



## **Press Briefing Transcript: Under Secretary of War Michael P. Duffey and Lockheed Martin CEO Jim Taiclet Discuss Landmark Acquisition Transformation Agreement to Accelerate PAC-3® MSE Production**

January 6, 2026

**Melissa Dueñas, Lockheed Martin Acting Senior Vice President & Chief Communications Officer:** Happy New Year, everyone. I'm Melissa Dueñas, and I lead comms for Lockheed Martin. Thank you for joining today's video roundtable to discuss this landmark framework agreement between the U.S. Department of War and Lockheed Martin.

Today's discussion brings together government and industry to share perspective on this first of a kind framework and its significance for us, national defense, our allies and the defense industrial base.

We're pleased to be joined by the Honorable Michael Duffey, Under Secretary of War for acquisition and sustainment, and Jim Taiclet, Chairman, President and CEO of Lockheed Martin. Before we begin a quick note on today's format, Under Secretary Duffey will begin with open remarks followed by brief remarks from Mr. Taiclet.

We will then open the line for media Q&A, which will be facilitated by my colleague, Jacqueline. And as a reminder, this roundtable is embargoed until 4 p.m. Eastern time today. We appreciate your adherence to this as we are currently in an earnings quiet period.

I will now turn it over to Under Secretary Duffey.

**Honorable Michael P. Duffey, Under Secretary of War for Acquisition and Sustainment:** Good morning. Thank you all for joining us today.

When Secretary Hegseth recently laid out his acquisition transformation strategy, he made his promise that the Department of War would no longer be a bottleneck to our own national security. He promised a new era of speed and execution to build the arsenal of freedom. Today's announcement represents a significant step forward toward expanding PAC-3 MSE production in fulfillment of that promise.

This is a watershed moment for the defense industrial base and the new chapter in our partnership with industry leaders like Lockheed Martin and their CEO Jim Taiclet, who I am proud to join on the call today. For decades, the fundamental problem has been a misalignment of risk. When the Department and the nation have needed industry to expand, the government bore all the risk, funding new factories, tooling and test equipment with uncertain future returns.

The process was slow, bureaucratic and out of step with the urgency of our time. Our new model, which we are pioneering here today, fundamentally aligns that equation. This agreement provides a key piece of what industry has needed most, an unwavering, long-term demand signal that creates confidence and stability for our industry partners to make their own investment in expanding their production capacity. And I want to thank the Congress whose support is required for their openness to this discussion and what we believe is strong alignment on our intent behind this agreement.

The framework sets an ambitious but achievable target to more than triple PAC-3 MSE production and achieves three clear non-negotiable outcomes.

First, it delivers a surge of capability to the warfighter. This is about building the magazine depth that is the bedrock of deterrence. It ensures that our soldiers, sailors, airmen and Marines will have the tools they need to maintain, overmatch and win decisively if deterrence fails.

Second, it demonstrates profound respect for the American taxpayer. Instead of the government funding the upfront cost of industrial expansion, our industrial partners will make that investment. This drives efficiency, accountability and better long-term value for every dollar spent.

Finally, this framework begins the revitalization of our nation's defense industrial base. This long-term stability cascades down through the entire supply chain to the small business suppliers and skilled workers in towns across America. It gives them the confidence to hire, train and invest in the future.

I commend Lockheed Martin for their leadership, to step up and embrace this new model with us. This is what true partnership looks like. The message today is simple. The era of business as usual is over. This is the new standard, and this is just the beginning. Thank you, and I look forward to taking your questions today.

**Jim Taiclet, Lockheed Martin Chairman, President and CEO:** Thank you Under Secretary Duffey and thank you to the Department of War for convening today's session.

My colleagues at Lockheed Martin and I greatly appreciate the Department's leadership in bringing commercial business practices to increase the speed and efficiency of producing critical munitions that will ensure that our armed forces have the capabilities needed to defend the United States and deter armed conflict around the world.

