

# Defense & Government Services

SPRING 2011 UPDATE



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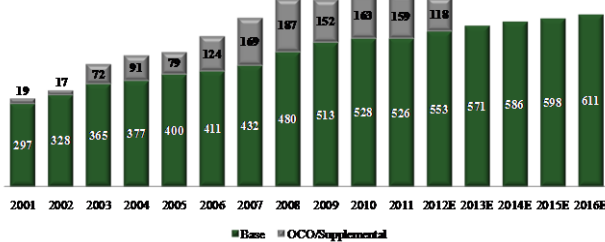
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SPRING 2011: ISOLATING, REINFORCING & EXPLOITING CORE STRENGTHS

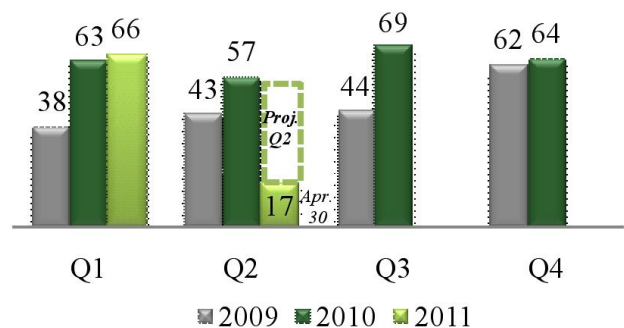
Given US federal budget uncertainties and volatility in the geopolitical climate, large and small companies alike in the defense and government services sector spent early 2011 focused on their core competitive advantages and taking steps to exploit them in the marketplace. Such strategic divestitures as Lockheed Martin’s sale of PAE and Northrop Grumman’s spin-off of Huntington Ingalls (both discussed below) helped companies hone their core strengths and alleviate potential Organizational Conflicts of Interest (OCI), while providing cash for future targeted acquisitions to reinforce those capabilities, customer relationships and access to key contract vehicles in selected areas.

Meanwhile, buyers envisioned significant growth opportunities in divested assets that might enable them to operate more efficiently and/or grow more rapidly on a standalone basis. Corporate assets deemed superfluous by current owners constituted an ideal opportunity for acquirers seeking to take their firms to the next level. To paraphrase an old saying, “one company’s excess is another firm’s treasure.”

Historical & Forecast DoD Spending(\$B)<sup>1</sup>



# of Announced Deals<sup>2</sup>



Driven by a “perfect storm” of economic, political and military factors, the federal budget continuing resolution tug-of-war drew substantial public attention in early 2011. In April 2011, Congress agreed to set the total 2011 spending level approximately \$38 billion below actual 2010 figures. For DoD specifically, President Obama’s proposed 2012 budget includes \$553 billion in core spending (a 5% increase vs. FY2011) and \$118 billion in Overseas Contingency Operations (OCO) spending to fund ongoing military engagements (a 35% decrease vs. FY2011 that reflects our military drawdown in the Middle East).

<sup>1</sup> FedSources, Inc.

<sup>2</sup> InfoBase, Capital IQ, TMG Research

The defense and government services landscape is undeniably shifting: what that landscape will look like 5, 10 and 15 years from now is uncertain. Senior leadership changes at the Pentagon, CIA and other top military and civilian posts may well signal new strategies and objectives. CIA director Leon Panetta has been nominated to succeed Robert Gates as Secretary of Defense when Gates steps down this summer and General David Petraeus has been nominated to replace Panetta as CIA director after leaving post as the top commander of US forces in Afghanistan. Ryan Crocker, meanwhile, has been nominated US ambassador to Afghanistan. Other key posts currently in flux include the Chairman of the Joint Chiefs of Staff and Deputy Secretary of State.

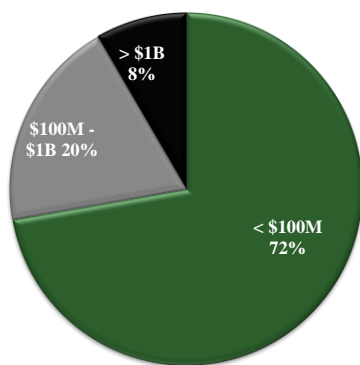
In addition, President Obama’s May 2011 announcement that Osama Bin Laden had been killed during a planned military operation put renewed emphasis on US Intelligence Community missions and special operations while highlighting the critical importance of contractor technologies delivering strategic advantages in the asymmetric battlefield, including: satellite imagery, biometrics, sensors and UAVs.

## M&A ACTIVITY TREND ANALYSIS

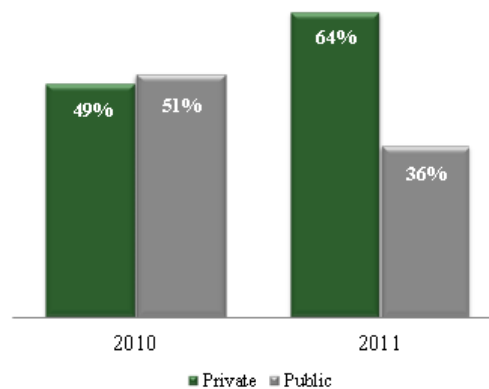
We tracked 66 announced M&A transactions in the Defense and Government Services sector through April 30, 2011 vs. 72 transactions for the prior year period. Thus far, 2011 disclosed transaction valuation multiples tend to be trending upward vs. prior year results: Median EV/Revenue multiples through April 30, 2011 were 1.4x<sup>3</sup>. Note: EV/EBITDA multiples were 9.3x vs. 5.7x during this period in 2010, though there were not enough reported EBITDA multiples for the Spring of 2011 to make this comparison meaningful.

Of the 66 announced transactions, 72% were less than \$100 million in enterprise value while 20% fell between \$100 million and \$1 billion in enterprise value, and 8% exceeded \$1 billion in enterprise value. This reflected an active marketplace for attractive middle market sellers. Privately-held buyers were responsible for 64% of the announced deals while publicly-traded firms accounted for the remaining 36%. During the same period in 2010, private companies accounted for 49% of the buyers and public companies represented 51%.

