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Looking to diversify

MVM buys smaller firm with different focus

The deal was essentially done.

The details -- purchase price, employment contracts, stock purchase agreement – had been agreed upon days earlier. The whole deal was neatly packaged in a half-dozen Manila folders.

All that was left was to sign the papers.

So on the bright, clear morning of Sept. 17, executives and lawyers from MVM and Sting Security met over coffee and conversation in a Bethesda conference room to close the deal.

At about 10:45 a.m., Dario Marquez, MVM's owner and CEO -- and the man doing the acquiring -- took out his pen and signed the wrong set of papers.

Immediately, some in the room labeled it a "nonissue."

But the simple mix-up in paperwork caused a stir, prompting MVM executives to clear the room for an emergency board meeting at which they elected Marquez president of Sting, making the documents official.

The whole process took fewer than five minutes, but it chilled the room with formality.

As it turns out, the mistake was really just a matter of timing. At the moment Marquez signed the notes he wasn't yet the president of Sting and, therefore, wasn't authorized to sign papers on behalf of the company. Marquez and MVM had a handful of options, including tearing up the document and starting over. But they decided to follow stringent protocol, as they had throughout the nine months of negotiation that preceded this day.

Minutes later, the room refilled. Marquez signed the rest of the papers, made a joke and handed over the check as he smiled for the camera. His CFO, Joe Morway, let the bank know the deal was done: Marquez's McLean-based security staffing firm had just acquired Sting for an undisclosed amount of cash and stock.

Sting now operates as a wholly owned subsidiary of MVM. The Temple Hills-based firm generates about $8 million in revenue from its commercial security staffing business. MVM, one of the D.C.-area's largest employers, will add that money to its own annual revenue of $68 million.

Looking to diversify

This is MVM's first acquisition in its 20-year history.

Marquez and two partners left the Secret Service in 1979 to start the firm, which then was based in Anaheim, Calif., and specialized in executive security. Marquez had served on the security details of former President Gerald Ford, Vice President Nelson Rockefeller and Secretary of State Henry Kissinger. His resume helped him and his partners quickly land contracts to protect corporate executives from Ford and Time magazine, and the company took off.

Over the next five years, Marquez bought out his partners and struck out on his own. Working for the private sector brought with it peaks and valleys, and an unstable stream of revenue. On a trip back from Latin America, Marquez met a State Department official who told him he ought to take a look at working for the government.
That was 1986, not long after a young Marine Corps guard fell for a Soviet KGB agent in Moscow, and she duped him into giving her access to the American embassy. Within a year, the Reagan administration pledged swift security reform, and Marquez's small firm won the State Department's Moscow contract. He eventually parlayed that into $54 million multiyear deal to provide security services to the State Department worldwide.

By 2000, MVM had become primarily a government contractor. The company had 1,600 employees, $53 million in annual revenue and major deals with the Justice Department, FBI and Internal Revenue Service.

About 93 percent of MVM's revenue was coming from government contracts, and Marquez and his executive team saw the need to diversify.

That's when Sting first showed up on their radar.

`The beauty and the warts'

At the beginning of this year, Marquez and his executive team laid out a plan to enlarge MVM -- both by encouraging the growth of existing accounts and by signing new ones. The management team knew those actions would yield growth, but not diversity. That meant the company would have to introduce a third prong: an acquisition.

"We'd been looking for years," Marquez says. "And then here comes an $8 million company right across the Wilson Bridge and we said, “What is this? Christmas?”

Indeed, Christmas had come early with the help of an unlikely Santa Claus, Paul Reamer. The president of Executive Sounding Board, a Baltimore-based mergers and acquisitions consulting firm, had known Marquez and MVM for years. He also knew Dave Hofmann, the president and part owner of Sting. Reamer knew MVM was looking to buy and Hofmann and partners Dennis Lowry and Jay Martin wanted to sell.

The courtship began in January.

Bing Sheng Teng, an assistant professor of strategic management at George Washington University says, both companies were lucky it worked out so quickly.

"In most cases," Teng says, "discussions do not lead to deals. Most lead to nothing."

By February, the companies had agreed to move forward. In March, MVM submitted a letter of interest and the talks intensified, but the purchase price became a sticking point. Within weeks, the negotiations decayed and MVM executives told Reamer they'd lost interest.

"We said, `Hey, we can't do this for this price,'" CFO Morway says. "So we broke off talks."

By May, Sting returned to the table with a "re-evaluated" -- and apparently acceptable -- position. The talks resumed.

"Up until this point, it's always very rosy," Marquez says. "They say, `When you buy us, we're going to be the Cinderella.'"

Hoping the slipper would fit, MVM's board gave its executives the green light to begin due diligence.

"Now you're going to see the beauty and the warts," Marquez says.

`A certain level of trust'

Within weeks, Marquez dispatched chief operating officer Rob Rubin, General Counsel Charlie Gaba and Morway to Sting to look for warts. They spent weeks pouring over Sting's books, ferreting out potential surprises, liability issues, financial concerns and overly optimistic projections -- anything that could "present any heartburn."

"There is a certain level of distrust in these types of deals, even in friendly ones like this," Teng says. "If they don't have a certain level of trust, the deal can fall apart at any stage of the process."

At times, talks teetered on the brink of a collapse. Marquez says the deal nearly died a number of times, when negotiators squabbled even over minor details including the geographical definition of the Washington metro area. (It was later defined as spanning from Baltimore to Richmond.)

Even at the 11th hour, the Thursday before the scheduled Monday closing, MVM threatened to walk away because Sting executives hadn't asked the company's bank to remove personal guarantees from company loans. Morway later conceded the incident might not have spelled the end, but it likely would have delayed the deal had it not been resolved quickly.

In the end, it was.

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