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WASHINGTON INVESTING

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Sorting Out Winners in War On Terrorism

It's been only six weeks since terrorism replaced technology as the dominant theme for Washington investors, but already the stock market has become far more methodical in assessing the impact of Sept. 11 on individual corporations.

When stock trading resumed after the attacks, investors' mentality when it came to companies involved in bioterrorism, no matter how tangentially, was buy first and ask questions later.

Stocks of companies that people could only guess might benefit from increased government spending shot up. Overshot, it turned out, in many cases.

Now, however, the impact on specific companies is becoming clearer and stock prices are beginning to reflect realistic calculations of how those firms will be affected.

Not unexpectedly, several of the stocks that jumped the highest and the fastest have pulled back from their speculative peaks. Shares of CompuDyne Corp., a maker of blast-resistant glass and building security

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A More Realistic Assessment of the Defense Company Winners

INVESTING, From E1

systems, rose to nearly \$19 a share from about \$8 a share. The shares closed Friday at \$14.10 and they're holding that 75 percent gain based on solidly calculated assessments of the company's prospects.

Other issues are obviously still in the grips of speculative fever, zigzagging erratically under the influence of day traders. That's the the pattern with Versar Inc., an environmental testing company whose stock was the biggest local winner last week. Up one day, down the next, Versar stock has yet to stabilize, in part because its long-term outlook remains uncertain.

A handful of stocks are continuing to hit new highs, including BioReliance Corp., whose 151 percent gain since the attacks is the biggest among local stocks, a fraction of a percentage point ahead of Versar's. Up from \$12.31 to \$30.85, Rockville-based BioReliance is the company chosen to replenish the nation's stocks of smallpox vaccine.

Shares of CACI International Inc., up 67 percent since Sept. 10, BTG Inc, up 42 percent, and PEC Solutions Inc., up almost 35 percent, all keep rising as those companies garner new computer services work from military and law enforcement clients.

In terms of making money for shareholders since Sept. 11, however, no company in the Washington region comes close to Lockheed Martin Corp., the largest defense company in the region—and the world. Lockheed Martin stock closed at a new high of \$49.92 Friday after the company won the biggest defense contract in history, the \$200 billion Joint Strike Fighter project.

Lockheed Martin stock, trading for \$38.32 a share before the attacks, has gained more than 30 percent, increasing the stock market value of the company from \$16.7 billion to \$22.2 billion. That is a \$5.5 billion boost in shareholder value.

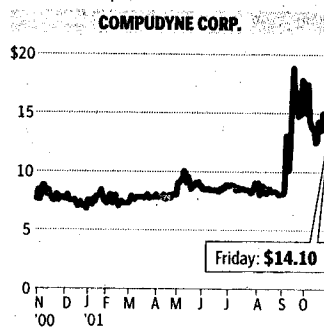
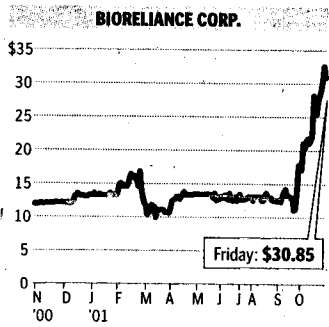
The Joint Strike Fighter is just one of the reasons Lockheed Martin is doing well. Lockheed Martin is involved in so many aspects of the nation's defense effort that the kinds of deals driving up these other stocks would show up to the right of the decimal point on a percentage basis.

Long the favorite to win the Joint Strike Fighter job, and long the symbol of Pentagon contractors on Wall Street, Lockheed Martin was the professional investors' pick after Sept. 11. On Sept. 17, when the market hiatus ended, more than 12.6 million shares of Lockheed Martin were traded. While the Dow Jones industrial average was losing almost 700 points, Lockheed Martin gained more than \$5 a share.

Individual investors were more likely to go for one of the smaller defense contractors. BTG, CACI and CompuDyne all moved up in the first

When Terrorism is Good for Business

The daily stock closes of BioReliance Corp. and CompuDyne Corp., among the companies that investors are betting will profit from increased security spending.



wave along with Lockheed Martin.

BioReliance didn't budge for another couple of weeks—until anthrax killed its first victim and bioterrorism joined brute force as a mover of the markets.

Investors who knew anything about the Rockville biotech company knew that it had two contracts to manufacture vaccines against smallpox, a disease linked as closely to germ warfare as anthrax.