### Enterprise Value of Disclosed Deals



### Buyer Profile



<sup>3</sup> Source: InfoBase, Capital IQ, TMG Research

While strategic buyers were responsible for the preponderance of 2011 deals (49 to-date), financial sponsors remained active buyers, closing 17 deals (including both direct platform investments and bolt-ons to existing portfolio companies) vs. 13 deals for the same period in 2010. Private equity activity in the sector can be attributed largely to the attractive, transparent cash flows of many federal contractors and the stability that comes with long-term contracts and ample backlog. These and other factors in turn engender easier access to debt markets when financing larger deals to amplify investor returns.

## SECTOR SNAPSHOT: PRIVATE EQUITY ACTIVITY

### Spin-offs/Take-Private Deals

This Spring, Private equity firms were willing buyers of otherwise attractive divestitures that no longer suited their sellers' core strategic growth plans. Lockheed Martin's divestiture of Pacific Architects and Engineers (PAE), a logistics and operations support contractor, to private equity firm Lindsay Goldberg is a prime example. Lockheed acquired PAE in 2006 when the US' military presence in the Middle East demanded logistics services and base operations support. However, during the last several years, Lockheed – like many contractors – shifted its focus back to its core expertise, information and technology services. That shift did not necessarily diminish the value of PAE to prospective buyers. Declining (or vanishing) DoD Overseas Contingency Operations (OCO) spending has raised some concerns among government contractors over potential future funding challenges for businesses like PAE. However, as demand shifts from military engagement to development and diplomacy missions, PAE's expertise in global capacity building operations and foreign assistance likely will position it well to win upcoming large contracts procured through US Agency for International Development (USAID), the State Department, and other US agencies and global organizations. Lindsay Goldberg perceived an uncertain funding environment as an opportunity to acquire an asset that may become significantly more valuable in the very near term as funding issues are resolved.

While private equity interest in the federal sector traditionally has focused more on industrial-based companies supporting aerospace and defense agencies (given the prevalence of hard assets to borrow against or liquidate, among other reasons), a growing interest in professional services contractors continues in 2011 year-to-date. Providence Equity Partners was the winning bidder in the highly publicized auction for publicly-traded government services firm SRA International in April 2011. Providence paid \$1.9 billion or approximately 12x LTM EBITDA, demonstrating confidence in the Company's growth and ability to produce strong cash flow in coming years amidst federal budget austerity. Similarly, Ares Private Equity acquired GTEC (now renamed Sotera Defense Solutions) in March for \$313 million, a capstone to GTEC's rapid growth (organic and M&A-driven) following its late 2009 IPO. Federal sector interest from such large, diversified private equity firms as Providence and Ares – complementing an existing base of seasoned government contracting investors – is a positive sign. Such deals reflect private equity's continued interest in the federal budget high growth areas most likely to remain sheltered from funding cuts. In addition, Providence/SRA and Ares/GTEC both represent take-private transactions. Mid-sized publicly traded federal contractors face intense pressure from Wall Street analysts and investors to demonstrate consistent quarterly earnings growth despite the fact that the federal contracting sales cycle rarely syncs up with a quarterly growth paradigm. Federal procurement processes can easily span several quarters or more while funding delays and politics can complicate timing even further. Pursuing quarterly growth often proves inconsistent with a federal contractor's otherwise well-designed strategic growth plan and can force management teams to prioritize near-term revenue capture over more attractive long-range opportunities. As a result, some contractors can unlock value and opportunity by shedding the constant pressure from analysts and investors by going private. Additional recent take-private deals include Cerberus' \$1.4 billion acquisition of DynCorp and Veritas Capital's \$527 million deal for CPI International.

Mention should also be made of Northrop Grumman's March 2011 \$1.9 billion spin-off of its Huntington Ingalls Industries shipbuilding arm, originally acquired in 2001. The spin-off relieved Northrop of some potential Organizational Conflict of Interest (OCI) concerns. Meanwhile, investors and analysts alike envision opportunities for Huntington Ingalls to thrive as an independent entity. Northrop can share in the upside while benefiting from increased focus in its core organization.

### Buy-and-Build Platforms

During the first part of 2011, financial sponsors actively pursued buy-and-build platform strategies. For example: Salient Federal (Frontenac platform) acquired Command Information; Jorge Scientific (J.H. Whitney platform) purchased Federal Concepts, and A-T Solutions (CI Capital/Covant platform) acquired Innovative Technology Systems. The platform build-out strategy seeks to create value through synergistic growth opportunities and operational improvement rather than relying solely on financial engineering and leverage to generate a return on investment (which is more common in traditional upper middle market and \$1 billion+ private equity deals). To drive operational improvement and strong growth, financial sponsors are hiring seasoned government contracting executives whose track records reflect proven financial performance and successful M&A and/or IPO exits. J.H. Whitney, for example, enlisted Chris Torti as Jorge Scientific's President after Torti played a key role in Stanley's M&A strategy leading up to its sale to CGI in August 2010. Additionally, Covant hired Dennis Kelly as CEO from Tech Team Global (which was sold to Jacobs Engineering in October 2010) and Debra Ricci as CFO from Allied Defense (which was sold to Chemring in September 2010).

The buy-and-build strategy tends to work best under optimal market conditions, including attractive, high growth sectors with strong demand (e.g. cyber security, data analytics and health IT), combined with buyer/seller valuation alignment and access to credit on reasonable terms. The latter two factors have shifted favorably toward private equity buyers during the past year. Potential tax rate increases and federal budget/macro-economic uncertainties have motivated sellers to come to market with realistic expectations even as debt markets opened back up to eligible borrowers. In addition, sellers have the opportunity for a "second bite at the apple" with most middle market private equity deals being structured using a minority equity stake rolled into the newly acquired (or combined) entity. Accordingly, buyer and seller interests remain aligned as the platform grows and eventually achieves an exit within 3-5 years (hopefully as a larger company at a higher valuation multiple).

In addition to debt markets, public equity markets have become more accessible to private equity. Exiting a platform investment or obtaining partial liquidity through an IPO can be an attractive alternative for financial sponsors in certain situations. Recent examples include such large OCI-conflicted platforms as General Atlantic/KKR's TASC and Veritas Capital's The SI Group (formerly EIG) that may prove unlikely to exit through M&A.