This landmark framework agreement is a direct outcome of the Department's acquisition transformation strategy. One of the most innovative and substantial reforms to U.S. government acquisition in decades, it's a direct extension of our previously communicated objectives to accelerate delivery of capability, strengthen supply chain resilience and drive innovation through commercial standards.

At its core, this framework establishes a new model for how the Department of War interfaces and contracts with industry. This new commercially inspired business model provides reliable, long-term demand expectations that enable industry to invest robustly, expand capacity and drive operational efficiencies across the entire defense industrial base. Under this seven-year agreement, annual production capacity for PAC-3 MSE

interceptors will increase from approximately 600 to 2,000 per year. That's more than tripling the production rate and supporting U.S. forces, allies and partner nations in today's increasingly complex geopolitical environment.

Our company is well-positioned to execute, having increased PAC-3 MSE production by more than 60% over the past two years alone, including delivering a record breaking 620 missiles in 2025. This framework enables us to invest in the future with confidence, supporting additions and improvements to our facilities, workforce and suppliers. In turn, these investments will create opportunities for cost savings and efficiencies that provide value for taxpayers and our shareholders.

It also strengthens the broader industrial base, including small and medium businesses, as the Secretary stated, and supporting thousands of American jobs across the supply chain.

This joint effort in the resulting framework agreement are especially important given real-world operations in which the PAC-3 MSE system was needed to defeat a number of missile attacks on U.S. and allied forces. As a result of this proven performance, global demand for the PAC-3 MSE continues to grow.

This agreement helps ensure America and its allies have timely access to proven, highly effective capabilities when they're needed most. This agreement is also a groundbreaking example of how government and industry can work together to modernize acquisition while delivering real-world operational outcomes. We're proud to partner with the Department of War and lead on this first of its kind approach, and we remain focused on executing with urgency, discipline and accountability as we work towards an initial contract award and pending future appropriations.

With that, the Secretary and I would be happy to take your questions.

**Melissa Dueñas:** Thank you, Mr. Taiclet, and thank you Under Secretary Duffey for your remarks. With that, we'll open the line for questions. Please note that, due to quiet period considerations, we may not be able to address certain questions. Reporters wishing to ask a question, should use the raise hand feature in teams. We're now opening the line for Q&A Jacqueline.

**Moderator:** Thank you. Our first question comes from Marcus Weisgerber at the Wall Street Journal. Please go ahead.

**Q:** Hey. Thank you so much. I appreciate doing the call and taking my questions. For Secretary Duffey, I just wanted to maybe get some comments from you. How long has it been in the works? What got it across the finish line? And what other areas might you be looking to expand this beyond PAC-3? And for Mr. Taiclet, since this isn't a contract, and I know both Lockheed and its peers throughout the industry have really pressed for multi-year contracts throughout the year, what kind of assurances do you have that this will continue and these actual orders will come? Particularly if Congress doesn't approve it and/or when we get a new administration in three years. Thank you.

**Honorable Michael P. Duffey:** Thanks, Marcus. Can I ask you to repeat the second question. I got the first.

**Q:** Yes, just what got it across the finish line? So how long has it been in the works, and what got it across the finish line? And where do you want to go beyond PAC-3?

**Honorable Michael P. Duffey:** Okay, great, yeah, thank you. So certainly since we've been having a very active engagement with industry on the munitions front since the summer, but it really started to take hold this fall. We've had robust conversations with Lockheed and this agreement, I think, really memorializes the efforts over those past few weeks and months, to iron out the issues and to come to agreement on a new model for how we would acquire.

What got it across the line, I think it was really the leadership on both sides of the table that were willing to think about and take risk on a new model. In terms of other areas, I think that's to be determined. Clearly, we have a mandate from the Secretary and the Deputy Secretary to optimize how we do acquisition across the board. This is a great and much needed portfolio in which to pilot this new effort, but we will be aggressively exploring other opportunities to make sure that we can stretch every acquisition dollar to the benefit of the warfighter and the taxpayer.