But few investors knew anything about BioReliance. Only one Wall Street analyst officially follows the stock, Ken Miller of J.P. Morgan Chase & Co. There were 20 more analysts on the line Wednesday when BioReliance held its telephone conference call to discuss quarterly earnings.

BioReliance President Capers McDonald is conspicuously cryptic in discussing his company's role in producing smallpox vaccines and said much of his firm's work for pharmaceutical companies is handled under confidential contracts. "We are very used to the role of being the silent partner," he said.

BioReliance's smallpox vaccine contracts have been with Acambis PLC, a British drug firm, and DynPort Vaccine Co., a partnership between DynCorp of Reston and Porton International Inc., a privately owned Washington pharmaceutical company.

The Health and Human Services Department originally hired Acambis to make 40 million doses of the vaccine over several years, but it recently upped the order to 54 million and said it wants the drugs by next summer. DynPort's contract with the Defense Department calls for making 250 million doses over several years.

This week Health and Human Services Secretary Tommy G. Thompson is expected to select drug companies to produce another 250 million doses for

civilian use—as quickly as possible.

Several giant pharmaceutical firms have bid on that project. Because of the company's expertise in producing vaccines, smallpox in particular, there is widespread speculation that BioReliance has contracts with them as well, but McDonald would not comment.

Growing the viruses needed to make vaccines is one of BioReliance's specialties, McDonald said. The firm also does purity and safety testing, develops production processes for making vaccines, and manufactures vaccines—in small or large batches.

Under contract with Acambis and DynPort, BioReliance has been doing preliminary production and clinical trials on their smallpox vaccines, which are different from the smallpox vaccines that were used before the disease was essentially eradicated 20 years ago.

BioReliance does not need to grow the potentially deadly smallpox virus to make a vaccine. Instead, it grows a benign, related microbe, which when injected, produces an immune reaction that will also kill smallpox.

Asked by analysts whether BioReliance has the capacity to produce vaccines as quickly as the government wants, McDonald said the company could expand its new Rockville facilities to speed up production.

Crash production of the smallpox vaccine could multiply the revenue of BioReliance, which took in \$18.6 million last quarter and made a profit of \$2.2 million. Because its smallpox vaccine work is still in the testing stages, that project has yet to have much impact on the company's finances, McDonald said.

But CompuDyne Chairman Martin Roenigk said his firm's finances have radically improved because of what has happened since Sept. 11. Earlier this year, the firm began working on a refinancing plan to pay off a high-interest

loan and buy back stock owned by William Blair & Co., a New York investment firm. The original plan was to find a new investor to buy Blair's stock and then borrow money to pay off the company's debt to Blair, which carried a 13 percent interest rate.

That was when CompuDyne stock was in the \$8 a share range. "As our stock got revalued in the marketplace, it became more compelling to us to take advantage of this window," Roenigk said.

The company's investment bank, Friedman, Billings Ramsey Group Inc. of Arlington, found investors willing to buy out Blair and to buy more than a million new shares of CompuDyne stock—at \$12 a share.

The complex transaction, called a PIPE—a private investment in public equity—is scheduled to close today. The stock will be sold in a private transaction rather than a public offering, but the shares will be registered so they can be traded on the Nasdaq stock market.

The cash from the stock sale will enable CompuDyne to pay off its high-interest loans. Instead of \$25 million in debt, the company will have just \$8 million. And instead of interest of more than 13 percent, it will be paying less than 6 percent.

Along with healthier finances, CompuDyne is looking for a major increase in demand for its blast-resistant windows, doors and security enclosures, which are used in U.S. embassies around the world, several Federal Reserve banks and some government buildings in Washington that the company is not allowed to name.

CompuDyne's other specialties include building jails, with remote-controlled doors and similar systems, that can also be used to create very secure buildings. "In corrections, we are trying to keep people in. Security tries to keep people out," Roenigk said. "It's the same skill set, and product set, but a little different mindset."

"The mindset of companies and government agencies considering security systems has changed dramatically in the past six weeks, he added. Plugging in a video camera and putting a guard behind a desk at the door is no longer considered a security system.

Instead clients are calling about CompuDyne's perimeter monitoring systems—fiber-optic cables looped around rooms, buildings, even facilities as big as an oil refinery—that trigger alarms if someone tries to cross.

Customers now are interested in electronic access control for entire parking lots, systems that only let in cars carrying an electronic device similar to the E-ZPass used on toll roads—and keep a record of the comings and goings of every vehicle.

Before Sept. 11, such security systems were considered too costly, Roenigk said. Not any more.