### Private Equity vs. Strategic Buyers

Historically, Strategic buyers have understandably had the advantage in most M&A auctions due to their ability to often pay cash (without a financing contingency) and increase deal valuation by pricing in part of the value of the operational synergies expected to be realized on the revenue and cost sides from the business combination. Lately, however, private equity buyers have fared much better in the auction environment, benefitting from higher leverage in the debt markets enabling them to amplify their fund returns and to bid more competitively in auctions. Private equity fund timing and life-cycle have also influenced some of the aggressive prices paid recently. Many financial sponsors raised large investment funds during the 2006/2007 boom times. During the subsequent recession that followed in 2008 and 2009, these funds struggled to get necessary leverage and to identify attractive deals. As a result, they were not able to deploy the large amounts of capital raised, and are now experiencing substantial pressure from investors (their limited partners). Private equity funds typically have a target holding period for investments (5-7

years on average) before harvesting to seek liquidity. Also, many fund agreements include a provision that a certain percent of the fund's equity must be invested before the firm can start to raise capital for their next fund. These motivating factors have contributed to an increasingly competitive cadre of private equity players in the defense & government services space who have lots of "dry powder" and are willing to pay a premium. This is a trend that should benefit sellers in the sector and continue well into the future.

### Private Equity As Sellers

Year-to-date 2011 has witnessed a fair amount of financial sponsor exits following a strong 2010. Admiralty Partners sold portfolio company Trident Space & Defense to Telecommunications Systems for \$30 million following a 4-year investment holding period. Francisco Partners sold 3e Technologies, from its EF Johnson Technologies platform, to Ultra Electronics for \$31 million (a 4.5 year holding period) and following a 10-year holding period, the Carlyle Group sold Fairchild Imaging to BAE Systems for \$86 million (BAE already owned approximately 9% of the target). Behrman Capital completed a tax-free spinoff of its ILC Dover portfolio company from parent ILC Industries, while concurrently completing a recapitalization of Data Device Corporation (another ILC Industries subsidiary). It is assumed that ILC Dover, which manufactures engineered soft goods for space, defense and homeland security applications—including NASA spacesuits—will function more efficiently and accelerate growth as a focused, stand-alone entity.

Financial sponsor exit activity had a strong start in 2011, and likely will accelerate in the next 12-18 months as investment funds raised during the 2006/2007 boom enter their harvest stages, strategic buyers remain actively interested in established middle market acquisitions, and IPO prospects grow more favorable for larger platforms.

### Venture Capital & Growth Equity

Historically, long federal sales cycles and the prevalence of professional services companies made it difficult for venture capital firms to pursue "venture style" returns in the sector. However, the rise of dual-use technologies having both public and private sector applications has increased activity among earlier stage investors. Best-in-class solutions in such areas as biometrics, health IT and information security are highly attractive in both federal and commercial communities. Venture capital stalwarts Novak Biddle Venture Partners, Paladin Capital and Columbia Capital made 2011 private placements in several leading dual-use technology companies. In-Q-Tel, the CIA's venture capital arm, also remains very active this year, with nine announced private placements in technologies that could benefit the US Intelligence Community. Herndon, VA-based Razor's Edge is another venture capital firm formed to focus on growing companies providing innovative dual-use technologies to the defense, intelligence and homeland security sectors.

Similarly, industry veterans have recognized opportunities for more of a venture/buy-out approach to replicate their past success by forming their own investment funds and making minority or majority investments in high growth defense and government services companies in need of capital. Rick Knop (an experienced federal contracting investment banker) and Leslee Belluchie (formerly SVP and Chief Marketing Officer of Serco) launched FedCap Partners in early 2010 with a mandate to provide \$3 million to \$5 million on average in growth capital to companies in the sector that had reached an inflection point and could benefit from their advice and experience. BlueDelta Capital Partners, founded by former In-Q-Tel Managing General Partner and venture capitalist Mark Frantz and former SRA International Corporate Development executive Kevin Robbins, will invest in promising government technology companies.

Increasing venture investment certainly is a positive indicator for the federal contracting sector's long-term outlook, but the best evidence is found in the success stories—the exits. Novak Biddle, Paladin and Carlyle Venture Partners all were investors in cyber

security firm Command Information, which was acquired by Salient Federal (mentioned above as a Frontenac portfolio company). Alongside private equity exits, we expect successful venture capital portfolio sales to increase during the rest of 2011 and into 2012.

## 2011 SUBSECTOR M&A HIGHLIGHTS

### Data Analytics/Data Fusion

Data analytics solutions companies in the lower middle market were active sellers during the first half of 2011. Proprietary technology-enabled firms providing both software and professional services as part of a comprehensive solution remain attractive to strategic and financial buyers for many reasons, in particular their dual-use potential to meet demand in public sector and commercial marketplaces alike. Federal agencies, whether defense, intelligence or civilian government, need help to integrate and analyze massive amounts of raw data to generate useful information for end users. Intelligence agencies receive data collected domestically and overseas from disparate sources (e.g. biometrics, UAV sensors and streaming surveillance video) that must be converted to intelligence for dissemination to agency leadership and other decision makers. Civilian agencies have similar requirements for data management solutions in areas such as healthcare IT and logistics. Companies in the private sector have strong demand for solutions to track consumer buying habits and manage large databases of corporate information. Most prominent was EMC Corp.'s April 2011 acquisition of NetWitness through its subsidiary RSA Security for an undisclosed sum. NetWitness provides products that capture and analyze network data for both private and public sector entities. This and other acquisitions in the Spring of 2011 followed heavy data analytics M&A activity during 2010, highlighted by HP's acquisition of 3Par and ArcSight, Raytheon's acquisition of Technology Associates, SRA International's purchase of Platinum Solutions and Arlington Capital's buy-out of White Oak Technologies to form its new platform roll-up, Data Technology and Analytics. Of note, there are a number of very large Intelligence Community contracts coming up for re-compete in the next 12 – 18 months which will require the prime to have very strong data analytics capabilities. For this reason, we would anticipate that the consolidation in this sector will continue.

