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7: General Dynamics

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By Christy Harris



Gordon England

General Dynamics rocketed to the No. 7 spot on Washington Technology's 2000 Top 100 list, a jump from its station at No. 86 last year, thanks to a boost from the acquisition of three units of GTE Corp.'s Government Systems division. Those purchases have helped to make General Dynamics' Information Systems and Technology group a formidable player in the federal government market.

One of the group's biggest strengths is its ability to apply defense technologies to the commercial and non-defense government arenas, and to apply commercial technologies to the defense sector, said Gordon England, executive vice president for Information Systems and Technology. "We provide the best solutions on each side of the bridge," England said.

The three GTE units, Communication Systems, Worldwide Telecommunication Systems and Electronic Systems, were acquired by the Falls Church, Va.-based General Dynamics in September 1999 for \$1.05 billion.

England's group, not even three years old, has been built company by company to enhance the corporation's ability to provide integrated platform solutions and a bigger presence in the telecommunications market, he said. It supports General Dynamics' aerospace, marine systems and combat systems groups, "but also unto itself is a terrific business in terms of growth," England said.

The companies making up the Information Systems and Technology unit were acquired to complement, not compete against, each other. "We built it to fill in the puzzle," he said. "We didn't want an overlap. We wanted [the unit] to operate as a company, not just a collection of companies."

Whether General Dynamics is looking for more acquisitions for its puzzle, England would not say. "We're always looking to enhance our portfolio and our coverage," he said. "As we can strengthen, we will certainly do that."

The companies within Information Systems and Technology offer a wide variety of products and services, from building spacecraft computers and providing fee-for-service satellite operations to providing encryption services for the National Security Agency and wireless networks for commercial applications, such as cellular phone services.

General Dynamics, for example, is one of four companies chasing the \$10 billion Navy-Marine Corps Intranet project. The massive five-year project will link more than 400,000 users across the continental United States and Hawaii. The challenge will be replacing dozens of incompatible systems at 300 locations in a cost-effective and secure manner.

The total-service package, expected for award in late June, includes voice, video and

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data networking, desktop computers, associated hardware and software, support services and training.

England said a long history of being involved closely with the Navy and Marine Corps, specializing in providing secure and cost-effective solutions, gives his company the edge.

"We know the customer environment," he said. "We build the systems for the Navy and the Marines. We operate on about a third of their bases."

Paul Nisbet, an analyst with JSA Research Inc. in Newport, R.I., said winning the Intranet award is a long shot, even though General Dynamics has put together a strong team that includes Sprint Corp., Harris Corp., Unisys Corp., PricewaterhouseCoopers, Compuware and Wang Government Services Inc.

"They're competing with the likes of EDS and Computer Sciences Corp.," Nisbet said. "It's considerably more ambitious than anything they've landed to date."

But Nisbet said England's young group should do quite well as it more fully integrates its units. "They'll become more and more formidable," he said.

The Defense Department selected General Dynamics Communication Systems in January to conduct the Commercial Public Key Infrastructure Security Assessment Pilot, a test to determine whether it is feasible for commercial organizations to provide high-assurance digital certificates to the Pentagon and other government users.

Digital certificates are the unique electronic credentials that verify the identity of a user with a high degree of certainty, necessary for electronic commerce and data exchange. If the Defense Department determines it is feasible, a huge new market would open.

General Dynamics, which also will measure the cost of the model, will issue certificates to users at selected agencies and their contractor partners. Once trained, authenticators will issue smart-card tokens with certificates.

"We're very comfortable with the whole area of security," England said.

General Dynamics' forte is in defense, but it has been working toward growing the commercial side of its business. Worldwide Telecommunication Systems, for example, was selected in March by SpaceData International LLC of McLean, Va., to provide engineering and operations support for the company's SeismicStar program, which will enable marine seismic exploration for the gas and oil industry. Orders placed over the four-year period of the contract could exceed \$100 million, according to General Dynamics.

The Information Systems and Technology unit had a tremendous first quarter with a sales increase of 160 percent over a year ago, largely because of the GTE acquisitions. Its performance helped lead the way, along with new acquisition Gulfstream Aerospace Corp., for an overall strong earnings statement. As a whole, General Dynamics' earnings were up 16.7 percent over the same period last year.

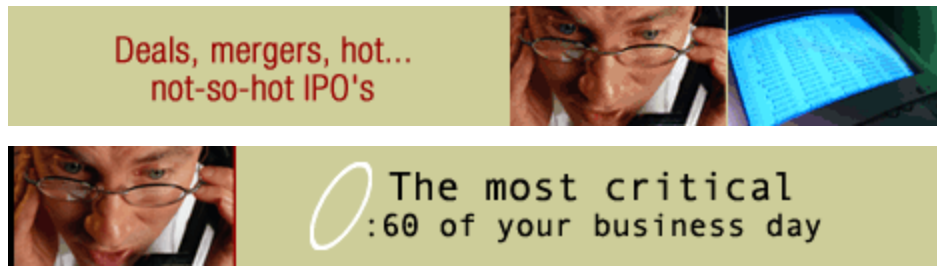
The biggest question about General Dynamics' overall financial health is whether sales of Gulfstream jets will slow, Nisbet said. General Dynamics acquired Gulfstream, which is not in the technology unit, in the summer of 1999, about the same time it bought GTE Government Services.

"The biggest difference between what the company is anticipating and what may be reality is the outlook for Gulfstream," Nisbet said. "They are figuring that they will be able to maintain full-rate production, as they are now, for the foreseeable future. It is a high rate. We, among others, are anticipating that after the initial surge of orders, that will be softening a bit."

1999
Revenue \$8.96 billion
Net Earnings \$880 million

1998
Revenue \$7.4 billion
Net Earnings \$589 million

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