

# Defense M&A heats up

By **KEN SCHACHTER**

HAUPPAUGE – Long Island defense and security contractors, flush with cash, have gone on a buying spree.

Within the last nine months, Aeroflex Inc., Comtech Telecommunications Corp., EDO Corp., Orbit International Corp. and Verint Systems all have bulked up in what industry observers said could be an extended acquisition drive.

“I think you’ll see more of it going on,” said C. Kenneth Morrelly, president of the Long Island Forum for Technology, a regional technology center. “It’s like fish in the sea. The big ones eat the little ones.”

Why are defense and security companies on the lookout for merger candidates?

Morrelly said the strategy is attractive because in one move it can give companies a leg up in areas such as market penetration, ongoing contracts, strategically important customers, technologies and managers.

Alon Kapen, a securities lawyer at Farrell Fritz, noted that it can take years to develop sales channels within some government agencies, especially those involved in classified work.

“Those companies that have those established sales channels are commanding very high premiums in M&A transactions,” he said.

EDO, based in Manhattan but with extensive Long Island operations, an-



**Ken Morrelly**

nounced on May 11 that it had acquired closely held EVI Technology LLC, which makes communications systems for intelligence and law-enforcement agencies. Because of the secretive nature of EVI’s business, terms of the acquisition were not immediately released.

Despite the recent deal, William Walkowiak, EDO’s director investor relations and corporate communications, said the company has hit a “lull” in its acquisition strategy.

“It’s not because we’re not interested, but because we haven’t found one that’s exactly right. We’re very careful. It’s competitive for acquisitions.”

The acquisition strategy was enshrined in 2000, after EDO merged with AIL Technologies Inc. and AIL’s James Smith became chief executive of the combined company.

“We have recognized ... that to be competitive, we had to be larger,” Walkowiak said. “The goal is to exceed \$1 billion [in sales].”

Walkowiak said EDO’s merger and acquisition team, headed by Scott Weiner, director of corporate development, had looked at “hundreds” of possible targets over the last few years.

“We have a wide net,” he said.

Mitchell Binder, chief financial officer and vice president of finance at Orbit International, said his company’s \$8.5 million acquisition of Tulip Development Laboratory Inc. came after a two-year search.

“As a public company, we have a fi-

duciary responsibility to our shareholders to grow the company,” he said. “If there’s an opportunity to buy a company that can add to your revenue and bottom line without a significant strain on your balance sheet and be accretive, we think that’s a responsible thing to do.”

## Bulking up

**LI defense firms that have hit the M&A trail**

Aeroflex Inc.

Comtech Telecommunications Corp.

EDO Corp.

Orbit International Corp.

Verint Systems



Though the company hired Early-BirdCapital Inc., which has offices in Manhattan and Melville, to assist with mergers and acquisitions, Binder said the Quakertown, Pa.-based company was found by CEO Dennis Sunshine, who contacted Tulip’s management.

Even acquisition-hungry companies, however, sometimes have to pause before taking another bite.

In a conference call discussing the \$81 million cash acquisition of the test and measurement division of UbiNetics Holdings Limited in May, officials of Aeroflex (Nasdaq: ARXX) said they needed to pause before re-entering the market.

“We have agreed that we’re going to digest before we look for more,” said Michael Gorin, vice chairman and chief financial officer.