



Commitment – Integrity – Performance

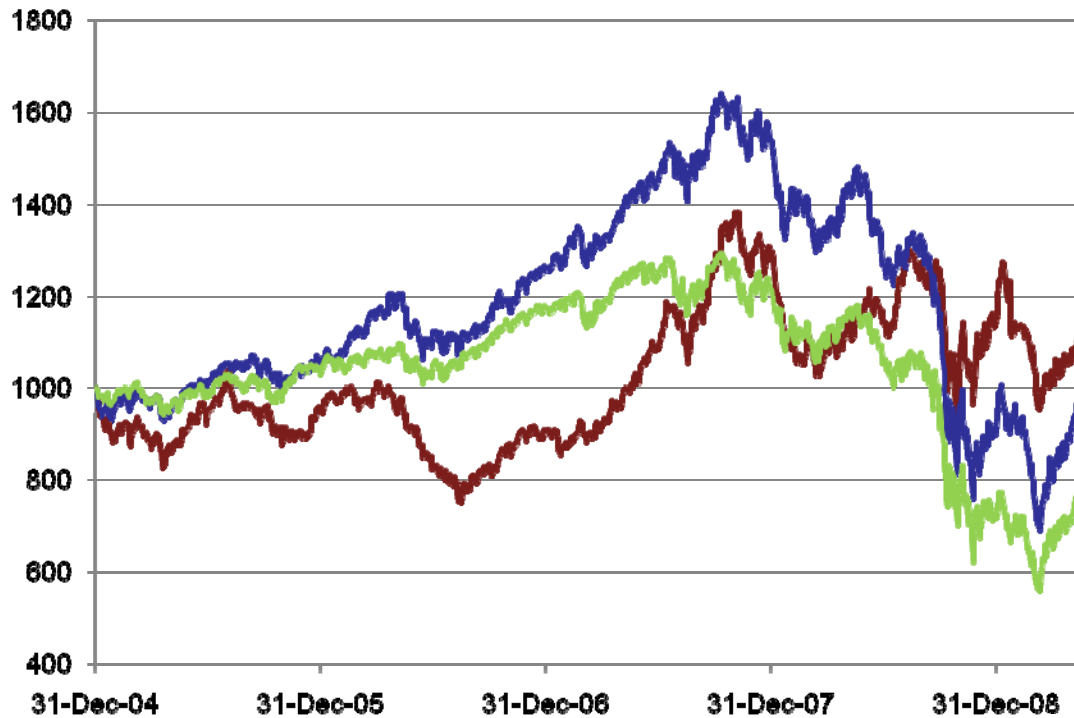
VENTURE MANAGEMENT

Defense Mergers & Acquisitions –
June 2009

Overview

- VMI Index – Federal Services Company Outperform Broader Markets
- Debt and Equity Markets
- Defense M&A
 - '08-'09 Transactions
 - Changes in Contracting/Procurement
 - '09 Defense M&A Outlook

