

Lots of news to catch up on regarding defense contractors, including organization restructurings, divestitures, and relocation's.

First, let's look at Northrop Grumman. On December 15, 2009 NOC completed the sale of its TASC advisory unit to General Atlantic LLC and KKR for \$1.65 billion in an all-cash deal. As we previously [noted](#), tighter organizational conflict of interest (COI) rules make it more difficult for defense contractors to both advise government officials and to sell goods/services to them. As one story notes, "Since the TASC acquisition announcement in early November, company officials have been working to separate ties to Northrop Grumman and demonstrate it is in full compliance with U.S. government organizational conflict of interest policies." Analysts have speculated that other defense contractors may have to divest themselves of similar advisory entities in order to comply with the tighter rules.

Just a couple of weeks later, on January 4, 2010, NOC announced that it was moving its corporate headquarters from Century City (Los Angeles) to “the Washington area” in order to be closer to its government customers. The Washington Post reported:

“We are a global security company, and all of the federal processes, whether the executive branch or Congress, are in the Washington area,” said Wes Bush, Northrop's chief executive and president. “We think we'll be able to do a better job for our customers and our company by having our corporate office there.”

The Baltimore Sun reported:

"We're trying to both protect the jobs we have and build more jobs for the company, and we think the best way to do that is be very engaged with our customers," McClain said. "It's something our company leadership has discussed over probably several years, but it's a disruptive thing to do to the people involved. So we thought with the change to the leadership we have had, that this is a good time to bite the bullet and make the move."

The move, involving some 300 corporate leaders and staff, is expected to take place by the end of 2011. Jack Northrop founding the company in 1939 and it was the last aerospace/defense contractor to remain in Southern California. Once the national center for aerospace development, Southern California watched as its companies were acquired (e.g., McDonnell Douglas, Rockwell) or left the region (e.g., Lockheed, CSC). Other large non-defense engineering companies, including Fluor, also have moved out of the area in recent years.

Second, SAIC announced on September 24, 2009 that it had relocated its corporate headquarters from San Diego to MacLean, VA. The SAIC press release announced:

"This move will formally relocate the corporate executive leadership team closer to our federal government customers enabling us to better respond quickly and efficiently to their critical needs, while maintaining a significant presence in San Diego," said SAIC Chief Executive Officer Walt Havenstein. "Although our headquarters location has changed, our commitment to customer satisfaction and high ethical standards remains constant."

Third, ITT Corp. announced on January 5, 2010 that it was restructuring its defense segment, reducing the number of business units from seven to three, and will be cutting jobs in 2010. The defense segment is ITT's largest business, at \$6.3 billion in annual sales is represents more than 50 percent of the New York-based conglomerate's revenue. DefenseSystems.com reported:

The new defense segment will be called ITT Defense and Information Solutions. David Melcher, who joined ITT about 16 months ago, will lead the new division as president. The restructuring was driven in part by shifts in defense priorities and budgets and the customer's demands for more integrated and network-centric solutions, he said. "We are positioning ITT to be in a better position than ever to support our customers' emerging technology needs, while also greatly enhancing our ability to stake out new markets," Steve Loranger, ITT's chairman, president and chief executive officer, said in a statement. "This move will also allow ITT to achieve greater operating efficiencies and optimize our cost structure, which will help drive successful business strategies for continued top line growth."

"This reorganization is a strategic action to better address the evolving needs of our customers, the cyclical nature of defense spending and the need to continue to deliver value to our shareholders, while maintaining ITT's most critical investments and competencies," Melcher said. The reorganization marks ITT's recognition that it needs to approach the market less as a product company and more as a systems and solutions provider, he said.

Reports indicate that ITT Defense plans to cut two to three percent of its workforce.

Astute readers may see a common thread in the seemingly disconnected corporate actions. As this site has reported several times (e.g., [here](#) and [here](#))

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Written by Administrator

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most forecasts indicate a flattening of the defense budget followed by a steady decline, as it enters another of its cyclical downturns. Accordingly, A&D companies are jockeying for position, trying to maximize their share of the shrinking pie. We predicted a renewed emphasis on cost cutting, as well on program execution. We also

[noted](#)

two companies – Lockheed Martin and EADS – who were actually *adding*

to their executive ranks in order to enhance customer relationships and ensure program execution.

What we are seeing looks like more than the routine reshuffling of executives within a corporation. We seem to be witnessing companies executing strategies designed to position themselves to survive—or even thrive—in the upcoming storm that the budgetary warning clouds portend. Look for more of the same in the coming months.

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