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Local acquisitions put Boeing on cybersecurity map

Washington Business Journal - by [Darlene Darcy](#) Staff Reporter

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When The Boeing Co. agreed to buy Fairfax-based eXMeritus Software Federal Systems Inc. on June 15, the announcement had a familiar ring to it.

It was the fourth time since early 2008 that the Chicago-based aerospace giant bought a local company to boost its presence in the cyber and intelligence markets.

Boeing is not alone. Government contractors are making strategic plays to bolster their cybersecurity and intelligence lines and meet the federal need for secure information technology services. The quickest way to do that? Buy smaller competitors.

Since March, at least half a dozen acquisitions announced or completed locally have been by federal contractors bulking up their cyber and intelligence offerings. The reason is twofold: Publicly traded government contractors are facing pressures from shareholders to maintain double-digit growth year over year, and shifting priorities under the Obama administration have resulted in a shrinking defense budget.

“Mergers and acquisitions remain a coping mechanism,” said Ray Bjorklund, senior vice president and chief knowledge officer at McLean-based government research company FedSources. “If you really want to be competitive you need to be bigger. ... You need to offer a full range of capabilities, you need many feet on the street, and those things are better achieved through M&A.”

But penetrating the cybersecurity market is not easy, said Bill Gormley, president of D.C.-based consulting firm The Washington Management Group. “It requires clearances and specific skills sets.”

In Boeing’s case, the cyber acquisition strategy is a sign that the company is expanding its footprint in the federal market, he said. “That speaks well for not getting too narrow in focus,” Gormley said. “And it feeds an overall strategy to grow into new federal segments.”

Before the eXMeritus deal, Boeing bought Germantown-based Digital Receiver Technology Inc., Herndon-based RavenWing Inc. and D.C.-based Kestrel Enterprises Inc., all last year. Financial terms of the deals were not disclosed. ExMeritus, which will become part of

Boeing's Integrated Defense Systems' Network and Space Systems unit, is a hardware and software company founded in 2000 with fewer than 30 employees.

While some contractors are closing deals to add bodies, enter new markets and hit growth numbers, Boeing is making acquisitions that deliver "very high-level security solutions and give them an advantage over competition down the road," said Gretchen Guandolo, director of McLean investment bank KippsDeSanto & Co.

Other federal contractors have been closing deals too.

A Falls Church-based business unit of General Dynamics Corp. said this month it is buying Axsys Technologies Inc. in a stock transaction worth \$643 million. Rocky Hill, Conn.-based Axsys' 1,000 employees will join General Dynamics' Advanced Information Systems unit, which makes, integrates and operates mission systems. At least two other companies, QinetiQ North America Operations LLC and ManTech International Corp., have added cybersecurity and intelligence resources in recent months.

In May, McLean-based QinetiQ completed its acquisition of Cyveillance Inc., an Arlington business that monitors Internet threats and leaks for corporate clients. The 12-year-old company, bought for an undisclosed sum, also checks for brand infringement, credit card fraud and counterfeiting. While Cyveillance will continue those services for commercial customers as a QinetiQ subsidiary, it also will help QinetiQ improve products and services for government.

Last year QinetiQ made six acquisitions. The company increased revenue by 42 percent in its past fiscal year. This month it signed the largest lease in Reston thus far in 2009, adding more than 120,000 square feet.

Fairfax-based ManTech completed its acquisition of veteran-owned, small business DDK Technology Group Inc. in March to expand its base of cyber customers. Lanham-based DDK, which provides cybersecurity services to the Defense Department, was founded in 1991. All of its approximately 50 employees have high-level government clearances. ManTech expects DDK to generate about \$14 million in revenue this year.

Fed shopping spree

Government contractors are buying up smaller competitors to bolster their security lines of business to meet the federal need for more cybersecurity and information technology-based secure services. Here's a sample of some of the recent acquisitions.

June 15: Boeing Co. buys eXMeritus (undisclosed)

June 4: General Dynamics Corp. buys Axsys Technologies Inc. (\$643 million stock transaction)

May 6: QinetiQ Group PLC buys Cyveillance Inc. (undisclosed)

April 16: Sentel Corp. buys 24/7 Solutions Inc. (undisclosed)

March 16: ManTech International Corp. buys DDK Technology Group Inc. (undisclosed)

March 5: Parsons Infrastructure & Technology Group Inc. buys McMunn Associates Inc. (undisclosed)

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