UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA,

Plaintiff,

v.

HARRIS CORPORATION

and

L3 TECHNOLOGIES, INC.,

Defendants.

COMPETITIVE IMPACT STATEMENT

Plaintiff United States of America ("United States"), pursuant to Section 2(b) of the Antitrust Procedures and Penalties Act ("APPA" or "Tunney Act"), 15 U.S.C. § 16(b)-(h), files this Competitive Impact Statement relating to the proposed Final Judgment submitted for entry in this civil antitrust proceeding.

I. NATURE AND PURPOSE OF THE PROCEEDING

Defendants Harris Corporation ("Harris") and L3 Technologies, Inc. ("L3") entered into an agreement and plan of merger, dated October 12, 2018, pursuant to which Harris and L3 propose to combine in a transaction that would create the sixth-largest defense contractor in the United States. The United States filed a civil antitrust Complaint on June 20, 2019, seeking to enjoin the proposed transaction. The Complaint alleges that the likely effect of this merger would be to lessen competition substantially in the United States for the design, development,

manufacture, sale, service, and distribution of U.S. military-grade image intensifier tubes in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18.

At the same time the Complaint was filed, the United States also filed a Hold Separate Stipulation and Order ("Hold Separate") and proposed Final Judgment, which are designed to eliminate the anticompetitive effects of the transaction. Under the proposed Final Judgment, which is explained more fully below, Defendants are required to divest Harris's business in the design, development, manufacture, sale, service and distribution of image intensifier technology and night vision devices (the "night vision business"). Under the terms of the Hold Separate Stipulation and Order, Defendants will take certain steps to ensure that Harris's night vision business is operated as a competitively independent, economically viable, and ongoing business concern that will remain independent and uninfluenced by Harris and that competition is maintained during the pendency of the required divestiture.

The United States and Defendants have stipulated that the proposed Final Judgment may be entered after compliance with the APPA. Entry of the proposed Final Judgment would terminate this action, except that the Court would retain jurisdiction to construe, modify, or enforce the provisions of the proposed Final Judgment and to punish violations thereof.

II. <u>DESCRIPTION OF THE EVENTS GIVING RISE TO THE ALLEGED VIOLATION</u>

A. The Defendants and the Proposed Transaction

Harris is incorporated in Delaware and has its headquarters in Melbourne, Florida. Harris provides night vision devices and image intensifier tubes, tactical communications solutions, electronic warfare solutions, and space and intelligence systems. In 2018, Harris had sales of approximately \$6.2 billion.

L3 is incorporated in Delaware and is headquartered in New York, New York. L3 provides night vision devices and image intensifier tubes; intelligence, surveillance, and reconnaissance systems; aircraft sustainment, simulation, and training; and security and detection systems. In 2018, L3 had sales of approximately \$10.2 billion.

Harris and L3 entered into an agreement and plan of merger, dated October 12, 2018, pursuant to which Harris and L3 propose to merge.

B. The Competitive Effects of the Transaction

1. Background

Image intensifier tubes amplify visible light and are integrated into night vision devices produced by Harris, L3, and other companies. Night vision devices allow the user to see better in dark conditions, increasing the situational awareness, threat detection, and mission performance of soldiers and aircrews operating in low-light environments. Night vision devices come in the form of goggles, binoculars, and monoculars and can be handheld or mounted to objects like helmets or weapons. There are over half a million such devices in use today, and the U.S. Department of Defense ("DoD") expects to purchase at least one hundred thousand additional devices over the next few years.

DoD also purchases significant quantities of image intensifier tubes as replacement parts for night vision devices currently in the field. In addition, as Harris and L3 innovate and develop improved image intensifier tubes with greater resolution and light amplification, DoD purchases these more advanced image intensifier tubes to upgrade existing night vision devices. DoD is likely to purchase half a million image intensifier tubes for replacements or upgrades over the next few years.

2. Relevant Markets

As alleged in the Complaint, the quality and usefulness of an image intensifier tube is defined by several characteristics, the most important of which are size, weight, power consumption, and especially sensitivity, which relates to the ability of the tube to amplify low levels of visible light without producing excessive distortion in the resulting image. DoD requires highly capable image intensifier tubes, as the lives of soldiers and aircrews depend on the performance of the night vision devices incorporating these tubes. The Complaint alleges that less capable image intensifier tubes are therefore not a substitute for the highly capable image intensifier tubes that DoD views as U.S. military grade.