**Jim Taiclet:** And Marcus. It's Jim. Should the U.S. Government or Congress adjust or change the seven-year framework agreement, there's provisions in the agreement, and ultimately will be in the contract that industry will be rateably reimbursed for any sort of non-absorbed, non-recurring expense that we put in in expectation of those rates of production and the seven-year period. So, there's actually a recovery provision, a set of recovery provisions in the agreement, which should translate again into the contract to make industry whole, should the program layout change over time.

**Moderator:** Thank you. Our next question comes from Jen Judson at Bloomberg.

**Q:** Hi, thank you guys so much. I have a question for Jim Taiclet on the ramp up rate to get to 2,000 a year. I think, spoken with executives at Lockheed over the summer and this fall, where they sort of laid out the idea that they would get to about 600 by 2025, it seems like you got a little over that 650 to potentially 750 by 2027. So, can you discuss how that ramp up rate is changing, and when? What specific year do you expect to get to 2,000 a year? And what are you needing to do to get there? Can you highlight some of the things that you're doing to dramatically ramp up?

**Jim Taiclet:** Yeah, certainly. So, the ramp up to 2,000 will be accomplished by the end of 2030 which is literally three to four years away now. We'll have to get the whole supply chain up to speed as well. So, we're again, rateably going to increase the production rates. The contract will reflect the exact numbers when it's finalized, but we do have that kind of North Star target of 2,000 a year by end 2030.

What we're going to do to get there is going to be a full court press across, you know, all of the elements in the coast of production. One is we have sufficient floor space already in our Missiles and Fire Control operations to handle the final assembly of essentially, again, tripling the rate of production of the missiles. We'll be putting in new advanced tooling lines. We're going to be adding both people and automation to the tooling lines to meet this production rate.

We're also going to diversify our suppliers, and the lower performing suppliers will either be replaced or complemented with second or third sources along the way, and we have baked into our plan the cost and requirement of time to do that. So, there'll be across the board, people, automation, floor space in the supply chain, additional suppliers, second sources, etc., that will be sort of aligning and coordinating to get us to the rate. And there's an actual operational plan to do that. It's a very doable thing.

**Q:** Just to follow up. Can you elaborate a little bit on the number of people that you need to hire beyond where you are? And then also in terms of diversifying suppliers, are there specific areas within the supply chain that you're targeting at this point that you can discuss?

**Jim Taiclet:** So actual numbers of people will be determined when the actual contract and the specific milestones per year are identified. It'll be meaningful, but again, it won't be overwhelming. The cost efficiencies will come from more people working more efficiently with more automation in the line, and we'll expect that from our suppliers as well. So, when you go through the entire supply chain, we're going to be assisting them, even small and medium businesses, with scaling with new technology, share automation, training.

We will see people in their facilities as we do today to make sure that the capabilities are there to meet that rate. So once the definitization of the contract complete, we'll have more specific numbers on who the second suppliers are, how many people will be added in each tier of the supply chain. We're not in position to disclose that yet.

**Moderator:** Thank you. Our next question comes from Valerie Insinna at Breaking Defense. Please go ahead.

**Q:** Hi. Thank you both so much for doing this. I'm seeking some clarity on the budget side of this equation. So, Secretary Duffey, these are probably questions for you. So, Lockheed's release links to the contract, potentially with FY26 appropriations. I'm assuming that this agreement is going to require a larger financial commitment than what was spelled out for PAC-3 in the FY26 request. So, can you confirm that?

And then also linked along with that, last month, Senator Coons mentioned to reporters in a round table that there had recently been a multi-billion dollar munitions request from DoD in November. Is this agreement part of that request? And then, just generally speaking, what's your level of certainty at this point that Congress is going to support this request? Senator Coons seemed pretty skeptical, but you know, a lot can change in a matter of a month. So, you know, where are you guys right now in terms of getting Congress on board?

**Honorable Michael P. Duffey:** Thanks, Val. So certainly, of course, Congress is fundamental to making this a success, and for us being able to enter into the contract. We found great receptivity from Congress in conversations that we've had.