### Physical & Cyber Security Technologies

Demand for biometrics and surveillance technologies has remained robust. BAE Systems closed its \$303 million acquisition of L-1's Intelligence business in February 2011, while French contractor SAFRAN has yet to close its \$1.6 billion deal for L-1's Identity Solutions business due to delays related to the development of a mitigation strategy to satisfy the Council on Foreign Investment in the US (CFIUS). Raytheon closed its \$512 million acquisition of Applied Signal during the first quarter of 2011 and several firms made niche acquisitions in the space, including BAE's purchase of sensor and camera component manufacturer Fairchild Imaging from the Carlyle Group for \$86 million and Teledyne's acquisition of NOVA Research's sensors business. On the cyber security front, ManTech acquired niche contractor TranTech for an undisclosed sum, primarily for access to its attractive position on the DISA ENCORE II contract vehicle. Additionally, Apptis was acquired by a somewhat unlikely buyer: logistics and engineering contractor URS Corp. Finally, as previously discussed, Salient Federal reinforced its cyber capabilities by picking up Command Information from a consortium of DC-area financial sponsors, including the Carlyle Group, Novak Biddle and Paladin Capital Group; and KeyW acquired both JKA Tech. for \$13 million and Forbes Analytics for \$17 million. This completes KeyW's ninth niche federal cyber security acquisition since 2009 as the Company continues its buy-and-build strategy to form a prominent middle market pure play cyber security firm.

## Communications

Federal communication sector consolidation continues, with particular focus on satellite technology and support services companies. Several large, bundled contract vehicles, including DISA and GSA's Future Commercial Satellite Communications Services Acquisition (FCSA), have driven large operators to reinforce their support services capabilities to round out a comprehensive solutions offering. Harris was active this Spring, opportunistically picking up Schlumberger's Global Connectivity Services Business for \$400 million and certain infrastructure assets from Core180 for an undisclosed sum. Similarly, Ultra Electronics purchased 3e Technologies, a wireless security products provider, from EF Johnson Technologies for \$31 million. Kratos Defense & Security acquired mid-sized and publicly traded Herley Industries for \$260 million, while Microsemi outbid Anaren to purchase subsystems provider AML Communications for \$28 million and Veritas Capital closed its \$570 million acquisition of satellite components provider CPI International. At the upper end of the market, 2011's larger deals thus far include Verizon's \$1.8 billion acquisition of data center firm Terremark Worldwide and Level 3's announced \$2.9 billion acquisition of communications solutions provider Global Crossing.

## Health IT

Middle market contractor NCI Inc. diversified its defense and intelligence cyber security and IT engineering focus by acquiring health IT firm AdvanceMed from CSC and DynCorp for \$62 million. AdvanceMed provides investigative services to detect and prevent fraud in the US Medicare system. Harris Corp., another firm traditionally associated with defense and intelligence markets as opposed to civilian agencies, acquired healthcare software firm Carefx from a group of financial sponsors for \$155 million. Carefx develops and integrates proprietary software for workflow management and analytics solutions supporting medical clinics and other healthcare providers.

## Outlook

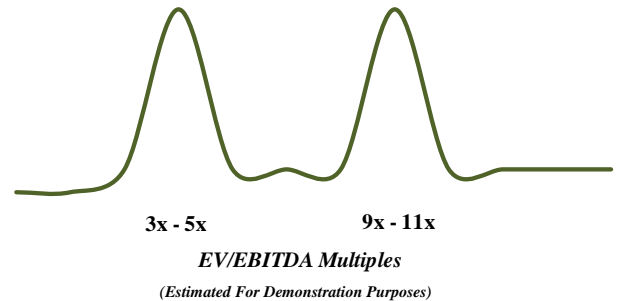
While there is some cause for caution as a result of budget uncertainty/tepid growth and global socio-economic upheaval, there are many reasons to be optimistic about the defense and government services sector. The federal contracting marketplace is large and growing (DoD core spending alone amounts to more than \$550 billion annually). The US Government regularly relies on contractors to develop disruptive technologies and to provide essential support services keeping our military forces, hospitals, laboratories and physical infrastructure safe, operational and effective.

With that said, it is clear that the sector as a whole is headed into a more challenging climate, following explosive growth during the post 9/11 decade. A rising tide lifts all boats. Figuratively speaking, the water level will continue to rise, albeit at a less rapid rate. Accordingly, mid-tier and large contractors need to chart their course strategically and choose their boats wisely to stay above the water line. Larger firms will continue to jettison non-core divisions, creating opportunities for savvy buyers while faster-moving vessels in core growth areas will remain attractive as M&A targets. Their ability to accelerate growth for buyers seeking to reinforce capabilities or add customers and key contract vehicles should maintain valuations as investment dollars continue flowing into the sector.

Along these lines, this Spring we are starting to see a substantial shift in valuation multiples. While historically valuation data tended to form across a bell-shaped curve with a mean in the 6x to 8x EBITDA range, we are starting to see what we would characterize as a bimodal distribution. We are seeing buyers (and as a result, target companies) falling into two camps. The first is buyers who have demonstrated a willingness and ability to pay market premiums to acquire targets they view as particularly attractive – those in cyber security, data analytics, health IT and other high-growth areas. Many of the larger integrators and selected private equity

groups are falling into this category. On the other hand, we are seeing groups who are opportunistically taking advantage of the dynamic defense and government sector to go bargain shopping for those industries that, while not necessarily out of favor, are not currently the flavor of the month. As a result, the 6x to 8x EBITDA valuation range has been rather vacant during the period, whereas this valuation range made up the lion's share of all deals during the past decade.

### Valuation Multiple Bimodal Distribution

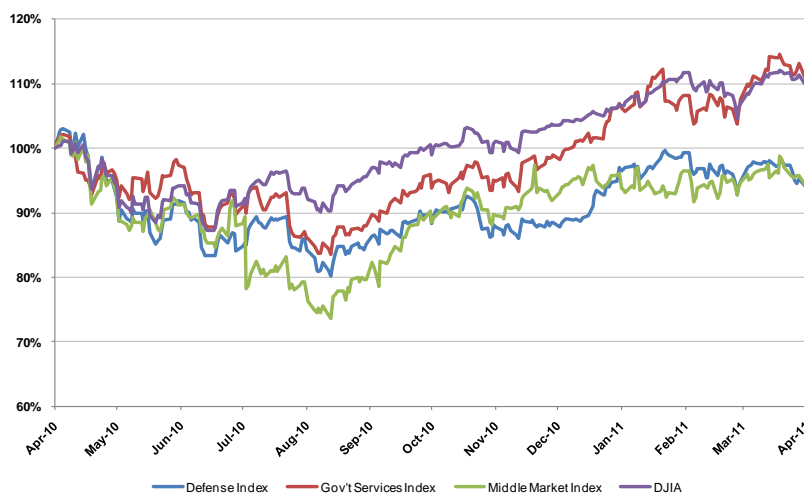


## PUBLIC COMPANY PERFORMANCE & VALUATION

Analyzing trading multiples for comparable public firms can be an effective method for estimating the value of a privately-held business—when used in conjunction with other valuation methods and applying appropriate discounts for size and lack of marketability.