According to the Complaint, other night vision technologies such as thermal imaging devices and digital light amplification systems are not substitutes for U.S. military-grade image intensifier tubes. Thermal imaging devices, such as microbolometers and infrared focal plane arrays, detect infrared radiation emitted by warm objects rather than amplifying visible light. Thermal imaging devices also differ from image intensifier tubes in range and sensitivity to environmental factors such as humidity and dust. Night vision equipment incorporating thermal imaging devices tends to be larger, heavier, and substantially more expensive than similar equipment incorporating image intensifier tubes. Although some night vision devices incorporate both image intensifier tubes and thermal imaging devices to combine the benefits of the two and create a "fused" image, thermal imaging devices cannot replicate the performance of image intensifier tubes or replace them in night vision devices.

The Complaint further alleges that digital light amplification systems based on charge-coupled device ("CCD") or complementary metal oxide semiconductor ("CMOS") detectors are also not adequate substitutes for U.S. military-grade image intensifier tubes. CCD- and CMOS-

based devices tend to be heavier, consume more power, and cost significantly more than devices incorporating image intensifier tubes. Moreover, because such devices are digital, and therefore require a certain amount of signal processing, the images produced also tend to lag behind the actual scene being viewed, potentially creating disorientation in the user.

For the foregoing reasons, DoD would not substitute less-capable image intensifier tubes, thermal imaging devices, or CCD- or CMOS-based digital light amplification systems for U.S. military-grade image intensifier tubes in response to a small but significant and non-transitory increase in the price of U.S. military-grade image intensifier tubes. Therefore, the Complaint alleges that U.S. military-grade image intensifier tubes are a relevant product market and line of commerce under Section 7 of the Clayton Act.

The Complaint alleges that the relevant geographic market for U.S. military-grade image intensifier tubes is the United States. For national security reasons, DoD only considers domestic producers of U.S. military-grade image intensifier tubes. DoD is unlikely to turn to any foreign producers in the face of a small but significant and non-transitory price increase by domestic producers of U.S. military-grade image intensifier tubes.

3. Anticompetitive Effects

As alleged in the Complaint, Harris and L3 are currently the only firms that develop, manufacture, and sell U.S. military-grade image intensifier tubes. The merger would therefore give the combined firm a monopoly in this product market, leaving DoD without a competitive alternative for this critical component of night vision devices.

According to the Complaint, Harris and L3 compete for sales of U.S. military-grade image intensifier tubes on the basis of quality, price, and contractual terms such as delivery times. This competition has resulted in higher quality, lower prices, and shorter delivery times

and has fostered innovation, leading to U.S. military-grade image intensifier tubes with higher sensitivity and resolution. The Complaint alleges that the combination of Harris and L3 would eliminate this competition and its future benefits to DoD customers. Post-transaction, absent the required divestiture, the merged firm likely would have the incentive and ability to reduce research and development efforts that lead to innovative and high-quality products and to increase prices and offer less favorable contractual terms.

4. Difficulty of Entry

According to the Complaint, sufficient, timely entry of additional competitors into the market for U.S. military-grade image intensifier tubes is unlikely. Production facilities for U.S. military-grade image intensifier tubes require a substantial investment in both capital equipment and human resources. A new entrant would need to set up a foundry to produce electronic components, establish production lines capable of manufacturing fiber optic subcomponents, and build assembly lines and testing facilities. Engineering and research personnel would need to be assigned to develop, test, and troubleshoot the detailed manufacturing process, involving hundreds of steps, that is necessary to produce U.S. military-grade image intensifier tubes. Any new products would require extensive testing and qualification before they could be used in night vision devices for the U.S. military. As a result, the Complaint alleges that entry would be costly and time consuming.

Moreover, as alleged in the Complaint, a new entrant is unlikely to recover these costs.

Although CMOS-based night vision devices currently are not suitable for DoD uses, and thus are not reasonable substitutes for night vision devices based on U.S. military-grade image intensifier tubes, research and development on these devices is progressing, and industry observers expect these devices to begin replacing night vision devices based on U.S. military-grade image

intensifier tubes at some point in the next five to ten years. Because the market for U.S. military-grade image intensifier tubes will likely decline as this transition takes place, the Complaint alleges that an entrant is unlikely to produce sufficient revenue to recover its costs of entry. The prospect of a declining market for U.S. military-grade image intensifier tubes thus would discourage new companies from entering.