But you're correct that the appropriations would be required to support that. And I think we've been clear throughout our communication here, that in order to really fully realize the potential here, we need to ensure that we've got the appropriations to fund the increased procurement networks, but I'm confident there's alignment, conceptually. Clearly, Congress is working through their appropriations now and we'll see where that lands in the near future.

**Q:** Thank you. Following up really quickly. I was wondering if you could put a dollar amount right now with this that would be needed?

**Jim Taiclet:** Exactly, yeah, Secretary, I was about to say the exact thing, yeah. One, we can't identify dollars until they're A, appropriated and B, we have a definitive contract, so we know how to space out the cost of the non-recurring investments that we're going to have to make.

But what's important about this agreement is actually two really cooperative elements between the U.S. government and industry. One is that it acknowledges escalation. In other words, inflation will happen over the seven years. There'll be an escalation index that will cover the inflation on ongoing operating costs of producing the risks of these rates. So that's one important element.

This second important element is that the government's agreed to negotiate with us on what will essentially result in us is cash neutral, year by year, operation of this scaling, if you will. So, in other words, there are advanced payments and other financing mechanisms that the government will not necessarily be paying for the NRE, we will be paying for it, but the cash flows will be timed in a way that our plan and our suppliers' plans for cash flows in the next few years will be neutralized. In other words, there will be no negative impact is the goal any company that participates in this, from a cash perspective, in the current year or the coming years.

**Moderator:** Thank you. Our next question comes from Morgan Brennan at CNBC. Please go ahead. Morgan we'll come right back to you for now, let's go to the next question. Briana Reilly at Punchbowl News, please go ahead.

**Q:** Great. Thanks so much for doing this. Couple of questions about the terms of this framework agreement. Does the Pentagon view a seven-year term as the baseline for other potential agreements, and how is that number arrived at?

Secondly, this is obviously, you know, a pilot initiative. I'm just curious, what markers of success are you looking out for, Secretary Duffey, when you're thinking about potentially expanding this into other munitions arrangements? Thank you.

**Honorable Michael P. Duffey:** Great. Thanks for the questions. Briana, I think in response to your first question, what was important here for us to incentivize industry to make this significant upfront investment, was a confident return on that investment. And so, this was a discussion with industry about what duration of contract at what volume would provide that while representing, you know, getting the best value for the taxpayer. So, is that applicable across all programs? I think that remains to be seen. I think there's a lot of variables that go into that.

And I'm sorry, can you ask your second ... oh, in terms of, where else would we go? Is that your second question?

**Q:** Yeah, exactly, given that this is sort of a model, you know, a first mover in this space, I'm just curious what early markers of success you're looking for to give you confidence to apply this framework to other areas.

**Honorable Michael P. Duffey:** Sure. So, I think you know, we are driven here, certainly by getting the best value for the Department. But I think the real news story here is tripling the production rate of a critical weapon and accelerating the speed at which we can produce that weapon. Those are the metrics that are going to drive our success, and what are the interim metrics that working with industry, we can measure throughout the process to ensure that they're ramping to achieve that.

**Jim Taiclet:** Yeah, Secretary, I can complement your thoughts there with some other examples from Lockheed Martin's portfolio. With THAAD, you know, we're going to be looking to triple or quadruple the rate, is what we're being asked to evaluate. PrSM, which is a new version of the HIMARS vehicle missile. You know that could be, it's an early production rate, but it could go up as much as five times or more over the next few years, by 2030. LRASM and JASSM, which are the highly sophisticated stealth cruise missiles. You know, again, what could be looking at, you know, doubling and tripling of those munitions, also, under the same sort of framework, and that's just the programs that Lockheed's got visibility to.

I'm sure the Department has others they would be putting on that list. So, there's, there's many opportunities in this area. And what's important about PAC-3, for example, this is a known technology. This is not experimental. We're not on the edge of science here. We know how to produce these as industry, as a team. Now it's a matter of just expanding our production capability and our production rate with the suppliers that know how to already do this. So, I think that what we will show success in ramping up, getting the milestones of production rate and also doing it the way that the government will not have to fund the upfront facilitization and other non-recurring costs. And industry will be happy to do it, because we'll be giving a solid ROI on those investments ourselves, and we've got protections in place in case government policy changes.

