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NATO's Supreme Allied Commander, Transformation, discusses the Pentagon's Defense Innovation Initiative, NATO-US collaboration and the importance of closer industry ties. *Page 30*

'Fat Leonard' Scandal Jams Up Dozens of US Navy Flag Moves

By **CHRISTOPHER P. CAVAS**

WASHINGTON — It was a festive day at the US Naval Academy last July 23 as the US Navy's top leadership gathered in Annapolis, Maryland, for a change of command and retirement ceremony. Vice Adm. Mike Miller was ending a four-year tour as academy superintendent and retiring with honors after a 40-year career.

Except that when the hoopla died down, Miller wasn't allowed to leave the service just yet. Even though his official online biography reads "retired," he's still being carried on the Navy's active-duty rolls — at a reduced two-star level. And although he has no specific job — or billet, in Navy-speak — he counts against the service's allocated total of 219 admirals.

Defense officials said Miller is



US NAVY

Not Quite Retired: Vice Adm. Mike Miller, center, receives an award from Navy Secretary Ray Mabus during Miller's end-of-tour and retirement ceremony July 23. Miller, however, has not been allowed to retire pending the results of an investigation. Adm. Jon Greenert, chief of naval operations, is at right.

one of an estimated three dozen flag officers under federal investigation for potential wrongdoing in the Glenn Defense Marine Asia (GDMA) case, also known as the

"Fat Leonard" affair, after the nickname of the company's leader, Leonard Glenn Francis.

Francis is in federal custody in *See GDMA PROBE, Page 7*

Experts: Harris Deal Won't Spark M&A Rush

By **JOE GOULD**

WASHINGTON — The proposed merger of American radio-makers Harris Corp. and Exelis is expected to make Harris a stronger competitor in several key market segments, but analysts don't expect the move to kick off a merger spree.

On Feb. 6, the companies announced that Exelis has agreed to be acquired by Harris in a merger valued at \$4.75 billion. If approved by US antitrust regulators and the Pentagon, the deal between two midtier firms would be one of the largest unions in the defense industry in recent years.



HARRIS CORP.

Merger Announced: Harris corporate headquarters in Melbourne, Florida. Harris has proposed a merger with Exelis.

"It's not going to trigger a land grab or a scramble by other companies," said Byron Callan, of Capital Alpha Partners.

There might not be a stampede, but there is movement in mergers and acquisitions, evidenced by this merger and Orbital Sciences Corp. *See EXELIS-HARRIS, Page 7*

No Capitol Hill Consensus for Spending Hike

By **JOHN T. BENNETT**

WASHINGTON — Many US lawmakers believe the Pentagon needs more annual funding, but a consensus has yet to form on whether Congress should do anything about it.

The White House last week submitted a \$534.3 billion base budget request that would breach defense spending caps set by the 2011 Budget Control Act by nearly \$25 billion. Lawmakers are expected for the second consecutive year to shift money to block proposed cost-cutting

moves, but immediate attention on Capitol Hill went to the caps. "I hope that we will do the right thing," said Senate Appropriations Committee Chairman Sen. Thad Cochran, R-Miss., who also heads the panel's defense subcommittee.

But on Capitol Hill, what constitutes the right course of action depends on who is doing the talking. Asked if the current defense spending cap is enough for the Pentagon in 2016, the Senate's No. 3 Democrat, Sen. Richard Durbin of Illinois, told reporters: "It is."

Durbin, the Appropriations Defense subcommittee's ranking member, is skeptical about talk among congressional hawks and defense sector members about raising the defense spending cap amid new threats such as the Islamic State group and renewed ones like Russia.

"I think, with a Republican Congress, it's happy talk," Durbin told Defense News. Senate Banking Committee *See US BUDGET, Page 4*

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WORLD NEWS

GDMA PROBE

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San Diego and has admitted to numerous instances of bribery, influence peddling and corruption attempts. A number of naval officers and civilians already have been charged and some convicted, and the investigation, announced in mid-2013, is — by all accounts — showing no signs of slowing down.

Other flags known to be caught up in the affair are Vice Adm. Ted Branch, the head of naval intelligence, and Rear Adm. Bruce Loveless, the director of intelligence operations. Both officers were suspended by the Navy on Nov. 8, 2013 — with their security clearances revoked — pending the outcome of the investigations. No outcomes have been announced.