Federal Services Company Outperform Broader Markets

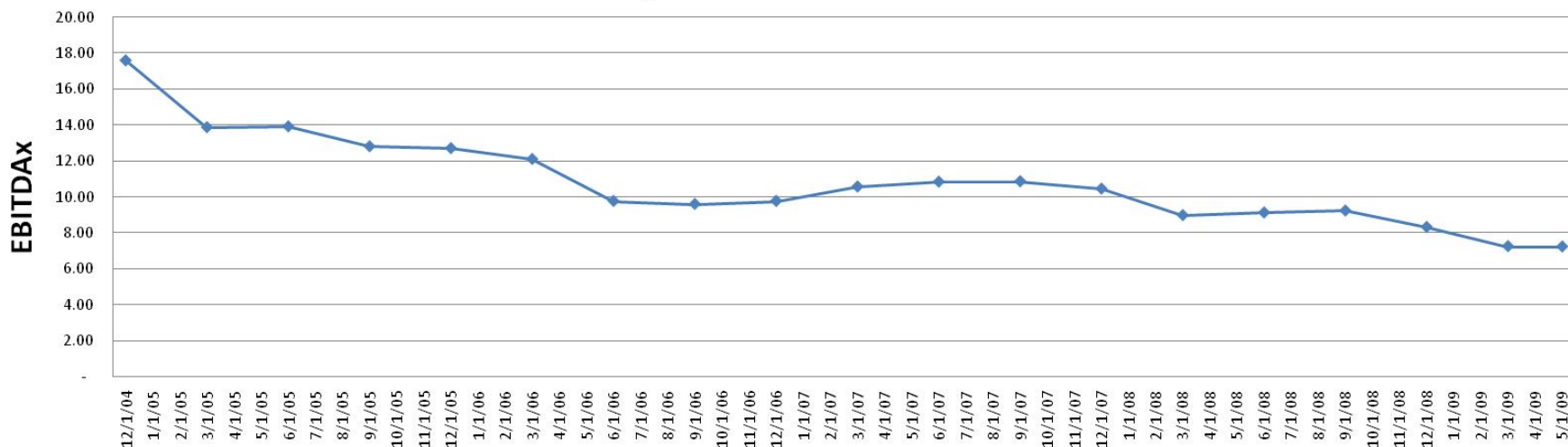


Gain/Loss from <u>12/31/04 Values</u>	
VMI Index:	10.0%
Spade:	-3.7%
S&P:	-23.3%

- VMI PROSERV Index
- Spade Defense Index
- S&P 500

Source: Spade Index, Yahoo Finance and Venture Management

Total Enterprise Value/LTM EBITDA



Name	Ticker	Stock Price*	% of 52 Week High	LTM EBITDAx
Applied Signal Technology, Inc.	APSG	19.20	89.1%	9.39x
ARGON ST, Inc.	STST	18.82	69.0%	9.12x
CACI International Inc	CACI	39.85	74.7%	7.36x
Dynamics Research Corporation	DRCO	8.73	81.2%	5.18x
ManTech International Corporation	MANT	37.41	60.9%	8.07x
SRA International, Inc.	SRX	16.75	68.2%	7.61x
VSE Corporation	VSEC	27.03	56.6%	3.83x

* As of 5/8/09

Source: Capital IQ and Venture Management, Inc.

It's A Lender's Market

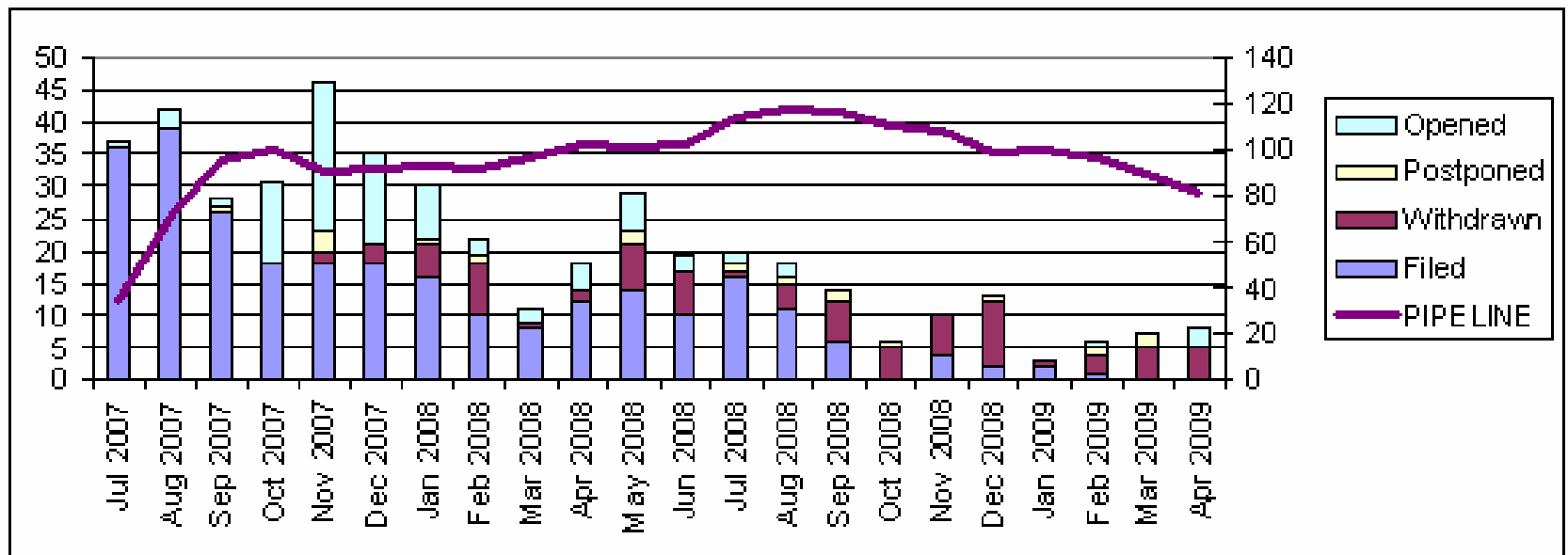
We interviewed senior lenders that finance M&A for defense and federal contractors.

