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Good Morning. My name is Claude Draillard and I am the Chief Financial Officer of Dassault Falcon Jet Corporation. Thank you for inviting me to testify this morning.

Dassault Falcon Jet Corp. (DFJ) is a fully owned U.S. subsidiary of Dassault Aviation S.A., a French business and military aircraft manufacturer, which is a major player in the global aviation industry.

Since 1972, DFJ's operations have grown from a small sales office in New York City to a company with seven locations throughout the U.S. DFJ and its subsidiaries currently employ a staff of over 2,500 workers in the U.S. and is a major provider of jobs in Arkansas, New Jersey, Delaware, Florida, Nevada, and Idaho.

DFJ also has offices in nine other States in order to service all customers and prospects in the U.S. In addition, as the business aircraft market is a global market, DFJ operates a number of sales offices internationally.

DFJ and its subsidiaries in the United States are operating in the following lines of business for Falcon aircraft:

- The sale of new and pre-owned aircraft for the United States, Canada, Mexico, South America, the Pacific rim and Asia;
- The outfitting and customization of the vast majority of Falcon aircraft, including the related engineering. This includes Falcon aircraft sold outside of DFJ's territory;
- Some R&D for cabin and cockpit options either as in-production installation or as aftermarket installation;
- The sale, exchange and repair of spare parts;
- The technical support of the in-service fleet; and,
- The maintenance of in-service aircraft.

DFJ provides quality, high-salaried jobs throughout the U.S. The nature of DFJ's business requires the employment and training of highly-skilled professionals in all locations: engineers, pilots, support engineers and technicians, aviation mechanics but also CPAs and other types of specialized professionals.

DFJ also provides indirect employment all across the United States through a network of suppliers of all sizes, including divisions of major equipment manufacturers like United Technologies as well as local vendors that help providing flexibility to production operations.

Committed to Reinvesting in the U.S.

Because business aviation is a high-tech, highly regulated industry with very demanding customers, continued investment in technology and facilities is necessary to operate a long-standing, profitable company.

DFJ has a history of reinvesting the cash generated by its American operations back into the U.S. in the form of new technologies and production upgrades, rather than distributing dividends to its foreign parent company. This strategy has allowed DFJ to make additional investments in the U.S. DFJ's average capital expenditure in the last 10 years has been in the vicinity of $15 million per year, enabling the company to:

- Expand its Little Rock, AR production and engineering site (new Engineering wing of 12,000sqft built in 2007 after rebuilding a 15,600sqft Engineering area);
- Enhance its maintenance operations (acquisition of Atlantic Aviation in Wilmington, DE in 2001 ; new service center opened in Reno, NV in 2009); and,
- Invest in new IT tools and other Product Lifecycle Management (PLM) software.

DFJ and the Global Economy

With the globalization of the economy, the relative weight of the U.S. market in new orders for new and pre-owned aircraft has decreased. Even though it remains a significant market in numbers of units, the U.S. is no longer a growing market but mostly a mature renewal market. The recent economic downturn has amplified this trend, which began as early as the second half of 2004 for our company.

This dramatic globalization of our business has changed DFJ's existing customers' behavior and has also opened the door to new customers, mostly outside of the U.S.

Customers that are either new to business aviation or to the high-end part of the market present new challenges for our company. Most of these new customers are located in areas where infrastructure is scarce and technical knowledge and skills are either rare or non-existent.

This scarcity of operational resources has created an incentive for all business aircraft manufacturers to seek local organizations capable of providing these services. However, as fleets are still relatively small, it is almost impossible for new service providers to be profitable in those locations. Therefore, manufacturers have been tempted to re-allocate their resources (human, technical and financial) to those areas outside of the United States.

DFJ has chosen to keep the United States as the main center of its operations for those secluded or little equipped areas, even though our customer base is moving overseas. This market pressure has been enhanced by the economic downturn: shareholders have questioned why DFJ is still investing in its U.S. operations when the market for new aircraft has shifted to countries like Brazil, Russia, India and China.

Challenges for DFJ's Growth and Additional U.S. Investment

Like everyone else, DFJ is navigating the current economic uncertainties and the dramatic changes in world economic powers.

In this fragile time of recovery and economic change, an array of uncertainties in U.S. tax policies and regulations add obstacles to growth and new investment. In addition to the U.S. corporate rate already being the second highest in the world, there is concern over rising direct and indirect tax burden for U.S. businesses. At the same time, some emerging countries are experiencing budget surpluses that increase their ability to provide ever bigger tax incentives.

In anticipation of this, businesses are asking themselves:

- Should we keep investing in the U.S. when the country's economy does not seem to be recovering quickly?
- Should we look to move where countries are providing tax incentives for investment?
- Will current provisions to encourage investment and job creation be able to survive (i.e. R&D credit, Domestic Manufacturers Deduction, etc…) to provide some measure of relief?

At the same time, U.S. tax regulations, along with IRS pronouncements and private letter rulings, have reached a new level of complexity. Interpretations are becoming ever more difficult to understand and reconcile. Disagreement in the reading of tax regulations and provisions has significantly lowered the pace of transactions between parties.

For instance, the current accelerated depreciation mechanism (also known as "bonus depreciation") has a number of criteria to qualify for the said accelerated depreciation. Structuring the financing of new aircraft transactions so that both the financing institution and the end user benefit from the bonus depreciation requires an unprecedented effort and number of people involved. This has increased the cost of the transaction to a point where discussions on the price appear to be relatively simple and straightforward.

Another layer of complexity is added when State tax legislation comes into play. For structured transactions such as international leases of business aircraft, a number of elements need to be analyzed on top of Federal tax issues:

- Some States question the validity for them of tax treaties that bind the Federal government and foreign governments
- States sales tax, use tax or income tax provisions make certain type of transactions extremely costly and/or cumbersome. Therefore, business aircraft transactions tend to be concluded and closings take place in other States that provide, from a tax legislation standpoint, either clearer rules and/or more stability in their rules or better tax conditions.

Conclusion

The business aviation industry is geographically shifting. While DFJ is committed to its U.S. investment, there is increasing incentive to look elsewhere to deploy our resources. Needless to say, predictable, pro-growth tax policy and simplification of federal regulations would make it more attractive to maintain our investment in the United States.