III. EXPLANATION OF THE PROPOSED FINAL JUDGMENT

The divestiture required by the proposed Final Judgment will eliminate the anticompetitive effects of the transaction in the market for U.S. military-grade image intensifier tubes by establishing an independent and economically viable competitor. Paragraph IV(A) of the proposed Final Judgment requires Defendants, within the later of 45 calendar days after the entry of the Hold Separate by the Court or 15 calendar days after Regulatory Approvals have been received, to divest Harris's night vision business. Paragraph IV(J) of the proposed Final Judgment provides that the business must be divested in such a way as to satisfy the United States, in its sole discretion, that the Divestiture Assets can and will be operated by the purchaser as a viable, ongoing business that can compete effectively in the design, development, manufacture, sale, service, and distribution of image intensifier technology and night vision devices. Defendants must take all reasonable steps necessary to accomplish the divestiture quickly and must cooperate with prospective purchasers.

In the event that Defendants do not accomplish the divestiture within the period prescribed in the proposed Final Judgment, Section V of the proposed Final Judgment provides

¹ Paragraph II(F) of the proposed Final Judgment defines Regulatory Approvals as "any approvals or clearances pursuant to filings with the Committee on Foreign Investment in the United States ("CFIUS"), or under antitrust, competition, or other U.S. or international laws required for Acquirer's acquisition of the Divestiture Assets to proceed."

that the Court will appoint a trustee selected by the United States to effect the divestiture. If a trustee is appointed, the proposed Final Judgment provides that Defendants will pay all costs and expenses of the trustee. The trustee's commission will be structured so as to provide an incentive for the trustee based on the price obtained and the speed with which the divestiture is accomplished. After his or her appointment becomes effective, the trustee will file monthly reports with the United States setting forth his or her efforts to accomplish the divestiture. At the end of six months, if the divestiture has not been accomplished, the trustee and the United States will make recommendations to the Court, which shall enter such orders as appropriate in order to carry out the purpose of the trust, including extending the trust or the term of the trustee's appointment.

The proposed Final Judgment contains several provisions to facilitate the immediate use of the Divestiture Assets by the Acquirer. Paragraph IV(G) of the proposed Final Judgment requires Defendants, at the Acquirer's option, to enter into a transition services agreement for back office, human resource, and information technology services and support for the night vision business for a period of up to 12 months. Paragraph IV(H) of the proposed Final Judgment requires Defendants, at the Acquirer's option, to enter into a contract for wafer sawing and sensor packaging services to help facilitate the development of the next-generation of U.S. military-grade image intensifier tubes, for a period of up to 12 months. With respect to any agreements entered into under Paragraph IV(G) or IV(H), the United States, in its sole discretion, may approve one or more extensions for a total of up to an additional six months. If the Acquirer seeks an extension of any such agreement, Defendants must notify the United States in writing at least three months prior to the date the underlying agreement expires. Paragraphs IV(G) and IV(H) further provide that employees of Defendants tasked with providing services under such

agreements must not share any competitively sensitive information of the Acquirer with any other employee of Defendants.

The proposed Final Judgment also contains provisions designed to promote compliance and make the enforcement of the Final Judgment as effective as possible. Paragraph XIII(A) provides that the United States retains and reserves all rights to enforce the provisions of the proposed Final Judgment, including its rights to seek an order of contempt from the Court. Under the terms of this paragraph, Defendants have agreed that in any civil contempt action, any motion to show cause, or any similar action brought by the United States regarding an alleged violation of the Final Judgment, the United States may establish the violation and the appropriateness of any remedy by a preponderance of the evidence and that Defendants have waived any argument that a different standard of proof should apply. This provision aligns the standard for compliance obligations with the standard of proof that applies to the underlying offense that the compliance commitments address.

