

# Weapons Maker Struggles To Survive

## Money Trouble, SEC Inquiry Imperil Allied Defense Group

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During wartime, selling tank ammunition might seem like a sure thing. But it's not going easily for [Allied Defense Group](#).

In recent weeks, the Vienna munitions maker's accounting firm warned that because of "continuing losses and negative cash flows," Allied is in danger of failing as a "going concern." Four creditors accused the firm of defaulting on loans. The Securities and Exchange Commission began an inquiry into the restatement Allied is filing for the three- and nine-month periods ended in September.

Allied's stock has lost half its value since December, including a 30 percent plunge last week. It fell 41 cents, to \$8.55 a share, on Friday.

This is happening nearly a year after Allied announced a plan to reshape its board and boost shareholder value.

A company representative declined to comment for this report. Chief executive John J. Marcello, said in a written statement on March 23: "Allied's Board of Directors and management team are working very closely to explore our strategic options in order to resolve these issues and get this Company back on track."

So far, the company has said it will sell Sea-Space, a distributor of satellite ground stations, to obtain working capital. It has denied the allegations of default. And it said it is cooperating with the SEC inquiry.

The company, which has about 700 employees, gets most of its revenue from selling ammunition overseas, but it also sells battlefield-simulation and electronic security equipment. It reported \$128 million in revenue last year with a net loss of \$41 million.

Critical to Allied's near-term prospects, analysts say, will be an ammunition contract from its largest customer, Saudi Arabia, which the company said on March 1 was expected in the "next few weeks." The order, which analysts say could be worth about \$150 million, has already been delayed nearly two years, said Brian Butler, an analyst for Friedman, Billings, Ramsey. "The number-one issue is the Saudi order," Butler said. "We had hoped for it to be a little bit faster this time, but it hasn't happened."

The company's dependence on Saudi Arabia has been troublesome, especially because of the country's unpredictable procurement system, analysts said. "If you go back to the first Gulf War, 90 percent of sales were from Saudi Arabia," said Philip Finnegan, director of corporate analysis at the Teal Group.

Allied has been able to reduce that to less than 30 percent, Finnegan said, with the help of several acquisitions and most recently a diversification plan aimed at giving it a foothold in the much larger U.S. military market.

The company is opening a plant in Texas and has said it will establish a business-development office. The firm is also developing a 120mm high-explosive tank round that could punch a hole in a building big enough for a soldier to get through, Butler said. The Marine Corps is reviewing that product, he said.

But the market that Allied is attempting to enter is already dominated by much larger players -- including General Dynamics of Falls Church, a \$24 billion weapons maker, and [Alliant Techsystems](#) of Edina, Minn., which reports about \$3.5 billion in sales a year. "It's going to be an uphill fight. They are competing against really established players," Finnegan said.

Allied can't get more than a small part of the market "unless they are planning on edging out one of the other contractors, which isn't very likely," said Dean Lockwood, a weapons analyst for Forecast International.