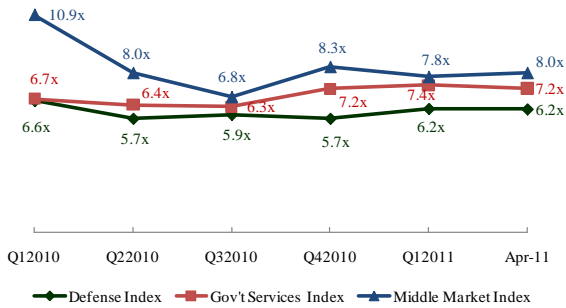
During the trailing 12 months ending April 2011, our Government Services Index closely tracked the Dow Jones Industrial Average, declining approximately 15% in August 2010, but recovering strongly to close April 2011 up 10% from the prior year. Our Defense and Middle Market Indices participated in the same decline ending August 2010, but subsequently did not experience the same recovery, ending April down approximately 5% from the prior year. Uncertainty surrounding the DoD budget outlook for the next several years, particularly for large defense contractors and middle market firms that are heavily exposed to ongoing engagements in Iraq and Afghanistan, contributed to this volatility. Many Government Services firms, on the other hand, benefitted from large contract wins and increased presence in high growth, dual-use technology areas.

### Share Price Performance — Defense, Government Services, Middle Market & DJIA Indices<sup>4</sup>



<sup>4</sup> Index constituents identified on following page

### Median EV/LTM EBITDA Multiples



Median EV/EBITDA valuation multiples for our Government Services Index closed April 2011 at 7.2x, down from 7.4x in the previous quarter and from 6.7x year-over-year. Our Middle Market Index was slightly more erratic, posting a significant quarter-over-quarter increase in Q42010 and then sliding back to end April at 8.0x, slightly above Government Services. Our Defense Index remained relatively flat during the last year, declining from 6.6x to 5.7x in 2010 but then recovering to 6.2x in April 2011.

### “Dry Powder”

Strategic buyer “dry powder” or estimated buying power increased substantially across all of our indices on a year-over-year basis. We estimate “dry powder” to be the product of a firm’s trailing 12 month EBITDA multiplied by the average leverage multiple available in the senior debt markets (we used a 3x multiple for both 2010 and 2011), less net debt (outstanding debt less cash and equivalents). The increase on a YOY basis is largely attributable to stronger EBITDA during the period ending April 2011 vs. the same period in 2010. Extra buying power on balance sheets has enabled strategic buyers to complete a higher quantity of deals as well as pursue larger targets. Boeing’s dry powder, for example, increased by an estimated \$6.3 billion from April 2010 and Northrop Grumman’s increased by \$4.4 billion. As a result, we might expect aggressive M&A activity to continue during the second half of 2011 and into the next year.

### Top Five Dry Powder Gainers & Losers YOY (By \$ Value and % Change)

<u>Company</u>	<u>\$ Value Change</u>	<u>Company</u>	<u>% Change</u>
Boeing	6,278	QinetiQ	1608%
Northrop	4,399	ICF	138%
GD	1,932	Boeing	74%
ITT	704	Northrop	59%
BAE	600	AeroVironment	52%
FLIR	(41)	CSC	-9%
L-3	(412)	L-3	-15%
CSC	(561)	Raytheon	-27%
CGI	(576)	CGI	-30%
Raytheon	(2,808)	KeyW	-176%

Defense Index<sup>5</sup>

Company (\$ Millions)	Enterprise Value	LTM Revenue	EBITDA Margin	EV / LTM		EV / FY11		Prof. EBITDA Growth		Cash & Equiv.	Assets	Net Debt	Book Value	"Dry Powder" Est. 2011	"Dry Powder" YOY Inc/(Dec)
			Rev	EBITDA	Rev	EBITDA	FY11	FY12							
Boeing Co.	\$62,003.5	64,000.0	9.7%	1.0x	10.0x	0.9x	8.9x	8.0 %	28.9 %	7,772.0	68,760.0	3,917.0	4,007.0	14,740.0	6,278.0
Lockheed Martin Corporation	28,795.3	46,099.0	10.3%	0.6x	6.1x	0.6x	6.2x	(4.0)%	10.4 %	3,861.0	36,677.0	1,162.0	3,791.0	13,106.0	249.0
General Dynamics Corp.	27,432.8	32,514.0	13.9%	0.8x	6.1x	0.8x	6.1x	(0.0)%	4.6 %	2,484.0	33,104.0	719.0	13,877.0	12,856.0	1,932.0
Northrop Grumman Corporation	18,354.7	34,577.0	11.4%	0.5x	4.7x	0.7x	5.0x	(4.0)%	(2.5)%	4,091.0	26,790.0	(113.0)	12,677.0	11,909.0	4,399.0
Raytheon Co.	18,806.9	25,192.0	11.3%	0.7x	6.6x	0.7x	5.8x	9.7 %	16.6 %	2,660.0	24,574.0	951.0	10,053.0	7,560.0	(2,808.0)
L-3 Communications Holdings Inc.	12,357.4	15,657.0	12.5%	0.8x	6.3x	0.8x	6.5x	(4.2)%	(4.2)%	548.0	15,570.0	3,578.0	6,926.0	2,314.0	(402.0)
ITT Corporation	11,185.1	11,177.0	14.9%	1.0x	6.7x	1.0x	6.6x	3.3 %	7.1 %	1,074.0	12,726.0	365.0	4,768.0	4,639.0	703.6
BAE Systems plc	10,833.7	32,940.9	11.1%	0.3x	3.0x	0.3x	2.5x	17.6 %	21.7 %	5,249.4	37,520.5	(482.5)	8,436.3	11,438.8	599.5
Harris Corp.	7,965.0	5,713.1	21.1%	1.4x	6.6x	1.3x	6.5x	10.8 %	13.0 %	885.1	6,029.3	1,188.3	2,496.1	2,420.7	107.1
FLIR Systems, Inc.	5,354.7	1,471.5	29.2%	3.6x	12.5x	3.2x	11.5x	7.7 %	21.9 %	250.2	1,934.0	(250.2)	1,602.7	1,540.0	(40.9)
Alliant Techsystems Inc.	3,266.9	4,842.3	13.2%	0.7x	5.1x	0.7x	5.2x	(3.0)%	0.6 %	702.3	4,443.8	907.4	1,166.1	1,003.3	52.4
QinetiQ Group Plc	1,315.7	2,645.1	9.9%	0.5x	5.0x	0.5x	4.5x	20.7 %	16.5 %	70.7	2,314.6	523.8	612.1	261.7	246.4
Low	1,315.7	1,471.5	9.7%	0.3x	3.0x	0.3x	2.5x	(4.2)%	(4.2)%	70.7	1,934.0	(482.5)	612.1	261.7	15.3
Mean	17,306.0	23,069.1	14.0%	1.0x	6.5x	1.0x	6.3x	5.2 %	11.2 %	2,470.6	22,536.9	1,038.8	5,867.7	6,982.4	6,039.4
Median	11,771.2	20,424.5	12.0%	0.8x	6.2x	0.8x	6.1x	5.5 %	11.7 %	1,779.0	20,072.0	813.2	4,387.5	6,099.5	5,722.7
High	62,003.5	64,000.0	29.2%	3.6x	12.5x	3.2x	11.5x	20.7 %	28.9 %	7,772.0	68,760.0	3,917.0	13,877.0	14,740.0	12,857.0

