term corporate development — because he has a strong background in acquisitions. Last year, we promoted him to Chief Operating Officer after our last Chief Operating Officer retired about two years ago, and he is doing an incredible job. He is probably one of the smartest people that I've ever met in this industry. He is a very, very sharp guy.

Our General Counsel is Nina Dunn. She was a partner in a law firm prior to joining DRS and worked with DRS for many years. Then she joined us about 10 years ago, and she's built a great legal department.

Mike Bowman, who runs our Washington operations, retired from the Navy as a three-star Admiral. He was a fighter pilot, but more impor-

tant to us, had done two stints working with Congress. Once when he was a Captain, he was the Navy-Senate liaison and then as an Admiral, he became the Legislative Affairs Officer for the United States Navy. So aside from his last job, which was the Commander of the Naval Air Force, Pacific Fleet, he had a lot of experience in dealing with the Hill in Washington and has been an incredible addition to the team. In five years, he has built a very effective Washington presence for the company.

So, I think we have a key management group in the corporate office. We run the company through four operating segments: the C4I, RSTA or Reconnaissance, Surveillance & Target Acquisition, Technical Services, and Sustainment Systems Segments. We have a President that runs each of those segments who then reports to Bob Mehmel.

So, for example, we have Steve Schorer, who came to us from L-3 a number of years ago to run our C4I business. He had a very solid background before L-3 with AlliedSignal, and before that had careers at Lockheed Martin, Hughes Aircraft and Raytheon. He has a strong technical background, and he's a very, very smart guy.

Jimmy Baird, who runs our RSTA Segment, spent most of his career with Texas Instruments. Then, when we acquired the focal plane array business of Texas Instruments, he joined us to run our Infrared Technologies business in Dallas and ultimately became President of RSTA. Just recently, we carved out that business as a separate segment.

Tom Cornwell, who is President of our Sustainment Systems Segment. He formerly was an Engineered Support Systems manager and had come with our acquisition of Engineered Support. Earlier, he was President and CEO of Engineered Air Systems, a subsidiary of Engineered Support

Systems. He has probably more than 20 years of experience in the industry.

Finally, we've got the Technical Services Segment and a gentleman by the name of Mitch Rambler who runs that. He has over 25 years of experience. He is a PhD and came to us with our acquisition of Engineered Support Systems, but actually had just joined that company prior to the acquisition. I think he had joined them in December 2005, and we closed on the acquisition in January 2006. He is doing a very effective job. I believe that we have a very well rounded group of people, where we can balance legal, technical and military backgrounds with financial, and that is a great formula for success.

**TWST: I would guess that you're one company that might feel it is pretty well understood by the Street.**

**Mr. Newman:** Yes. I think that we're trying to simplify the story. What we are finding is the more things you make, the harder it is to explain the business. I think the Street is starting to understand who we are. The fact that we set out a strategy to become a leading mid-tier defense technology company is now well understood. They see us as being one of a handful of companies that bridge the gap between the very large primes and the small specialty companies. So, when you get into the subsystems level and you get below what we call platforms, we can bring very cost-effective, innovative solutions to a lot of problems.

**TWST: Let's say just hypothetically that there was an administration in Washington that wasn't in full sympathy with the way things are being done now. How long would that take to change what you're doing? You have lots of things locked into place with the government, so how long would it take for things to be altered?**

**Mr. Newman:** I think what I would do is take a look at what was said when President Bush was originally campaigning for his first term in office. What was being talked about was a transformation of the military. They were talking about skipping a generation of weapons and just leaping into the future. It was an interesting concept, because they saw that throughout the Clinton years, they had basically undercapitalized the military by about \$100 billion a year. So what that meant was that the nation would either have to replace a lot of very old equipment or it could instead focus on what the military should do in the future. The administration was smart to be thinking about asymmetric warfare at that time and skip focusing on supplying the old equipment. But then we found ourselves in a war, and if you remember what Donald Rumsfeld said, which was that you go to war with what you've got, that's what they did.

They also found that when our military forces were operating in various cities and towns, having heavy armor, for example, was protecting soldiers more than light vehicles. They discovered that they just couldn't skip a generation of weapon systems and that weaponry needs to evolve. It takes time to change tactics and doctrines. So I don't think anything happens as quickly as one would like to suppose.

Even with a change of administration in a couple of years, I don't think you're going to see radical changes to the military structure. What you have are a lot of smart people who are thinking about problems, both civilians and military, as well as politicians. They all want the best for the man and woman in uniform, and they want to keep the country strong. They're trying to figure out the best way to do it and trying to work together to help solve those problems, and industry plays a role in that.

I don't think you'll see very radical changes. I think you'll see more of an evolutionary process, and I don't see any reason why that would change with administrations or control in Congress. I like to remind people that there are patriots on both sides of the aisle. These are people that care about the country. Sometimes you hear divergent views from people on the fringes of both sides, but for the most part, I think Congressmen and women are relatively moderate, and they want what's best for the United States.

**TWST: What would be the two or three best reasons for the long-term investor to take a very close look at DRS Technologies?**

**Mr. Newman:** The first reason is that we're well positioned in what we call the "sweet spot" of the defense budget. We have technology solutions that are desired right now by all branches of the armed forces. They're coming to us for a lot of products and support. I think we're highly diversified with both product and service offerings and also are diversified in our customer base. So there isn't any one significant part of the defense budget that plays a huge role in our business. In fact, we're so diversified that our top 10 programs are only about 25% of our total annual revenues, and our largest program is probably less than 4% of our business. So diversification is very important.

Not only are we experiencing organic growth, but we also have a very good acquisition track record, we know how to assess companies, we know how to acquire companies and we know how to integrate them. It's a good bet that if we get involved with a business in the future, we're going to know how to turn it into something better than it was when we started with it. Finally, we have a very experienced and conservative management team, and we're always looking for new and smart

ways to continue to deliver value to stockholders. I think we're a good company.

**TWST: Is there anything that you would like to add, particularly regarding strategies and long-term objectives?**

**Mr. Newman:** Our long-term objective is to continue to build DRS, so that it can be one of the key players in the defense industry for many years to come. Regarding growth strategies, we expect to continue to accomplish that through a combination of organic growth and acquisition.

**TWST: Do you want to add anything?**

**Mr. Newman:** I think the combination of those strategies, along with maintaining a good management team, is going to continue to be a good formula for success for us.

**TWST: Thank you. (MC)**

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