Paragraph XIII(B) provides additional clarification regarding the interpretation of the provisions of the proposed Final Judgment. The proposed Final Judgment was drafted to restore all competition that would otherwise be harmed by the merger. Defendants agree that they will abide by the proposed Final Judgment and that they may be held in contempt of the Court for failing to comply with any provision of the proposed Final Judgment that is stated specifically and in reasonable detail, as interpreted in light of this procompetitive purpose.

Paragraph XIII(C) of the proposed Final Judgment provides that should the Court find in an enforcement proceeding that Defendants have violated the Final Judgment, the United States may apply to the Court for a one-time extension of the Final Judgment, together with such other relief as may be appropriate. In addition, in order to compensate American taxpayers for any

costs associated with the investigation and enforcement of violations of the proposed Final Judgment, Paragraph XIII(C) provides that, in any successful effort by the United States to enforce the Final Judgment against a Defendant, whether litigated or resolved prior to litigation, the Defendant agrees to reimburse the United States for attorneys' fees, experts' fees, or costs incurred in connection with any enforcement effort, including the investigation of the potential violation.

Paragraph XIII(D) states that the United States may file an action against a Defendant for violating the Final Judgment for up to four years after the Final Judgment has expired or been terminated under Section XIV. This provision is meant to address circumstances such as when evidence that a violation of the Final Judgment occurred during the term of the Final Judgment is not discovered until after the Final Judgment has expired or been terminated or when there is not sufficient time for the United States to complete an investigation of an alleged violation until after the Final Judgment has expired or been terminated. This provision, therefore, makes clear that, for four years after the Final Judgment has expired or been terminated, the United States may still challenge a violation that occurred during the term of the Final Judgment.

Finally, Section XIV of the proposed Final Judgment provides that the Final Judgment shall expire ten years from the date of its entry, except that after five years from the date of its entry, the Final Judgment may be terminated upon notice by the United States to the Court and Defendants that the divestiture has been completed and that the continuation of the Final Judgment is no longer necessary or in the public interest.

The divestiture provisions of the proposed Final Judgment will eliminate the anticompetitive effects of the merger in the provision of U.S. military-grade image intensifier

tubes by establishing a new, independent, and economically viable competitor to the merged entity.

IV. REMEDIES AVAILABLE TO POTENTIAL PRIVATE LITIGANTS

Section 4 of the Clayton Act, 15 U.S.C. § 15, provides that any person who has been injured as a result of conduct prohibited by the antitrust laws may bring suit in federal court to recover three times the damages the person has suffered, as well as costs and reasonable attorneys' fees. Entry of the proposed Final Judgment will neither impair nor assist the bringing of any private antitrust damage action. Under the provisions of Section 5(a) of the Clayton Act, 15 U.S.C. § 16(a), the proposed Final Judgment has no prima facie effect in any subsequent private lawsuit that may be brought against Defendants.

V. <u>PROCEDURES AVAILABLE FOR MODIFICATION OF THE PROPOSED FINAL JUDGMENT</u>

The United States and Defendants have stipulated that the proposed Final Judgment may be entered by the Court after compliance with the provisions of the APPA, provided that the United States has not withdrawn its consent. The APPA conditions entry upon the Court's determination that the proposed Final Judgment is in the public interest.

The APPA provides a period of at least 60 days preceding the effective date of the proposed Final Judgment within which any person may submit to the United States written comments regarding the proposed Final Judgment. Any person who wishes to comment should do so within 60 days of the date of publication of this Competitive Impact Statement in the *Federal Register*, or the last date of publication in a newspaper of the summary of this Competitive Impact Statement, whichever is later. All comments received during this period will be considered by the United States Department of Justice, which remains free to withdraw

its consent to the proposed Final Judgment at any time prior to the Court's entry of the Final Judgment. The comments and the response of the United States will be filed with the Court. In addition, comments will be posted on the U.S. Department of Justice, Antitrust Division's internet website and, under certain circumstances, published in the *Federal Register*.

Written comments should be submitted to:

Maribeth Petrizzi
Chief, Defense, Industrials, and Aerospace Section
Antitrust Division
United States Department of Justice
450 Fifth Street N.W., Suite 8700
Washington, D.C. 20530

The proposed Final Judgment provides that the Court retains jurisdiction over this action, and the parties may apply to the Court for any order necessary or appropriate for the modification, interpretation, or enforcement of the Final Judgment.