Their current thinking:

- Easier to get smaller deals completed
- Tighter loan terms:
 - More collateral
 - Higher fees
 - Harsher consequences for covenant breaches
 - Shorter term payback periods
 - More equity required in financed M&A deals
 - Greater diligence on contracts, backlog, financials
 - More 'structured' transactions – seller notes, earn-outs
 - Lower multiples on cash flow in determining maximum debt
 - Interest floors instituted on revolvers

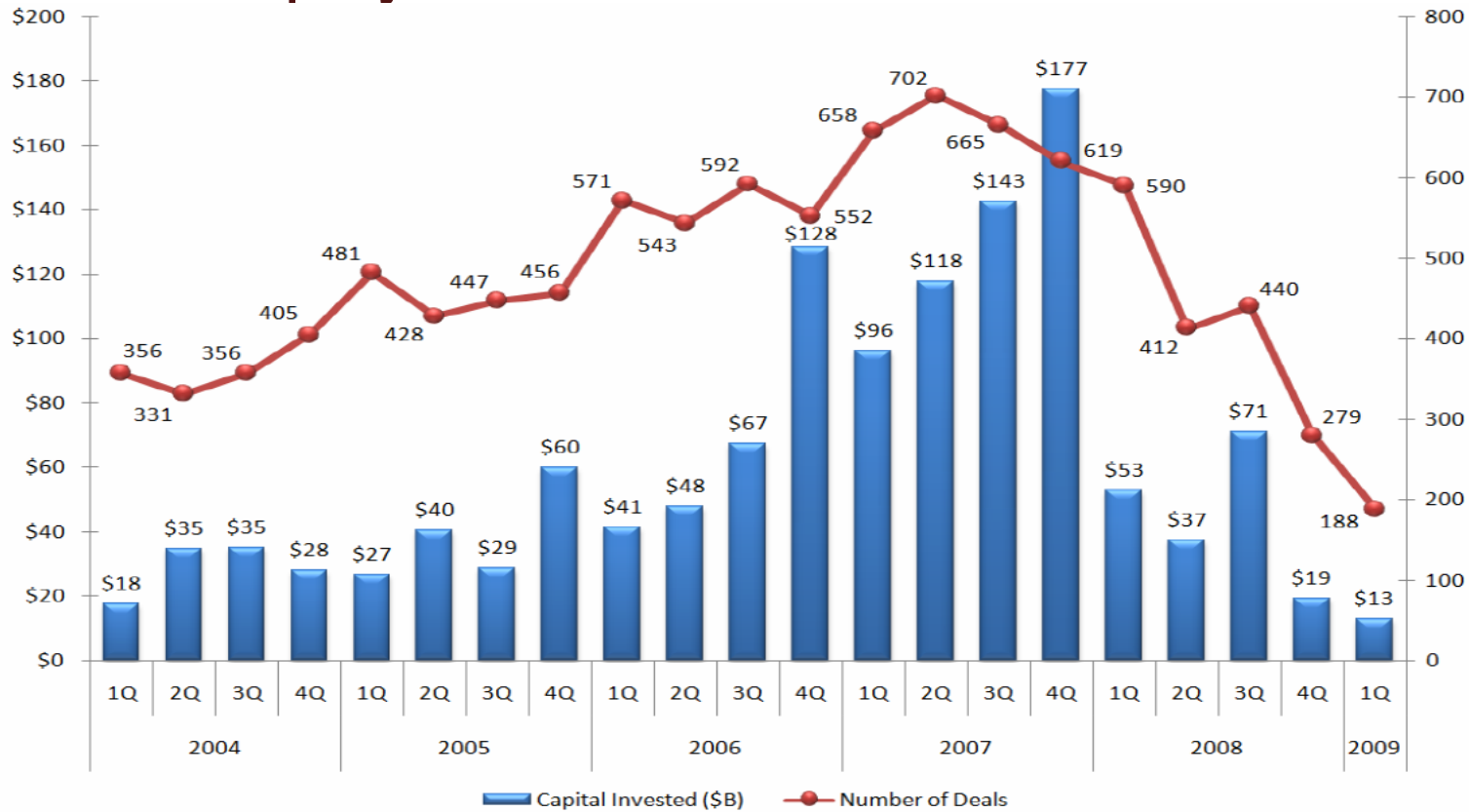
Capital Markets: Public Equity

- IPO Window Closed



Source: IPOBoutique.com

Private Equity Total Deal Flow

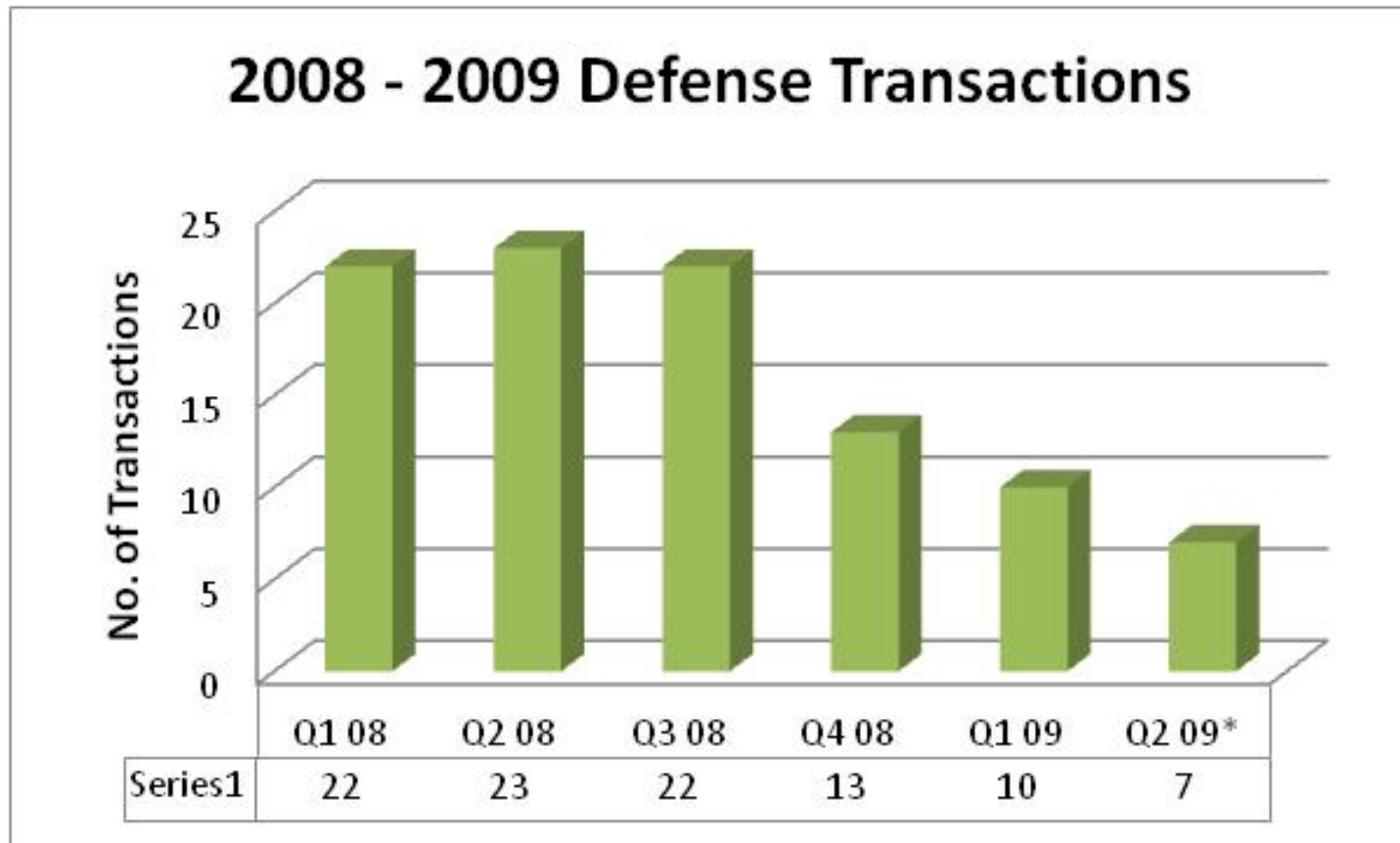


Source: PitchBook Platform

Impact on M&A Transaction Process

- Due diligence
- Bank approval
- 'Structured' Transactions
- Indemnity risk

Steady Decline in Activity



* Through May 15, 2009

Source: Venture Management, Inc.

Changes in Defense Sector

- **Obama Directive:**