Until investigations by the Department of Justice (DoJ) and the Navy are concluded, however, none of the officers under scrutiny can move on, either to resume their jobs or take up new ones. Their replacements can't take over, either.

Shockwaves Across the Service

The lengthy investigations causing so many careers to be placed on hold for so long are taking their toll on the Navy's leadership. The pyramidal US military personnel system is predicated on an "up or out" structure, with active-duty personnel holding a specific job only for a certain period of time — usually 18 to 36 months.

After that, it's time for whomever has that job to move on and for someone else to move in. As officers move up the pyramid, fewer and fewer jobs are available, and only a few blockages can have ripple effects far beyond that specific position.

The situation is affecting Navy commands ashore and afloat, across the globe.

For example, Vice Adm. John Miller (no relation to Mike Miller) has been the commander of US Naval Forces Central Command in Bahrain since May 2012. In March 2014, he was named to become the next deputy chief of naval operations for

Plans, Policy, and Operations at the Pentagon, and should have been relieved by now. But his replacement has not arrived — not even been announced — because that person is under investigation by Justice in connection with GDMA. Miller, according to defense officials, is not under investigation.

"Others are in the same situation," a defense official said Feb. 5.

A number of officers such as Mike Miller were planning to retire over the past year or more, but are being held over pending the results of the investigation.

"It becomes a lot more complicated to deal with folks once they're outside the military," said the defense official, explaining why Mike Miller is being held over. "The ability to handle it is a lot easier keeping them in uniform."

The flags being affected break down into three groups, the official said.

"There's a group that have left jobs thinking they were going to retire and are waiting. There's a group that are in jobs they would like to leave and move on to retirement, and a group that thought they were going to other jobs but because they're somehow being reviewed they're unable to do that."

The Justice Department is not sharing many details of its investigation with the Navy, and the service is not clear precisely how many officers are under scrutiny.

"Folks don't know if they're not being moved because they're under investigation or because they're part of the daisy chain," the defense official said. "And that's caused consternation among those individuals."

And Justice isn't the only entity handling the investigations. Even if DoJ concludes an individual won't be charged with criminal conduct, it could decide the case warrants further investigation by the Navy for ethical or code violations. For those cases, Navy Secretary Ray Mabus announced on Dec. 20, 2013, he would establish a Consolidated Disposition Authority (CDA) headed by a senior flag officer to review any allegations.

To date, the CDA has not released any judgments, although there are indications some announcements could come quite

soon.

Worries about how far and how long the investigation would reach have been legion since the scandal first came to light in November 2013.

GDMA is a "husbanding" company, a firm that handles a variety of arrangements for visiting ships — piloting and docking services, taxis and catering, customs and legal services, food and fueling arrangements and more.

For a time, GDMA was the largest such company in Asia, and dozens of US Navy warships and commands made arrangements with it, along with most other navies operating in the region. Hundreds of officers and officials came in contact with the firm, many of them personally greeted by Francis — a character widely known among veterans of Western Pacific tours.

Dragging on for Months

It's also clear the investigation goes back nearly a decade. For Mike Miller, any alleged involvement most likely dates from the first half of 2006, when he commanded the Ronald Reagan Carrier Strike Group. The Reagan deployed in January 2006 and returned home that July. Since then, Miller served ashore in Norfolk, Virginia, then in Washington as the chief of legislative affairs, before moving to superintendent at Annapolis in 2010.

Defense officials said it appeared Justice is concentrating on individual strike group deployments as they work through the investigation. If that's the case, there have been at least 48 Western Pacific carrier strike group and amphibious ready group deployments since the Reagan's 2006 cruise, along with dozens of individual ship deployments.

It appears an individual doesn't necessarily have to be accused of wrongdoing to trigger an investigation into their behavior, defense officials said. Rather, simply having dealings with GDMA could start a probe.

In Mike Miller's case, and potentially others as well, his initial reduction in rank and paygrade is not tied to the investigation but

to Navy rules.

"The law required Vice Adm. Miller revert to his permanent grade of Rear Adm. (upper half) after 60 days from the date he was relieved as the Superintendent of the US Naval Academy," said Rear Adm. Dawn Cutler, chief of naval information.