VI. <u>ALTERNATIVES TO THE PROPOSED FINAL JUDGMENT</u>

The United States considered, as an alternative to the proposed Final Judgment, a full trial on the merits against Defendants. The United States could have continued the litigation and sought preliminary and permanent injunctions preventing the merger of Harris and L3. The United States is satisfied, however, that the divestiture of assets described in the proposed Final Judgment will preserve competition for the provision of U.S. military-grade image intensifier tubes in the relevant market identified by the United States. Thus, the proposed Final Judgment would achieve all, or substantially all, of the relief the United States would have obtained through litigation but avoids the time, expense, and uncertainty of a full trial on the merits of the Complaint.

VII. STANDARD OF REVIEW UNDER THE APPA FOR THE PROPOSED FINAL JUDGMENT

The Clayton Act, as amended by the APPA, requires that proposed consent judgments in antitrust cases brought by the United States be subject to a 60-day comment period, after which the court shall determine whether entry of the proposed Final Judgment "is in the public interest." 15 U.S.C. § 16(e)(1). In making that determination, the court, in accordance with the statute as amended in 2004, is required to consider:

- (A) the competitive impact of such judgment, including termination of alleged violations, provisions for enforcement and modification, duration of relief sought, anticipated effects of alternative remedies actually considered, whether its terms are ambiguous, and any other competitive considerations bearing upon the adequacy of such judgment that the court deems necessary to a determination of whether the consent judgment is in the public interest; and
- (B) the impact of entry of such judgment upon competition in the relevant market or markets, upon the public generally and individuals alleging specific injury from the violations set forth in the complaint including consideration of the public benefit, if any, to be derived from a determination of the issues at trial.

15 U.S.C. § 16(e)(1)(A) & (B). In considering these statutory factors, the court's inquiry is necessarily a limited one as the government is entitled to "broad discretion to settle with the defendant within the reaches of the public interest." *United States v. Microsoft Corp.*, 56 F.3d 1448, 1461 (D.C. Cir. 1995); *United States v. U.S. Airways Grp., Inc.*, 38 F. Supp. 3d 69, 75 (D.D.C. 2014) (explaining that the "court's inquiry is limited" in Tunney Act settlements); *United States v. InBev N.V./S.A.*, No. 08-1965 (JR), 2009 U.S. Dist. LEXIS 84787, at *3 (D.D.C. Aug. 11, 2009) (noting that the court's review of a consent judgment is limited and only inquires "into whether the government's determination that the proposed remedies will cure the antitrust violations alleged in the complaint was reasonable, and whether the mechanism to enforce the final judgment are clear and manageable").

As the United States Court of Appeals for the District of Columbia Circuit has held, under the APPA a court considers, among other things, the relationship between the remedy secured and the specific allegations in the government's complaint, whether the Final Judgment is sufficiently clear, whether its enforcement mechanisms are sufficient, and whether the Final Judgment may positively harm third parties. *See Microsoft*, 56 F.3d at 1458-62. With respect to the adequacy of the relief secured by the Final Judgment, a court may not "engage in an unrestricted evaluation of what relief would best serve the public." *United States v. BNS, Inc.*, 858 F.2d 456, 462 (9th Cir. 1988) (quoting *United States v. Bechtel Corp.*, 648 F.2d 660, 666 (9th Cir. 1981)); *see also Microsoft*, 56 F.3d at 1460-62; *United States v. Alcoa, Inc.*, 152 F. Supp. 2d 37, 40 (D.D.C. 2001); *InBev*, 2009 U.S. Dist. LEXIS 84787, at *3. Instead:

[t]he balancing of competing social and political interests affected by a proposed antitrust consent decree must be left, in the first instance, to the discretion of the Attorney General. The court's role in protecting the public interest is one of insuring that the government has not breached its duty to the public in consenting to the decree. The court is required to determine not whether a particular decree is the one that will best serve society, but whether the settlement is "within the reaches of the public interest." More elaborate requirements might undermine the effectiveness of antitrust enforcement by consent decree.

