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Remaking self, Aether to leave city: Darling of dot-com boom buys N.Y. investment bank

(Baltimore Sun, The (KRT) Via Thomson Dialog NewsEdge) Jun. 8--Darling of dot-com boom was casualty of dot-com bust

Aether was once the darling of Baltimore's "New Economy." A wireless communications innovator, it employed more than 1,000 and hoped to lead a shift from the city's old-line, buttoned-down central business district to the new, tech-savvy "Digital Harbor." Its founder, at least on paper for a brief while, was richer than Oprah.

But yesterday - years after the dot-com investment bust had cost the company billions, shriveled it to a handful of employees, driven its share price below the cost of a cup of Starbucks latte and forced it to dump technology for mortgage investing - what could be the final chapter for the Baltimore story was written.

Now known as Aether Holdings Inc., the company announced yet another incarnation. Aether, whose market cap once hovered near $7 billion, said it has acquired boutique investment banker UCC Capital Corp. for $10.3 million and will move its corporate headquarters to New York. Aether founder David S. Oros will become board chairman but will no longer run the day-to-day operations.

"That company embodied everything that was good and bad about the bubble," said Wayne Jackson. He worked for then-Aether Systems Inc. for a few years after it bought his company, Riverbed Technologies Inc., for $800 million. Later he became chief executive of Sourcefire Inc., a Columbia-based Internet security company.

Aether bought his company after raising more than $2 billion in two public stock offerings in 1999 and 2000, during the height of the tech mania. Aether subsequently bought numerous wireless and related tech startups with no track record of profits. Its stock fell from a peak of $345 in March 2000 to a low of $2.25 in 2002. Its shares rose 2 cents yesterday to close at $4.12.

"The significance of Aether was that it provided Baltimoreans with comfort in the knowledge that the region was also participating in the dot-com boom. It was a source of civic pride just as Under Armour is today," said Anirban Basu, head of the Sage Policy Group, an economic consulting firm in Baltimore. Under Armour is a sports-apparel company based in the city that went public last year.

Aether and the other companies were magnets for workers who were young and technically savvy, making Baltimore a second-tier destination in the tech boom that had its nexus in such cities as San Francisco and Boston. "People talked about Silicon Alley in New York; here it was the Digital Harbor," Basu said.

Other local stars of the time included Ciena Corp., a telecom equipment company whose stock rose as high as $151 and is now less than $4.50, and Corvis Corp., which made fiber-optic equipment and is now known as Broadwing Corp. Corvis stock rose to more than $100 after its initial public offering; now under Broadwing the shares trade around $12.

Aether developed software that allowed many kinds of users to exchange wireless data. It went public in October 1999.

At one time, Oros, at least on paper, was richer than Oprah Winfrey and Martha Stewart. He used some of his wealth to buy and renovate a $2.7 million Baltimore mansion in 2001. The 50-room house had seven bedrooms, eight bathrooms and a home theater, according to plans filed with the city. The house and its lengthy renovation became a source of fascination and irritation for North Roland Park neighbors.

A 1985 graduate of the University of Maryland Baltimore County, Oros also had great loyalty and big plans for his alma mater in Catonsville. At one point, Aether Systems was going to move its Owings Mills headquarters to the college's campus. And in 2000, the company donated more than $500,000 to the school for wireless curriculum and research seminars.

"It was a very exciting environment to be in, and I felt like I was part of something new and big, and not only something new for Baltimore, but something new for the industry in general," recalled Tracey Gordon, who was a marketing director for Aether and is now director of marketing operations for BDMetrics Inc. in Catonsville.

Marty Brandwin, who worked in marketing at Aether from 2000 to 2003, remembers going home from work at night and thinking, "We're really going to change the way people do business."

Brandwin, who is now the vice president of marketing for AVIcode Inc. in Catonsville, remembers the money flowing at Aether. The marketing department paid the Baltimore Ravens' defensive lineman Tony Siragusa to wear an Aether hat during interviews and even considered doing a Super Bowl commercial.

"Some of the things that we did then, I couldn't imagine doing now," Brandwin said. "It was electric. You could just feel the buzz. People were watching the stock during the day, talking about it. It was really something you could feel in the air."

But the stock price plummeted as the tech bubble burst, and Aether's shares haven't closed above $5 since February 2004.

Rounds of layoffs shrank the company to about 10 employees from a peak of 1,400 in 2001. The company also figured in New York Attorney General Eliot Spitzer's investigation earlier this decade of technology analysts who praised tech startups publicly and disparaged them privately, while the analysts and their companies were enriched by the rapid rise in stock values.

Two years ago, Aether announced it was leaving the wireless industry and investing instead in mortgage-backed securities as the housing market heated up nationwide. The company said then that the move would allow it to become more profitable faster. Last month as the market cooled, Aether reported a net loss of $133,000, or zero cents per share, for the first quarter ended March 31.Aether's latest venture with UCC Capital is another makeover. UCC Capital has been a strategic adviser to such businesses as the Athlete's Foot shoe chain, Candie's teen apparel company and the BCBG Max Azria Group fashion house, and it has arranged for companies to borrow against their intellectual property by selling bonds.

Chief Executive Robert D'Loren said that with Aether's capital, the combined company would acquire companies in bids to make them more profitable. D'Loren and Oros were introduced through Jefferies & Co., which Aether had hired to explore the company's options.

While the new company intends to maintain its $95 million portfolio of mortgage-backed securities, D'Loren acknowledged that it could be tapped in the future for acquisitions. As a Nasdaq-listed company, Aether also has access to the public markets to raise capital. In addition, Aether likely was an attractive partner because it has accumulated about $1.1 billion in losses that can "carry forward" as potential tax deductions.

Under the terms of the deal, Aether used company stock to buy UCC Capital and could pay up to $10 million and additional shares if financial targets are met and Aether's stock rises to certain levels within five years.

Aether executives did not return phone calls yesterday. Aether's two largest shareholders, Dimensional Fund Advisors Inc. in California and Amaranth Advisors LLC of Connecticut, declined to comment.

D'Loren said his vision is to transform companies by outsourcing manufacturing to ensure the cheapest production and then focusing on managing the intellectual property by plowing profits back into marketing and research and development. With franchise companies, he would turn any company-owned stores over to franchisees and again concentrate on building the brand.

"We don't believe that traditional 20th-century supply chains can operate effectively in the U.S. anymore. This is the right business model going forward in a global economy," D'Loren said. "Don't burn up the capital in a place where you can't compete."

As for the Aether brand, D'Loren said the company plans to retain the name for the time being.

But, he said, "I would say we're really looking at all of our options now."

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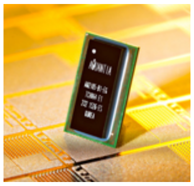

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