Government Services Index

Company (\$ Millions)	Enterprise Value	LTM Revenue	EBITDA Margin	EV / LTM		EV / FY11		Prof. EBITDA Growth		Cash	Assets	Net Debt	Book Value	"Dry Powder" (Estimated)	"Dry Powder" YOY Inc/(Dec)
			Rev	EBITDA	Rev	EBITDA	FY11	FY12							
Computer Sciences Corporation	\$9,117.0	16,161.0	13.9%	0.6x	4.1x	0.6x	4.0x	(4.0)%	5.3 %	1,629.0	15,756.0	1,185.0	7,222.0	5,556.0	(561.0)
SAIC, Inc.	6,751.3	11,117.0	9.6%	0.6x	6.3x	0.6x	6.5x	8.3 %	10.5 %	1,367.0	6,223.0	485.0	2,491.0	2,722.0	87.0
CGI Group, Inc.	6,451.9	4,285.4	18.1%	1.5x	8.3x	1.4x	7.3x	34.2 %	42.0 %	86.3	4,696.5	961.4	2,271.0	1,371.8	(576.0)
KBR, Inc.	4,975.1	9,623.0	5.8%	0.5x	8.9x	0.5x	7.8x	18.8 %	32.3 %	788.0	5,467.0	(682.0)	2,289.0	2,350.0	(1.0)
URS Corporation	3,693.1	9,177.1	6.9%	0.4x	5.9x	0.4x	4.9x	18.7 %	23.7 %	573.7	7,351.4	129.1	4,200.9	1,760.9	392.3
CACI International Inc.	2,158.1	3,463.3	8.1%	0.6x	7.7x	0.6x	7.4x	18.2 %	26.7 %	98.3	2,270.4	310.6	1,260.7	533.7	168.4
ManTech International Corporation	1,732.1	2,717.3	9.4%	0.6x	6.8x	0.6x	6.5x	9.7 %	15.5 %	73.0	1,692.2	127.0	1,006.3	640.4	129.5
Cubic Corporation	1,163.0	1,297.3	10.1%	0.9x	8.8x	0.9x	8.8x	10.1 %	16.9 %	293.3	912.5	(277.0)	516.9	671.5	51.2
Low	1,163.0	1,297.3	5.8%	0.4x	4.1x	0.4x	4.0x	(4.0)%	5.3 %	73.0	912.5	(682.0)	516.9	533.7	(576.0)
Mean	4,505.2	7,230.2	10.2%	0.7x	7.1x	0.7x	6.7x	14.3 %	21.6 %	613.6	5,546.1	279.9	2,657.2	1,950.8	(38.7)
Median	4,334.1	6,731.2	9.5%	0.6x	7.2x	0.6x	6.9x	14.1 %	20.3 %	433.5	5,081.7	219.8	2,280.0	1,566.3	69.1
High	9,117.0	16,161.0	18.1%	1.5x	8.9x	1.4x	8.8x	34.2 %	42.0 %	1,629.0	15,756.0	1,185.0	7,222.0	5,556.0	392.3

Middle Market Index

Company (\$ Millions)	Enterprise Value	LTM Revenue	EBITDA Margin	EV / LTM		EV / FY11		Prof. EBITDA Growth		Cash	Assets	Net Debt	Book Value	"Dry Powder" (Estimated)	"Dry Powder" YOY Inc/(Dec)
			Rev	EBITDA	Rev	EBITDA	FY11	FY12							
ICF International Inc.	\$552.1	785.0	9.3%	0.7x	7.6x	0.6x	6.8x	15.9 %	28.7 %	6.3	576.3	73.7	362.1	144.6	84.0
Kratos Defense & Security Solutions, Inc.	538.5	462.6	9.5%	1.2x	12.2x	0.8x	5.4x	155.7 %	131.6 %	10.8	536.1	216.2	169.9	NA	NA
AeroVironment, Inc.	463.3	285.8	15.0%	1.6x	10.8x	1.6x	11.1x	7.1 %	34.2 %	161.9	292.9	(161.9)	244.1	290.5	99.9
Comtech Telecommunications Corp.	366.1	814.2	18.8%	0.4x	2.4x	0.6x	3.0x	(13.6)%	(47.0)%	593.3	998.6	(393.3)	686.2	851.9	280.6
NCI, Inc.	359.7	616.6	7.5%	0.6x	7.8x	0.6x	7.2x	10.8 %	18.9 %	0.8	257.7	25.1	159.2	113.1	21.2
The KEYW Holding Corporation	275.8	108.0	4.7%	2.6x	54.7x	1.3x	10.7x	413.7 %	679.0 %	5.8	205.3	(5.8)	175.1	20.9	48.6
Dynamics Research Corp.	154.1	273.0	9.9%	0.6x	5.7x	0.5x	5.5x	4.1 %	10.2 %	18.6	195.2	1.4	110.3	79.6	25.1
Low	154.1	108.0	4.7%	0.4x	2.4x	0.5x	3.0x	(13.6)%	(47.0)%	0.8	195.2	(393.3)	110.3	20.9	21.2
Mean	387.1	477.9	10.7%	1.1x	14.5x	0.9x	7.1x	84.8 %	122.2 %	113.9	437.4	(34.9)	272.4	250.1	93.2
Median	366.1	462.6	9.5%	0.7x	7.8x	0.6x	6.8x	10.8 %	28.7 %	10.8	292.9	1.4	175.1	128.8	66.3
High	552.1	814.2	18.8%	2.6x	54.7x	1.6x	11.1x	413.7 %	679.0 %	593.3	998.6	216.2	686.2	851.9	280.6