Bechtel, 648 F.2d at 666 (emphasis added) (citations omitted).²

The United States' predictions with respect to the efficacy of the remedy are to be afforded deference by the Court. *See, e.g., Microsoft*, 56 F.3d at 1461 (recognizing courts should give "due respect to the Justice Department's . . . view of the nature of its case"); *United States* v. *Iron Mountain, Inc.*, 217 F. Supp. 3d 146, 152–53 (D.D.C. 2016) ("In evaluating objections to

² See also BNS, 858 F.2d at 464 (holding that the court's "ultimate authority under the [APPA] is limited to approving or disapproving the consent decree"); *United States v. Gillette Co.*, 406 F. Supp. 713, 716 (D. Mass. 1975) (noting that, in this way, the court is constrained to "look at the overall picture not hypercritically, nor with a microscope, but with an artist's reducing glass").

settlement agreements under the Tunney Act, a court must be mindful that [t]he government need not prove that the settlements will perfectly remedy the alleged antitrust harms[;] it need only provide a factual basis for concluding that the settlements are reasonably adequate remedies for the alleged harms." (internal citations omitted)); *United States v. Republic Servs., Inc.*, 723 F. Supp. 2d 157, 160 (D.D.C. 2010) (noting "the deferential review to which the government's proposed remedy is accorded"); *United States v. Archer-Daniels-Midland Co.*, 272 F. Supp. 2d 1, 6 (D.D.C. 2003) ("A district court must accord due respect to the government's prediction as to the effect of proposed remedies, its perception of the market structure, and its view of the nature of the case."). The ultimate question is whether "the remedies [obtained in the Final Judgment are] so inconsonant with the allegations charged as to fall outside of the 'reaches of the public interest." *Microsoft*, 56 F.3d at 1461 (*quoting United States v. Western Elec. Co.*, 900 F.2d 283, 309 (D.C. Cir. 1990)).

Moreover, the court's role under the APPA is limited to reviewing the remedy in relationship to the violations that the United States has alleged in its complaint, and does not authorize the court to "construct [its] own hypothetical case and then evaluate the decree against that case." *Microsoft*, 56 F.3d at 1459; *see also U.S. Airways*, 38 F. Supp. 3d at 75 (noting that the court must simply determine whether there is a factual foundation for the government's decisions such that its conclusions regarding the proposed settlements are reasonable); *InBev*, 2009 U.S. Dist. LEXIS 84787, at *20 ("the 'public interest' is not to be measured by comparing the violations alleged in the complaint against those the court believes could have, or even should have, been alleged"). Because the "court's authority to review the decree depends entirely on the government's exercising its prosecutorial discretion by bringing a case in the first place," it follows that "the court is only authorized to review the decree itself," and not to

"effectively redraft the complaint" to inquire into other matters that the United States did not pursue. *Microsoft*, 56 F.3d at 1459-60.

In its 2004 amendments to the APPA,³ Congress made clear its intent to preserve the practical benefits of utilizing Final Judgments in antitrust enforcement, adding the unambiguous instruction that "[n]othing in this section shall be construed to require the court to conduct an evidentiary hearing or to require the court to permit anyone to intervene." 15 U.S.C. § 16(e)(2); see also U.S. Airways, 38 F. Supp. 3d at 76 (indicating that a court is not required to hold an evidentiary hearing or to permit intervenors as part of its review under the Tunney Act). This language explicitly wrote into the statute what Congress intended when it first enacted the Tunney Act in 1974. As Senator Tunney explained: "[t]he court is nowhere compelled to go to trial or to engage in extended proceedings which might have the effect of vitiating the benefits of prompt and less costly settlement through the consent decree process." 119 Cong. Rec. 24,598 (1973) (statement of Sen. Tunney). "A court can make its public interest determination based on the competitive impact statement and response to public comments alone." U.S. Airways, 38 F. Supp. 3d at 76 (citing United States v. Enova Corp., 107 F. Supp. 2d 10, 17 (D.D.C. 2000)).

³ Pub. L. 108-237, § 221.

VIII. <u>DETERMINATIVE DOCUMENTS</u>

There are no determinative materials or documents within the meaning of the APPA that were considered by the United States in formulating the proposed Final Judgment.

Dated: June 20, 2019

Respectfully submitted,

/s/

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CERTIFICATE OF SERVICE

I, Kevin Quin, hereby certify that on June 20, 2019, I caused a copy of the foregoing Competitive Impact Statement to be served on Harris Corporation and L3 Technologies, Inc. by mailing the documents electronically to their duly authorized legal representatives, as follows:

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