



UPDATE 2-ITT Corp to overhaul defense business, cut jobs

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ITT Corp (ITT.N) said on Tuesday it plans to reorganize its defense business into three divisions to lower costs and compete better in the face of a tougher U.S. budget outlook, and cut the segment's workforce by 2 to 3 percent.

As part of the revamp, the business segment will be renamed ITT Defense and Information Solutions and its structure will be consolidated into three units from seven.

Dave Melcher, president of ITT's defense business, said the move would result in relocations, reassignments and reductions in the company's overall footprint and workforce. But no immediate changes were planned to any of the company's large manufacturing facilities, he added.

"We're projecting that we're going to have about a 2 to 3 percent reduction in the overall size of the workforce in 2010" on an employee base of as much as 24,000, Melcher told Reuters in an interview.

The defense business is ITT's largest segment, accounting for about 54 percent of its total 2008 revenue of \$11.7 billion. The diversified manufacturer's other segments supply wastewater pumps and products for autos and commercial aerospace.

ITT, based in White Plains, New York, said the three units created in the consolidation would be electronic systems, to include electronics and communications; geospatial systems, which will supply night-vision goggles and space capabilities; and information systems, which will include intelligence solutions.

STAKING OUT NEW CUSTOMERS

Melcher said the revamp would clarify ITT's offerings as it pursues new markets and grows its customer base beyond the U.S. Pentagon, and also help the company lower costs so that it can compete better for contracts. He said the move would better enable ITT to offer integrated communication systems that defense customers increasingly need.

New growth opportunities are expected to help offset expected weakness in legacy ITT defense products such as CREW jammers used to prevent activation of radio-controlled explosives and SINCGARS tactical radios. ITT has said defense sales are expected to rise as much as 4 percent this year, excluding acquisitions.



ITT

Melcher said ITT would pursue acquisitions to enhance its capability in cybersecurity and air traffic management, and could also acquire companies that strengthen its core defense offerings.

"Defense spending is entering a period of flat or declining budgets," Melcher said. "I think the companies that realign themselves to allow opportunities for growth while cutting costs ... are the companies that are going to be positioned to bid competitively in the future."

Many defense contractors are looking to fine-tune their operations as growth in U.S. spending on defense is expected to slow. On Monday, Northrop Grumman (NOC.N) said it would move its corporate office to the Washington D.C. area from Los Angeles to be closer to its main customers.

ITT said the defense realignment would not affect its previous outlook calling for 2010 per-share earnings in the range of \$3.85 to \$4.05. Analysts currently expect profit for this year of \$4.01 a share, according to Thomson Reuters I/B/E/S.

ITT shares closed down 70 cents, or 1.4 percent, at \$48.85 on the New York Stock Exchange.