Simply put, she said, if a three-star or four-star admiral isn't approved for another appointment at the same or higher grade, or if the retirement at the senior level isn't approved, the person drops back to the two-star level.

Miller's retirement request, she added, "is under review."

Through an academy spokesman, Miller declined to comment on this story.

A spokesman at the Justice Department in Washington also declined comment.

But the Justice investigation appears to be widening its scope, defense officials agreed.

"Top officials thought initially they could manage their way through this, and that belief is waning. I don't think anyone understood the potential magnitude of time and effort this would involve," the defense official said.

"They understood there would be some delay — some weeks or a few months. But now we're here more than a year later... we're unable to put a lot of this behind us. We're at the mercy of the investigation's timeline."

And as it continues, the investigation's secondary effects are becoming more visible.

"There's a resulting loss of opportunity for the Navy to compete for joint flag jobs," the defense official said. "Individuals can't get their tickets punched for specific jobs. There's an overall sense of frustration, including people watching their shipmates get caught up in it and wondering if it's worth it. There are opportunities outside the Navy and it plays into the calculus" whether they stay in or get out.

"One way or the other," the defense official said, "it affects most of the 219 folks in the flag wardroom." □

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EXELIS-HARRIS

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poration's announcement last month that shareholders approved its merger with Aerospace and Defense Groups of Alliant Techsystems Inc., known as ATK,

"The deal, on the back of the Orbital-ATK deal, suggests the first wave of mergers will feature horizontal mergers in the midtier," said Steven Grundman, a former Pentagon industrial policy chief who is the principal of the Grundman Advisory consultancy and the Lund fellow at the Atlantic Council. "They seem to be an emerging theme of the next wave of corporate developments in the defense market."

Harris, based in Melbourne, Florida, is a telecommunications equipment manufacturer whose products include tactical radios, terrestrial and spaceborne anten-



EXELIS

Big Deal: The \$4.75 billion acquisition of Exelis by Harris is one of the largest mergers in the defense industry in recent years.

nas for use in the government, defense and commercial sectors. It may be best known for its Falcon family of tactical radios, which include manpack, handheld and soldier-worn vehicular applications.

Exelis, based in Tyson's Corner, Virginia, is an aerospace, defense, information and services company whose major product is the SINC-GARS tactical radio. Its geospatial,

night vision and information systems divisions produce electronic warfare and surveillance technologies, including air traffic control technology for both military and domestic use, radar and sonar systems, antennas and signal-jamming devices to disarm roadside bombs.

William Brown, chairman, president and CEO of Harris, said the new entity would be "competitively stronger ... with significantly greater scale." The firm will be an \$8 billion tech company with 23,000 employees, including 9,000 engineers and scientists.

Exelis, itself a 2011 spinoff from ITT, spun off its military and government services business focused on facilities management, logistics and network communications in 2013. The new, leaner Exelis focused on surveillance and intelligence, generating \$3.4 billion in revenue.

Still, analysts speculated that Exelis' leaders put the company on

the market in reaction to contracting Pentagon budgets.

"Exelis determined its scale and portfolio would not do well against flat defense spending," Grundman said.

To go forward, Exelis shareholders must approve the deal. Under the terms, Harris will acquire Exelis in a cash-and-stock transaction valued at \$23.75 per share. Exelis shareholders will receive roughly \$17 in cash and 10 percent of a share of Harris common stock for each share of Exelis common stock. Harris shareholders will own 85 percent of the combined company, and Exelis shareholders will own 15 percent.

While strategic for Exelis, the deal appears opportunistic for Harris, providing the company more scope, scale and capital for better bargaining leverage with the primes, Grundman said.

Regulators, who have yet to approve the deal, will look for areas

where there is direct overlap between the companies, which could stifle competition. In these matters, regulators tend to defer to Pentagon acquisition officials.

"There will be a bunch of program managers and program executives who are taking notice, and will be asked to weigh in on the competitive impacts," Grundman said.

Callan, too, said the merger appeared on its face to give the Pentagon a stronger competitor relative to Raytheon, Northrop Grumman and Lockheed Martin.

"It's not quite clear that this would reduce or eliminate competition in some segments, so I think from the DoD's perspective — and I'm an outsider looking in — the benefits are fairly straightforward," Callan said.

The two companies say they expect to close the deal in June. □

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