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November 18

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JOURNAL

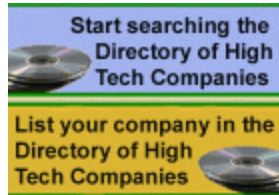
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Defense contractor IPOs could spur M&A wave

3/11/2002 8:00:00 AM

By [Taylor Lincoln](#)

SRA International Inc.'s announcement last week that it intended to go public — and to a lesser extent, the similar notice by Veridian Corp. — continued a trend of smaller defense contractors lurching for the public markets.

And the infusion of capital that the IPOs will yield could trigger a wave of consolidation, potentially turbocharging an already white hot sector.

"The definition of what is needed for an IPO has come down. For the federal sector, Wall Street wanted \$1 billion [in annual revenue]," said Larry Davis, president of Aronson Capital Partners, of Rockville, Md. "That's been re-written. Maybe it's \$300 million now."

SRA had \$312.5 million in revenue last year while Veridian had \$690 million. ManTech, which raised \$115.2 million in an IPO last month, had \$361 million in revenue over the past year. Anteon Corp., another defense-oriented information technology contractor that has an IPO pending, had revenue of \$700 million in its most recently completed year.

Davis, whose company assists smaller companies in mergers and acquisitions, predicts a spate of transactions after the companies with pending IPOs top off their bank accounts.

"They've been off the market for acquisitions," Davis said. "[But] they're going to go out in the fourth quarter of this year, and there will be a significant pick up in M&A activity."

Orbital shares rise, dive

It was a rocky week for Dulles, Va.-based Orbital Sciences Corp., a maker of rockets, satellites and other space equipment.

After the market closed on March 4, the firm announced that it had won a potential \$900 million, eight-year contract from the Boeing Co. to produce rockets that will be used in tests of the Defense


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Department's ballistic defense system.

Orbital has made rockets to serve as targets for tests of the initiative. Now, it will play on the interceptor side.

The company's stock opened at \$8.04 the next morning, up 18 percent over Monday's close.

But prior to the market's opening on Thursday, Orbital released a 2001 earnings report and noted that its \$100 million subordinated convertible notes are due in October.

"The company's continuation as a going concern is dependent on its ability to restructure these notes," the Orbital release said.

Chief Executive Officer David W. Thompson said in the release that the firm was well positioned to improve shareholder value.

But Wall Street was not convinced.

Moments later, shares of Orbital opened at \$6.25, down 21 percent from Wednesday's close and below their level before the Boeing pact was announced.

Commercial entrée

The release last week by the federal interagency Technical Support Working Group of two new "Broad Agency Announcements," soliciting technology to combat terrorism, offers noncontractors an easier entrée into the federal sector, according to John Cox, a lawyer in the Washington, D.C., office of Morrison and Foerster.

"With some [noncontractor] clients who have a concept that is readily adaptable, it is a good segue," Cox said, explaining that the program allows for quicker awards, more flexible contract terms and less competition.

The Technical Support Working Group was formed in 1983 to develop strategies and research to combat terrorism. Though the group has quietly issued annual calls for certain technologies, it gained a higher profile last fall when it released an unscheduled and uncharacteristically wide-ranging solicitation stemming from the Sept. 11 attacks.

The two announcements released last week narrow the fall solicitation, asking for technologies to perform about 50 specific tasks, ranging from nuclear explosives detection to the creation of a massive telephone records database.

But would-be contractors needn't limit themselves to the solicitation's categories.

"If you have an idea that isn't included in the BAA, TSWG welcomes individual suggestions," Cox said. "In a sense, the government is

looking for the next light bulb.”

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