

POLITICO Pro Q&A: Jim McAleese

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Jim McAleese equated what he does to 'watching a black panther run through the jungle in complete darkness.' | *DVIDS*

By JEN JUDSON AND LEIGH MUNSIL | 4/13/15 5:29 PM EDT

Jim McAleese is not a well-known Washington power broker, but in the insular world of defense consulting he's one of the most influential.

His four-person staff calls him a “sponge,” a “savant” or sometimes “Rain Man,” a nickname he doesn't like much, but the names reflect his devotion to digesting information — from documents, hearings, speeches, industry investor calls and anything else he can get his hands on — and compiling what amount to intelligence reports for his defense industry clients.

The 49-year-old Ohio native dove into the defense acquisition world right after law school at George Washington University, starting his own consulting business, McAleese & Associates, in 1992. He's not a registered lobbyist and doesn't disclose his clients.

He may well be the only person in Washington who listens to congressional hearings on Pentagon weapons programs three times. Once live via webstream, then again on a CD in his car on the way home from a 17-hour workday — and once more on the way back into the office before 6 a.m. the next morning. Then he dissects the hearing's transcript.

“From about 6 a.m. to 11 p.m., what I'm fundamentally doing is memorizing the budget, memorizing the programs, absorbing everything humanly possible about the requirements, everything humanly possible about the resourcing, everything possible about the acquisitions — what is the acquisition structure, what will the competition be? And then trying to overlay that on what the contractors are up to,” he said.

McAleese equated what he does to “watching a black panther run through the jungle in complete darkness” — wading through the defense world is far more murky than clear. But his unorthodox methods give a window into how this sometimes shadowy world works, indisputably making him a major player.

And McAleese knows how to pack a room with the top defense minds in Washington, hosting free Defense Programs Conferences with Credit Suisse. This year, former Rep. Jim Moran (D-Va.) showed up only as an attendee, asking Defense Undersecretary Frank Kendall a question during a Q&A session. McAleese welcomed a star-studded cast from the Pentagon at the March 17 conference and, throughout the day, cut in periodically with his own thoughts on the state of the military-industrial complex.

“Having seen Jim up there in front of that audience — he’s like an orchestra conductor,” said Tony Velocci, a veteran aerospace writer and consultant. “The Who’s Who of the defense industry was in the audience, and you saw the parade of top defense department officials who he was able to bring into that event and speak to the industry.”

“He really has no agenda, he’s earned the respect of aerospace and defense contractors, and he’s earned the respect of the Defense Department at the highest levels, and he really serves as a bridge between the two,” Velocci said.

POLITICO sat down with McAleese to discuss the defense business. Here are some edited excerpts.

Tell us about how you got into consulting on defense acquisitions and budgets.

I was sold into law school and [my sister] was sent off to medical school. So what ended up happening was George Washington (I wasn’t smart enough to get into Georgetown), so GW. It turns out that that is where the DoD sends all of their full-funded legal education [attorneys]. ... So I was immersed in these classes where you basically had guys who were working there full-time who did nothing but eat, sleep, breathe acquisition. ... The bug bit me.

What sort of analysis does McAleese & Associates do?

For whatever reason, I seem to have an uncanny ability to reverse-engineer what was going on with the budgets. And so when the budget comes out ... we do literally nothing for seven days a week, for 20 hours a day, except for read that budget. ... What you begin noticing when you pore through the budget is you can see fundamental trade-offs.

So for example, you can already see that in the 2016-2020 program of record, the Navy has already shifted to shipbuilding over aircraft. ... Did you notice how the Navy didn’t want to talk about Super Hornets, they didn’t really want to talk about Growlers?

People mistakenly think it's F-35s versus Super Hornets, and what they are not really realizing is ... the fundamental program trade-offs that the DoD customers make. ... For example ... starting last year you could see patterns that all of a sudden the Navy began canceling or curtailing significant numbers of missile procurement numbers, and the most visible one was the Tomahawk. ... It had nothing to do with the contractors performance. It had nothing to do with affordability of that particular weapons program. It was fundamentally the leading indicator of funds being pulled up out of the lower priority accounts, being pulled up for the first time into the aircraft procurement-Navy account to still be able to buy E-2 Hawkeyes, to be able to buy things like BAMS, to be able to buy F-35, to be able to buy P-8 ... because what's happening was the funding being sucked off was the beginning of the siphoning of zero-sum funding being pulled into the shipbuilding account.

Anyway, to make a long story short, this is what we do.

Did you see that coming?

Well, I would like you to think I'm Superman. ... A month ago you saw me put out an analysis predicting that [General Dynamics] was going to no-bid a number of different programs.

