

# VENTURE MANAGEMENT



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## **Dynamics Research Corp. (NASDAQ: DRCO) acquires Kadix Systems**

*Dynamics Research Corp. (NASDAQ: DRCO) completed its acquisition of privately held Kadix Systems, LLC. SBA certified Kadix Systems in the 8(a) program in April 2003. Its expected graduation date is 4/17/2012.*

Arlington, Va.-based Kadix Systems is a rapidly growing, high-end management consulting firm. Kadix maintains practice specialties in organizational change, human capital, information technology, public and environmental health and learning and organizational development. Founded in 2001, the company is focused on the U.S. Department of Homeland Security (DHS), Marine Corps information technology, military medical health, and federal civilian markets. About 95 percent of Kadix' contracts have been awarded as prime and approximately 40 percent are performance-based.

In addition to its Arlington headquarters, Kadix has additional offices in Greater Washington, Aberdeen, Md., and Fort Sam Houston, Texas - areas that are targeted for significant expansion due to the DOD BRAC.

DRC chairman and CEO Jim Regan stated:

*"Kadix Systems' high-end management consulting capabilities fully complement DRC's current core competencies in IT infrastructure, business intelligence, business transformation and training and enable greater access to key markets that we have targeted for growth. We look forward to welcoming Kadix employees to the DRC family of dedicated professionals serving our nation's highest priorities. We are committed to strategic growth that expands the mission-critical management and consulting work we provide to clients, fosters our long-standing culture of quality and excellence and enhances shareholder value."*

In its announcement of the acquisition, Dynamics Research stated: "Kadix Systems has outstanding visibility into all DHS program management and management consulting efforts. It is one of two companies to have prime contracts on both the

DHS Enterprise Acquisition Gateway for Leading Edge Solutions (EAGLE) contract (functional area 5 - Program Management and functional area 3 - Independent Verification and Validation Services) and DHS Program Management Strategic Sourcing (PMSS) vehicles."

#### **Terms**

On Aug. 11, 2008 Dynamics Research Corp. announced it had completed its acquisition of Kadix Systems.

Terms of the purchase agreement included a cash price of \$42 million with the potential for additional consideration of up to \$5 million, based on the achievement of certain conditions. For tax purposes, the transaction was treated as an asset purchase resulting in tax benefits to DRC, with an estimated value of \$10 million. Concurrent with the transaction, DRC restructured its credit agreement with its current bank group, led by Brown Brothers Harriman & Co. and including Bank of America and TD Banknorth, into a \$40 million term loan and a \$25 million revolving credit facility.

Plans for the acquisition were announced on July 31, 2008. Closing of the transaction took place as expected in early August 2008.

Kadix Systems reported revenue and earnings before interest, taxes, depreciation and amortization for the year ended December 31, 2007 of \$23.0 million and \$3.8 million, respectively. The company currently has about 270 employees.

Kadix president Doug Layman has been appointed DRC senior vice president and group manager and continues to lead Kadix' business operations as a fourth operating unit, reporting directly to Mr. Regan.

#### **Dynamics Research Plays Catch Up**

Dynamics Research has made four additions to its federal government contracting business in the past six years. But of those deals (listed below) the most recent until today's announcement was four years ago. The years since then have not been kind to DRC - revenues are down from \$300 million in 2005 to \$230 million in 2005, and earnings per share are down by 40 percent from their 2005 high.

Enter Kadix Systems. DRC likes the company's large percentage of performance-based contracts (its own mix isn't as lucrative, with a majority of work being done under time-and-materials contracts). It also likes the company's presence on the ID/IQ vehicles like EAGLE (an area where it has lagged). Whether these positives will make up for the risk of buying an 8(a) contractor remains to be seen.