 - More full and open competition,
 - Fixed price contracts,
 - Limit government outsourcing
- **Funding priorities** shifting toward
 - Education
 - Energy
 - Environment

Budget/Contract Environment for Federal Contractors

- Transparency
- Accountability
- Small business set-asides
- Tighter sole-source justifications
- DoD: bring more work in-house
- Fixed price contracts
- Funding uncertainties
- Acquisition workforce

Procurement Changes

Stimulus funding

- Quarterly progress reports
- Added disclosure for executive pay

DCAA Policy

- Culture shift
- Penalties for non-compliance

2H09 Outlook for Defense Buyers

- **Private equity groups** still active, waiting for return of debt markets
- **New funds** emerging from prior CEO/founders
- **Larger defense companies**, underleveraged and flush, motivated to acquire
- **Foreign appetite** for US companies

2H09 Outlook for Defense Sellers

- **Small business re-certification** impinges value
- **Mid-tier defense pure-plays** more apt to sell
- **M&A market** increasingly bifurcated, favoring companies with priority sectors/customers and distinguished capabilities
 - cyber-security
 - re-set/logistics
 - military health care IT
 - soft power
 - information assurance
 - intelligence
 - infrastructure
 - Collaboration/interoperability
 - Unmanned surveillance/warfare
 - Stealth technologies

Lots of Buyers of Defense Companies...

- Defense Contractors are flush with cash and excess debt capacity
 - \$41.2B amongst top Tier A&D companies
 - +\$2.1B among publicly traded Government Service pure plays
- Private Equity building pipeline, poised to launch

... but not a lot of deals

Hurdles to closed transactions

- Valuation expectations of sellers
- Banks and investors: less tolerance for risk
- Federal Spending shakeout
- “Time Kills All Deals”
- Hitting tolerance limits on Deal Terms



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