They are doing very, very well over at Combat Systems, which is Strykers, Abrams, Light Assault Vehicles, and they are making 15, 16 percent margins there. Where they are having trouble is this very, very large Information Systems and Technologies, which is all of your commoditized [Information Technology] work. It's a lot of your Army [Joint Tactical Radio System], your Warfighter Information Network-Tactical. So what's happening is that sector is trough-ing, it's basically collapsing because the Army's downsizing. The Army is diverting their funding to force structure ... so by default what is happening is those GD programs are basically bill-payers, Number One, and Number Two, the profit margin in those is basically about 8.5 percent. So what you could see when you saw that analysis a month ago, I was predicting that they would start no-bidding programs.

I was delighted to see the projection worked out on T-X, because you basically had too many contractors trying to compete and the cost was becoming too much. ... Just to be able to compete with Boeing's clean-sheet design, Northrop's clean-sheet design, Lockheed's T-50 they are already selling in Korea. Just to break in — to be the fourth loser, the fourth-ranked bidder, it would have cost them hundreds of millions.

Even though I kind of projected I thought it could happen, it caught me completely by surprise, that they actually no-bid the JTRS Rifleman radio, because they were the incumbent. ... What surprised me, even though I projected they were going to no-bid and I mentioned things like JTRS, there is a big difference between saying it and waking up and reading it in the newspaper. So I hate to say it, the analysis suggested I was ahead of the curve, but in my heart I was halfway ahead of the curve.

So being half-right isn't good enough?

When you make projections. This is why I'm in the office by 6 a.m. and this is why usually I'll leave at about 10 or 11 p.m. ... On Mondays, I'm always in by 5:30 a.m. because the amount of press that comes out on Monday is massive — to organize the priorities for the week, figure out what you are going to work on, because you can't figure out everything. ... So the answer is, any time that I make projections about a company or about what a service is going to do, I'm very cautious to not second-guess the actual decision-maker that is going to have to make that decision.

You don't want to influence the decision?

Number One, I don't want to cause any disruption that in any way triggers a distraction from the decision-making that is actually ongoing. ... I try to be very impartial, but what I try to do is predict where the puck is going. ... For example with the [United Technologies] Sikorsky [spin-off] issue — when the 2016 Army budget came out, it became very clear for the first time that the Army was going to take the Army aircraft procurement account and it was going to ramp it down from \$6 billion a year, after the multi-years run out, the multi-years generally favor Boeing and Sikorsky — they were going to ramp that down to no more than \$4 billion a year going forward.

How do you decide when you come out with your predictions in order to not rock the boat?

Everything you get from me is always publicly sourced. ... You can see, for example, who is investing in R&D, who is investing in what sectors. You can see who is harvesting versus who is investing in. ... For example, Northrop Grumman right now is investing very significantly in R&D targeted at the aerospace systems sector, which is, of course, the Long Range Strike Bomber. You can see now, when you look at the financials, that although they are making [capital expenditures] to build facilities everything they are spending is going into two facilities down in Florida, one is their St. Augustine, Florida, facility which is their manned aircraft integration center and the other is Melbourne, Florida., which fundamentally is their manned aircraft design center ... I can see in 2014 ... that sector of that company is investing in R&D and so I have to presume, of a handful of priorities, I don't know how much, but the majority would be LRSB and I can see where they are investing the money and if I can see what facility it is I can tell you what program it's tied to.

Do contractors ever get mad at you for your analysis?

Everybody is mad at me all the time. ... But it would be tremendously destructive to simply tell you what you want to hear because that is what you want to hear. That is why you have lobbyists.

Most of the contractors, I can tell the analysis is really, really, really good when I hear nothing.

Do you see sequestration as a boon for your business?

A boon or a bane? ... The answer is no. What sequester has caused for me is it's caused me to be at the office earlier. It's caused me to be in a much bigger panic every morning at 6 when I come running in. It's caused me to be in on Saturdays and Sundays, at least every Saturday, because what it's fundamentally doing is it's forcing through a huge volume of decisions through the process. ... In other words, there's a huge amount of time spent in disruption. It's like heat and noise, but nothing comes from it.

When do you find time for vacation?

Christmas, usually during like August things slow down. ... I am a perfectionist so the one thing that terrifies me above all is things popping up that I haven't anticipated.

Will you ever retire?

I love what we do, and the answer is I'll probably die in my chair. But as long as I feel, see I'm not political. ... What drives me is the satisfaction of saying I jumped to the outcome faster than everybody else and whether it's DoD or Congress, everybody looks at that and says, 'How did he know that?'

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