**Moderator:** Thank you. Our next question comes from Morgan Brennan at CNBC. Morgan, please go ahead.

**Q:** Okay, all right, I think, I'm good now. Thank you so much, Mr. Under Secretary, Jim, it's great to speak with you today. Appreciate the time. I think most of my questions have been asked, but if I could just dig a little more deeply into the comments, Secretary Duffey, that you made about a long standing misalignment of risk and incentives, and how this sets the stage to recenter that, or change that? How investors as well should be thinking about what this means for the business models of the defense primes and the companies that will be contributing to this arsenal moving forward? And I realize folks have already sort of asked this question, but just to ask it again, especially since I know there have been these conversations with other companies when it comes to ramping missile production, how fast and how quickly we can see similar types of agreements implemented across the defense industrial base?

**Honorable Michael P. Duffey:** Thanks for your question, Morgan. I think, first of all, I think Jim touched on that misalignment of risk and how, in the past the government's been forced to fund these expansions, which I think has been in a very inefficient way to do it and not the best value for the taxpayer. How does this new model translate into opportunity for investors? I think Jim can speak to that better than I can. But from my perspective, I think this creates a growth opportunity. And I think I think that investors like growth, so in terms of the similar and how do we see this proliferate across the Department.

You know, we're as the Secretary said in his transformation speech in November, speed and volume are paramount. That not only applies to what we're asking industry to do, but applies to how quickly we're moving within the Department to change how we do business. And so, I can't give you specifics at this time, but I can assure you that we are moving quickly to find new opportunities to apply this new model across the entire portfolio of weapons that we are acquiring here in the Department.

**Jim Taiclet:** Yes, and Morgan, it's Jim. Good morning to you.

There's two big risks that you know when I came from commercial industry, from the telecom space, back to aerospace here, that I really wanted to address. One was variation, right? So year to year, single annual appropriation funding, you can take aircraft, you can take missiles, they can fluctuate year to year, the volumes, you know, 50% plus or minus.

So, you really couldn't plan a multi-year industrial program, because you didn't know from one year to the other how much the Department was going to order of any given product. Right? We only have essentially monopsony customers, so the U.S. government's decisions, which are complex given the nature of our government, and rightly so ... we have an executive branch that proposes, we have Congress that deliberates and then appropriates, ultimately, funds to make those things happen. There can be vast variation year to year. So very hard to plan. It was hard to keep the workforce fully engaged in down years, I'll call it. So that's one risk that we're eliminating.

We will know when this definitive agreement is signed, exactly how many missiles the government is going to order each year. Now, again, if that changes, there'll be remedy mechanisms in the contract to make us whole. So we're eliminating the risk of annual variation.

The second is this notion of funding at all for various programs. I mean, there have been program cancellations very abrupt over the years for all the major defense primes. And so this is the disincentive that I think the Secretary is speaking to, are we really going to invest on a long-term time horizon, a 10 to 20 year NPV time horizon, when funding for a program or a product could be literally eliminated in one fell swoop? It's something that's called the cancellation for convenience of the government. It's something that doesn't happen in commercial industry, because you've got plenty of customers, and if one decides to walk elsewhere, you've got others you can go after. Here we don't have that.

So the notion of program cancellation really hobbles industry's ability to invest for, actually, efficiency. So again, the outcomes of this will be risk mitigation for industry, and efficiency and speed for government. And that is the magic combination I think that we're all after here. I think the shareholders will benefit if we have margin expansion, and the government will benefit if we have margin expansion, because there is a profit-sharing element to this above certain rates, rates of margin expansion, from the starting point.

**Melissa Dueñas:** All right. Thank you everyone. On behalf of Under Secretary Duffey, the Department of War, Mr. Taiclet and Lockheed Martin, thank you so much for joining today's discussion. As a reminder, this media roundtable is embargoed until 4 p.m. Eastern Time today. Thank you for honoring that embargo. And this concludes our call.