EXCLUSIVE: LOCKHEED MARTIN MULLS MERGER OF SOME SERVICES UNITS WITH PEER - SOURCES

News / Manufacturer

Lockheed Martin Corp is exploring **merging** some of its information technology and **services** businesses, with a value of about $4 billion, with another government services contractor, people familiar with the matter said on Friday.

The contemplated transaction would create the largest government services contractor in the United States and would generate an estimated $2 billion windfall for Lockheed, the people said.

Lockheed, the Pentagon's largest supplier, is looking to pay down debt following its agreement in July to acquire Sikorsky Aircraft, the helicopter unit of United Technologies Corp, for $9 billion in cash.

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CACI International Inc and Science Applications International Corp are in early-stage talks with Lockheed about a so-called Reverse Morris Trust (RMT) deal for the assets, a transaction that would avert a hefty tax bill, the people said.

Lockheed has also contacted other companies to determine their interest in a potential RMT deal, including Booz Allen Hamilton Holding Corp and Leidos Holdings Inc, the people added.

The deal under discussion is part of a strategic review that Lockheed announced on July 20. The company said it would carry out a strategic review of government information technology and technical services businesses in two divisions with total estimated 2015 revenue of $6 billion, with the goal of spinning off the units or selling them to outside investors.

The sources cautioned that there was no certainty that the RMT option would be chosen, and asked not to be identified because the deliberations are confidential.

Lockheed, Booz Allen Hamilton and Leidos declined to comment, while CACI and Science Applications International did not immediately respond to requests for comment.

Lockheed makes F-35 fighter jets, naval ships and government satellites. It has been expanding its weapons-making capabilities and moving away from more commoditized services.

The programs being reviewed for sale or spinoff are mainly in Lockheed's information systems and government services business, but also include units in its missiles and fire-control division. The programs, which have more than 17,000 employees, have been struggling due to reduced government spending, increased competition and delays in new contracts.

Bethesda, Maryland-based Lockheed has forecast sales at the information systems unit to decline in the mid-single digit percentage range in 2015. It plans to cut about 500 jobs there by mid-November.

Last month, Lockheed said U.S. officials had approved its acquisition of Black Hawk helicopter maker Sikorsky. That deal is expected to close before the end of the year, possibly by late November.

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