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November 18

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JOURNAL

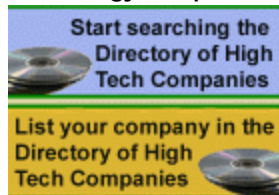
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## Government contractors are new M&A targets

10/15/2001 8:00:00 AM

By [Taylor Lincoln](#)

It's not difficult to spot the trend in six recently announced mergers and acquisitions in the Potomac area: three involved government contractors, all of which were acquired by firms from other states.

Experts doubt the spate of government deals portends an increase in overall M&A activity — which was down about 30 percent for the third quarter and 25 percent for the first three months of 2001 for Virginia, Maryland and Washington, D.C. compared to last year — but they expect continued action in the government sector.

"What's really quashing M&A deals in general is the economic uncertainty ... The one exception is in the government marketplace," said Bob Kipps, of the government services & aerospace/defense group of Houlihan Lokey Howard & Zukin, an investment banking firm specializing in mid-size deals.

Observers did a double-take in September when Fairfax, Va.-based information technology contractor BTG Inc. — which had a history of under-performance — was acquired by San Diego-based Titan Corp. for 24 percent more than its stock price, said Larry Davis, president of AFW Capital Partners, an investment banking affiliate of Rockville, Md.-based accounting firm Aronson, Fetridge & Weigle.

Davis points to three reasons for the sector becoming more desirable: streamlined procurement processes, the government's increased investment in information technology and the spending surge expected to result from the Sept. 11 attacks. Among the assets BTG had to offer, Davis noted, were "lots of people with security clearances."

"It's a great market to be in and now everybody is looking to get in it," Davis said. "They can go out and hire a bunch of sales people or they can go out and buy a company."

Other recent deals involving contractors include the acquisition of Alexandria, Va.-based Dynamic Systems by EDO Corp., of New York, and the purchase of Bethesda, Md.-based United Information Systems by Analytical Sciences, of Durham, N.C.


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### The bigger fish

The decision of AT&T Wireless to purchase the 77 percent of Arlington, Va.-based TeleCorp PCS that it did not already own for \$4.7 billion struck analysts as an inevitable outcome of wireless market forces that demand compatible, national networks.

"A few years ago, wireless was full of regional wireless players. Now, the expectation is that you have to be a national player so you don't have those pesky roaming charges," said Eddie Hold, director of telecom services for Current Analysis Inc., of Sterling, Va.

TeleCorp. was under-financed to follow its parent company's conversion to the Global System for Mobile, or GSM, protocol, Hold said, while AT&T was eager to expand its network.

"It's a perfect fit for AT&T Wireless because there's no overlap on territory," Hold said. "Plus, they already share billing platforms."

### Life on the margin

News that Optical Cable Corp. CEO Robert Kopstein had gone to court earlier this month to stop brokerage firms from selling stock he had pledged as collateral for loans might have left WorldCom CEO Bernie Ebbers and former PSINet chief William Schrader feeling a little queasy.

Both suffered margin calls after their company's stock plummeted.

WorldCom's board guaranteed up to \$100 million in debt owed by Ebbers to avert a margin call in 2000, the same year Schrader was forced to sell 11 million shares of PSINet stock to satisfy a \$25 million loan.

The predicament that Kopstein, Ebbers and Schrader found themselves in is uncommon for chief executives, but not altogether rare, said Richard Cripps, chief market strategist of Legg Mason Wood Walker, in Baltimore.

"For whatever reason, the executive doesn't want to sell the stock, but he wants a big house; he wants to live large," Cripps said. "One solution is to borrow against the collateral of his stock."

Brokerage firms began selling Kopstein's Optical stock in August. Once worth \$59 a share, the stock plummeted from \$9 to \$1.19 between Aug. 1 and Oct. 1.

Kopstein got a temporary restraining order to stop the brokerages from selling the shares on Oct. 2, but that was lifted after trading on Oct. 5, and the stock sank from \$2.15 to \$1.21 the next business day.

It is not publicly known how much Kopstein owes. But he owned 53.6 million shares of the company — about 95 percent of its value — as of Aug. 29.

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