

BizWatch

Harris Completes Speedy Exelis Acquisition

By ANDREW CLEVINGER

WASHINGTON — American radio-maker Harris completed its acquisition of Exelis last week, well before most analysts' best-case-scenario projections when the merger was announced Feb. 6.

Harris chairman, president and CEO William Brown said the company was confident at the outset that the acquisition would be completed in a smooth and timely manner.

"We started with a solid strategy, experienced team and tremendous clarity regarding what needed to be accomplished to be successful," Brown said. "I believe the approval process went smoothly due to our market reputation for solid program execution, our customers' appreciation for the power of this highly complementary and strategic combination, as well as our prompt responsiveness to any issues that were raised along the way."

"The Exelis acquisition is transformative for our company and marks a major milestone in Harris' 120-year history," Brown said in a prepared statement.

"With about \$8 billion in combined pro forma revenue, the acquisition creates significantly greater scale, bringing together two engineering-driven companies and work forces with similar cultures that value technology leadership. Together, the two companies' complementary technologies and capabilities strengthen core franchises and provide new opportunities for innovation to solve our customers' most complex challenges."

Harris has not yet decided where the new venture, with 23,000 employees and expected annual sales in the \$8 billion range, will be headquartered, company spokesman Jim Burke said. The organizational structure will include Exelis executives and program managers, but Exelis CEO David Melcher will not be coming over, Burke said.

One reason the acquisition proceeded so smoothly, analysts said, was the lack of any major anti-trust issues that might have given government regulators a reason to take a closer look at the



EXELIS

Radio Star: After acquiring Exelis, Harris is an even bigger player in the radio market.

deal.

"There were no show-stoppers in the government's merger review that I could see," said Steven Grundman, a former Pentagon industrial policy chief and now the principal of Grundman Advisors.

"As similar-looking as these companies may have been, their offerings and capabilities are more complementary than overlapping."

Harris did not have to put any mitigation plans into effect to satisfy regulators, Burke said, and during the government's review, no conflicts of interest were identified "that required us to take any actions."

Under terms of the agreement, Exelis shareholders can convert each of their shares into \$16.625 in cash and 0.1025 shares of Harris common stock, leaving Harris shareholders with 85 percent ownership and Exelis shareholders with 15 percent.

Mark Nackman, a lawyer specializing in government contracts who has worked in the defense industry and has no firsthand knowledge of the Harris-Exelis transaction, said the deal would not have proceeded as smoothly as it did if there had been pushback from the Department of Defense or from other defense contractors.

While DoD has signaled that giant mergers between prime contractors are likely to meet with objections, mid-tier mergers, such as the ATK-Orbital

Sciences deal last year, have been deemed acceptable, Nackman said.

"For this industry to remain viable, the government is going to have to tolerate some contraction and consolidation if budgets are going to continue to move in the direction that they are," he said. "This is the market force that has to take place."

With the addition of Exelis, Harris will be an even bigger player in the radio market, but not to the point where it will enjoy an unfair advantage over its competitors, he said.

"At the end of the day, the regulators felt comfortable that there would be adequate competition in the marketplace," Nackman said.

Harris will benefit from incorporating experienced engineers and project managers from Exelis, but it is difficult to quantify how much value these additions will generate, Grundman said.

"Particularly at this advanced stage in the downturn of defense spending, there's not a lot of headcount slack in defense companies," he said. "Together, they now really do have a full scope of C4ISR capabilities. Independently, each had some holes in its respective ability to address C4ISR opportunities. Having said that, it's maddeningly hard to know the value of such economies of scope, though I'm certain there is some." □

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US NAVY

L-3 KEO will develop and build a new, slimmer version of its photonics mast for use on the US Navy's Virginia-class submarines.

RANDOM NOTES

A Stealthier Sub Mast

The US Navy's Naval Sea Systems Command has awarded a \$48.7 million contract to L-3 KEO to develop and build a new, slimmer version of its photonics mast for the Block 4 Low Profile photonics Mast (LPPM) program for use on Virginia-class submarines, New York-based parent company L-3 Communications said.

L-3 KEO will perform engineering and design work for the lower-profile mast during the first year, with options to produce up to 29 photonics masts over a subsequent four-year period, as well as engineering services and provisioning item orders with a contract ceiling value of \$157 million.

The non-hull-penetrating LPPM provides a sleek profile that greatly reduces the signature of the periscope, making it less identifiable as a US Navy submarine because it appears similar to existing periscopes.

Engine for UK Scout

Rolls-Royce has received an order from General Dynamics European Land Systems for the delivery of 589 MTU Series 199 diesel engines for use in the new

Scout specialist vehicle for the British Army.

The contract value is approximately €80 million (US \$123.35 million) and will be the first time that MTU engines have been used in British Army platforms.

The vehicles will be delivered by General Dynamics UK in six variants and will form the backbone of the Army's future fleet of armored fighting vehicles. Delivery of the engines will start in 2016, and the last engines will be delivered in 2022.

The 8V 199 TE21 engines each have a power output of 600 kilowatts.

MTU is part of Rolls-Royce Power Systems within the Land & Sea division of Rolls-Royce.

Support for USCG C4ISR

Lockheed Martin received a \$72 million contract to support the US Coast Guard's efforts to enforce maritime sovereignty and address at-sea threats through the National Security Cutter program, the US-based company said.

Through this contract from Huntington Ingalls Industries, Lockheed will provide the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) system for the Coast Guard's eighth nation-



GENERAL DYNAMICS UK

Rolls-Royce will deliver MTU Series 199 diesel engines for the British Army's Scout specialist vehicle.

ON THE MOVE

Falls Church, Virginia-based **General Dynamics** announced that **Mark Burns**, president of product support for **Gulfstream Aerospace**, will become presi-

dent of Gulfstream when **Larry Flynn** retires June 30.

HALO Maritime Defense Systems said that **Michael ("Tony") Reid**, former US Navy director for anti-Terrorism, force-protection (AT/FP), has joined the Newton, N.H.-based company as a subject

matter expert on threat analysis and systems integration.

Former US Defense Secretary **Chuck Hagel** has been elected to the board of trustees of the San Diego-based **Rand Corp.**, the nonprofit think tank announced. Ha-

gel, who left the Pentagon in February, was a US senator from Nebraska 1997-2009 and is a former co-chairman of the President's Intelligence Advisory Board. □

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