<sup>5</sup> Source: Capital IQ as of April 28, 2011

## SELECTED 2011 M&A TRANSACTIONS

Announced Date	Acquirer	Target	Enterprise Value \$M USD
5/3/11	VSE Corp.	Wheeler Bros., Inc.	220.0
5/2/11	The KEYW Holding Corporation	Forbes Analytic Software, Inc.	16.6
4/27/11	URS Corporation	Apptis Holdings, Inc.	260.0
4/20/11	Arlington Capital Partners	Iron Data Solutions, LLC	NA
4/20/11	Chemring Group plc	GD Armament & Technical Products	90.0
4/18/11	Spacenet, Inc.	CICAT Networks, Inc.	NA
4/15/11	Paragon Systems, Inc.	Security Consultants Group, Inc.	22.0
4/12/11	Z Microsystems, Inc.	Enhanced Video Devices, Inc.	NA
4/12/11	Sanswire Corp.	Global Telesat Corp.	2.5
4/9/11	OptumHealth, Inc.	Logistics Health, Inc.	NA
4/6/11	Microsemi Corp.	AML Communications Inc.	22.9
4/4/11	RSA Security, Inc.	NetWitness Corporation	NA
4/8/11	Artech Information Systems L.L.C.	Edge Professional Services, Llc	NA
4/1/11	Teledyne DALSA, Inc.	Optech Incorporated	NA
4/1/11	Wipro Ltd.	Global Oil and Gas IT Services Business	150.0
4/1/11	Providence Equity Partners LLC	SRA International Inc.	1,795.3
4/1/11	Deltek, Inc	Washington Management Group, Inc.	26.0
4/1/11	The KEYW Holding Corporation	JKA Tech.	13.0
3/28/11	11i Solutions, Inc.	Infinity Technology, Inc.	NA
3/18/11	Teledyne Scientific & Imaging, LLC	Nova Research, Inc.	NA
3/15/11	Embraer Defense and Security	OrbiSat, Radar Division	26.4
3/14/11	COE Group plc	Essential Viewing Systems Limited	7.8
3/10/11	General Physics Corporation	RWD Technologies, Inc., Certain Consulting Business Assets	28.0
3/10/11	Harris CapRock Communications	Core180, Inc., Key Infrastructure Assets	NA
3/9/11	Syntellect Inc.	CosmoCom, Inc.	20.0
3/9/11	Torch Hill Investment Partners, L.L.C.	D-Back Acquisition Co.	NA
3/3/11	Ares Private Equity Group	Global Defense Technology & Systems, Inc.	312.9
3/3/11	Precision Aviation Group, Inc.	Gardner Aviation Specialist, Inc.	NA
3/1/11	Salient Federal Solutions, Inc.	Command Information, Inc.	NA
2/28/11	EnerSys	ABSL Power Solutions Limited	NA
2/25/11	CAE USA, Inc.	Research Triangle Institute, Technology Assisted Learning Unit	NA
2/25/11	NCI Information Systems, Inc.	AdvanceMed Corporation	62.0
2/23/11	NexxLinx, Inc.	Microdyne Outsourcing Inc.	NA
2/22/11	Harris Corp.	Carefx Corporation	155.0
2/22/11	Lindsay Goldberg	Pacific Architects and Engineers Incorporated	NA
2/14/11	Symmetricom Inc.	Brilliant Telecommunications, Inc.	5.8
2/14/11	Anaren Inc.	AML Communications Inc.	22.4
2/14/11	ManTech International Corporation	TranTech, Inc.	21.6
2/10/11	WebQA, Inc.	FOIA Systems, Inc.	NA
2/7/11	Kratos Defense & Security Solutions, Inc.	Herley Industries Inc.	261.0
2/7/11	Cobham plc	Corp Ten International Inc.	24.0
2/3/11	Altarum Institute	Palladian Partners, Inc.	NA
2/3/11	SunGard Data Systems Inc.	PredictiveMetrics, Inc.	NA
2/1/11	Jorge Scientific Corporation	Federal Concepts, LLC	NA
1/27/11	Verizon Communications Inc.	Terremark Worldwide, Inc.	1,841.8
1/21/11	Gardner Group Limited	Blade Tooling Company Limited	1.0
1/21/11	BAE Systems, Inc.	Fairchild Imaging, Inc.	94.2
1/19/11	Hittite Microwave Corporation	Arctic Silicon Devices AS	12.0
1/19/11	Sargent Fletcher Inc.	Telerob Gesellschaft für Fernhantierungstechnik mbH	105.2
1/18/11	Vector Capital	RAE Systems Inc.	98.8
1/18/11	Meggitt plc	HTL/Kin-Tech, OECO, Securaplane, et. alDanaher Corp Subsidiaries	NA
1/18/11	Prudential Capital Group	Hybrid Design Associates, Inc.	NA
1/14/11	BAE Systems Ltd.	Norkom Group Plc	223.0
1/10/11	Teleflex Incorporated	VasoNova, Inc.	55.0
1/10/11	Forensic Technology WAI, Inc.	Swiss-Photonics AG	10.9
1/10/11	Rockwell Collins Inc.	Computing Technologies for Aviation, Inc.	11.0
1/10/11	SenDEC Corporation	API Technologies Corp.	NA
1/7/11	Parker Hannifin Corporation	HDA Acessorios e Equipamentos Ltda.	NA
1/7/11	Curtiss-Wright Corp.	Predator Systems, Inc.	13.3
1/7/11	DRS Sonar Systems, LLC	Advanced Acoustic Concepts, Inc.	NA
1/7/11	Ultra Electronics Defense, Inc.	3e Technologies International, Inc. (fka EF Johnson Technologies)	31.0
1/6/11	Bolt Technology Corp.	SeaBotix, Inc.	30.0
1/6/11	Admiralty Partners, Inc.	Marport Deep Sea Technologies Inc.	NA
1/4/11	Ultra Electronics Holdings plc	Adaptive Materials, Inc.	28.0
1/3/11	A-T Solutions, Inc.	Innovative Technology Systems Inc.	NA
1/3/11	Elbit Systems Ltd.	Pearls of Wisdom Advanced Technologies Ltd.	NA

