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Companies go shopping with public investment

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By [Taylor Lincoln](#)

Are the floodgates opening?

In late June, Fairfax, Va.-based ManTech International became the first of the region's passel of newly minted public companies to make an acquisition when it snapped up Aegis Research Corp., of Falls Church, Va., for \$70 million.

Last week, Arlington, Va.'s CACI International followed through on Chief Executive Officer Jack London's stated intent to apply some of the \$161 million proceeds from its March secondary stock offering to acquisitions. CACI picked up the government solutions division of Condor Technology Solutions Inc., a firm that has swallowed massive losses in the last few years.

The recent acquisitions validate the predictions of industry experts, such as **Aronson** Capital Partners' President Larry Davis, that the current spate of initial public offerings in the defense services sector would stir the mergers and acquisitions pot.

Wall Street demands faster growth than the 10 percent to 15 percent that a government contractor can hope to achieve by managing its own affairs well, Davis said. The only other answer is to acquire.

There's still plenty more dry powder out there.

Anteon International Corp. and SRA International Inc., both of Fairfax, Va., and Veridian Corp., of Arlington, raised about \$400 million combined from their recent IPOs.

CACI did not say what it paid for the Condor government services division, which was responsible for about \$20 million of Condor's \$68.3 million in revenue in 2001.

But the infusion of capital must have been welcome at Condor, which provides Web development and communications services, and moved from Annapolis, Md., to Baltimore during 2001.

The firm has hemorrhaged money in recent years. It lost \$92



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million in 1999, \$20.2 million in 2000 and \$26.3 million in 2001. Much of the losses (\$83.2 million in 1999, \$5.4 million in 2000 and \$23.1 million in 2001) were for writedowns of goodwill, but that still leaves a lot of operating losses.

The company, which said it wants to use the CACI receipts to pay off debt, already pared its liabilities from \$41.2 million to \$33.7 million through restructuring and equity offerings during 2001.

Wall Street also liked the deal. Condor stock, which closed at a nickel the night before the deal was announced, jumped as high as 20 cents the next day before falling off to 13 cents.

Circling rivals

WorldCom's travails aren't bad news for everyone.

For Atlantech, a Silver Spring, Md., Internet service provider and Web hosting firm, the telecom giant's problems spelled opportunity.

Tom Collins, Atlantech's director of sales and marketing, visited the massive Rockville, Md., construction site of biotechnology firm Human Genome Sciences in mid-June in pursuit of new business.

(It turns out that construction sites are rich revenue sources for broadband Internet service providers.)

"The guy says, 'Oh, you need to talk to our computer consultant,'" Collins recalled. "[The consultant] said 'Oh, you're an ISP. We're a WorldCom reseller. We're going to hook them up with WorldCom.'

"Then WorldCom made its restatement," Collins continued. "The next day, I called him up and it was a complete reversal. We've already signed up two of his customers."

The expectations game

While many people vacationed, webMethods said on July 5 that it expected to lose \$2.5 million to \$3.5 million in the first quarter, which ended June 30.

That's a lot better than the \$19.9 million, webMethods lost during the same period a year ago.

But there were a couple of problems. WebMethods said in April that it would post \$50 million in revenue and now only expects \$47 million to \$48 million. And the firm, which was profitable before the tech bubble burst, had said then that it expected to break even.

The stock dropped from \$9.90 the previous Friday to \$8.35 the day of the revised forecast. In between, it fell as low as \$7.22 during the week, as traders anticipated the profit warning, analysts said.

But Phillip Merrick, the company's chief executive officer, said the missed forecast was due more to deals delayed than deals denied.

"We were counting on X number of deals and less than X number of deals got done," Merrick told CBS MarketWatch. "It was down to a handful of deals that got deferred to this quarter and some customers preferred that the expense would start hitting their books this quarter."

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