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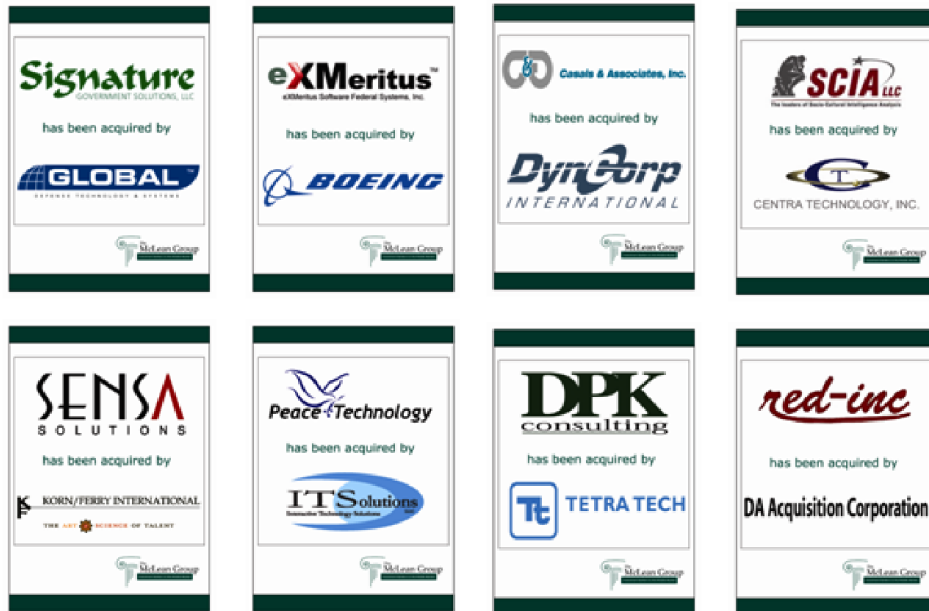
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## THE MCLEAN GROUP DEFENSE & GOVERNMENT SERVICES PRACTICE

The McLean Group's Defense and Government Services (DGS) practice provides sell-side and buy-side mergers & acquisitions advisory and corporate finance services to middle market companies. Led by a seasoned group of senior industry executives and former military officers, our DGS team understands the unique qualitative and quantitative value drivers that impact federal contractors in the marketplace. These factors include: set-aside contracts, security clearances, contract backlog, government audits/compliance and prime/sub issues, among others.

The McLean Group has completed transactions with many of the industry's most prominent strategic buyers and defense/government-focused private equity firms. In addition, we maintain close working relationships with key decision makers at all of the sector's large and mid-tier public and private firms.

### Selected Recent Defense & Government Services Engagements



*“The McLean Group’s ability to test the possibilities in multiple markets and expertise in the acquisition process was truly instrumental in helping Abraxas make the first of hopefully multiple acquisitions in the future.”*

– Wes Husted, CFO, Abraxas Corp.

*“The McLean Group’s industry expertise was invaluable and I was very impressed by the firm’s ability to help us realize and achieve our maximum value. Cameron Hamilton’s professionalism throughout the entire transaction was critical to helping this deal close and I am especially pleased with the end results.”*

– Beatrice C. Casals, President, Casals & Associates

*“The McLean Group provided us the expert knowledge about our industry and the sales process. Furthermore, they had the contacts in the industry allowing us to connect with the right buyer. Both Kathleen Crow and Joe Golden were very professional throughout the entire transaction enabling it to run smoothly from both ends. We were more than pleased with all of the work that The McLean Group put into this deal.”*

– Robin Alman, Owner, exMeritus

*“The McLean Group did an outstanding job working with us to understand our needs, identify the right strategic partner and obtain maximum shareholder value. This deal will provide our loyal customers with additional resources for their project work, and our employees with exciting new opportunities.”*

– Andrew Chen, President, Peace Technology, Inc.

## THE MCLEAN GROUP OVERVIEW

### Advisory Services

#### MERGERS & ACQUISITIONS

The McLean Group has an experienced team of senior investment bankers dedicated to the defense and government space. We had a very strong year in 2010 and 2011 is starting off at an even more aggressive pace. Our seasoned professionals combine in-depth industry knowledge with M&A best practices to help middle market companies achieve their strategic objectives. We work closely with our clients to develop a comprehensive set of strategic alternatives and then evaluate and execute the most suitable approach.

#### BUSINESS VALUATION

As a core competency and complement to its merger & acquisition business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transaction, financial reporting and tax purposes. We are the largest valuation practice in the Mid-Atlantic region, outside the big-four accounting firms. We average over 250 valuations annually, and over 40% of these are for government contractors and defense companies.

#### CORPORATE FINANCE

The McLean Group helps clients determine and implement the most desirable capital structure to support future growth while managing risk effectively. Within the defense and government space, we have unmatched access to both debt and private equity sponsors focused on the sector.

#### MARKET INTELLIGENCE

Our market intelligence group leverages superior competitive analyses and its expertise in the defense and government contracting community to provide executives with comprehensive market intelligence reports which serve to reduce risk and uncertainty in strategic decision making.