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# NDIA's 5<sup>th</sup> Annual National Small Business Conference

La Jolla, CA  
May 20, 2008



**BB&T** Capital Markets | Windsor Group

## Table of Contents

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<u>Section</u>	<u>Tab</u>
Overview of BB&T Corp. and BB&T Capital Markets	I
Defense and Government Services Market Overview	II

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# I. Overview of BB&T Corp. and BB&T Capital Markets

## Overview of BB&T Corp. and BB&T Capital Markets

### BB&T Corporation

- Headquartered in Winston-Salem, NC
- Member of the S&P 500 (NYSE: BBT)
- 14<sup>th</sup> largest U.S. bank holding company based on nearly \$133 billion of assets
- Market capitalization of approximately \$18 billion
- Nearly 1,500 banking offices and 30,000 employees

### BB&T Capital Markets

- Closed 92 transactions with an aggregate value of over \$47 billion in 2007
- Based in Richmond, VA, with investment banking professionals in Reston, VA; Boston, MA; and La Jolla, CA
- Full-service investment banking platform with industry-focused teams
- Leading middle-market M&A advisor

### BB&T Capital Markets: A Full-Service Middle-Market Platform

#### M&A/Advisory

- Sell- and buy-side advisory
- Fairness opinions
- Middle-market focus
- Industry expertise

#### Corporate Banking

- 17 senior lending officers
- Industry specialization and partners with investment banking
- Over 65 additional banking officers at regional level

#### Equity Underwriting

- 65 investment banking professionals
- IPOs, follow-on offerings
- Industry-focused and aligned with research

#### Focused Research

- 40 equity and fixed income analysts and associates
- Insightful, timely research
- Over 270 companies under equity coverage

#### Debt Capital Markets

- Public offerings of senior, subordinated, and convertible debt
- Asset securitizations
- Specialized tax credits
- Sale/leaseback transactions

#### Sales and Distribution

- 46 equity traders and institutional salespeople
- 140 fixed income traders and salespeople
- Over 250 retail reps in 45 offices

#### Private Placements

- Senior debt, subordinated debt, and equity
- PIPEs
- Second-lien notes

#### Other Financial Services

- Insurance services
- Trust services
- Treasury services
- Wealth management
- Investment services

Our 15 year exclusive focus on the Defense and Government Services markets has resulted in an unmatched track record of industry leadership, expertise, and recognition

### M&A Industry Recognition

- Winner of Middle Market M&A Industry *Professional Services Deal of the Year* in the U.S. for 2007 (DI/Honeywell)
- Finalist for Middle Market M&A Industry Deal of the Year in the U.S. for 2005, 2006 and 2007 (Nortel/PEC, CAS/EDO, Analex/QinetiQ)
- Association for Corporate Growth Investment Bankers of the Year for 2004-2006
- Finalist for Middle Market Investment Bank of the Year (2004)

### Industry Expertise

- BBTCM | WG has the largest and most experienced team dedicated to the government sector and maintains offices across the country to support client needs
- Closed over 300 M&A transactions in the Defense and Government Services sectors with aggregate value exceeding \$10 billion
- Represented nearly 50% of the top 10 "Big Impact" deals each year since 2005 (*Washington Technology*)

### Industry Leadership



### WashingtonTechnology Big Impact Deals of 2005 – 2007

	Buyer	Seller
2007	1 Leonard Green Partners LLP	Scitor Corp.
	2 Northrop Grumman	Essex Corp.
	3 QinetiQ North America	Analex Corp.
	4 National Interest Security Co.	Information Manufacturing Corp; Omen, Inc.
	5 Honeywell International Inc.	Dimensions International
	6 CACI International	Athena
	7 ATS Corp.	Advanced Tech Systems
	8 Perot Systems	QSS Group
	9 L-1 Identity Solutions	Advanced Concepts
	10 ManTech International	McDonald Bradley

	Buyer	Seller
2006	1 General Dynamics	Anteon International Corp.
	2 Alion Science & Technology	Assets of Anteon
	3 L-1 Identity Solutions	SpecTal LLC
	4 Netco Gov't Services	Multimax
	5 Stanley, Inc.	Morgan Research
	6 Lockheed Martin	PAE
	7 EDO Corp.	CAS, Inc.
	8 General Dynamics	FC Business Systems
	9 CACI International	ISS and AlphaInsight
	10 CSC	Datatrak

	Buyer	Seller
2005	1 L-3 Communications	Titan LLC
	2 Nortel Networks Corp.	PEC Solutions
	3 QinetiQ Ltd.	Apogen Technologies
	4 Veritas Capital	DynCorp
	5 Serco Group	RCI Holding Corp
	6 Alion Science & Technology	BMH
	7 SRA International	Galaxy Scientific
	8 Applis, Inc.	SETA Corp.
	9 SAIC	Geo-Centers, Inc.
	10 Indus Corp.	AB Floyd / Halifax Corp.

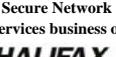
Track Record of Success – M&A Transactions 2007-2008

- 21 transactions aggregating over \$1.5 billion of value

 <p>has been acquired by</p> 	 <p>is being acquired by</p>  <p>Pending</p>	 <p>is being acquired by</p>  <p>Pending</p>	 <p>has been acquired by</p> 	 <p>has been acquired by</p>  <p>a Lake Capital Portfolio Company</p>	 <p>has been acquired by</p> <p>National Interest Security Company LLC</p> <p>a company controlled by</p> 	 <p>has been acquired by</p> <p>The Amey Group</p>
 <p>Information Manufacturing Corporation</p> <p>has been acquired by</p> <p>National Interest Security Company LLC</p> <p>a company controlled by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> <p>National Interest Security Company LLC</p> <p>a company controlled by</p> 	 <p>has been acquired by</p>  <p>an employee owned company</p>	 <p>has been acquired by</p> 	 <p>Smart Thinking at Work</p> <p>has been acquired by</p> 
 <p>has been acquired by</p> 	 <p>has acquired</p> 	 <p>a wholly-owned subsidiary of Dimensions International, Inc.</p> <p>has been acquired by</p> <p>WC Holding, Inc.</p>	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p>  <p>BB&amp;T Capital Markets   Windsor Group rendered a fairness opinion to the Special Committee of the Board of Directors of SFA, Inc.</p>	 <p>has been acquired by</p> 

Track Record of Success – M&A Transactions 2005-2006

- Over \$3 billion in value in Defense and Government Services transactions

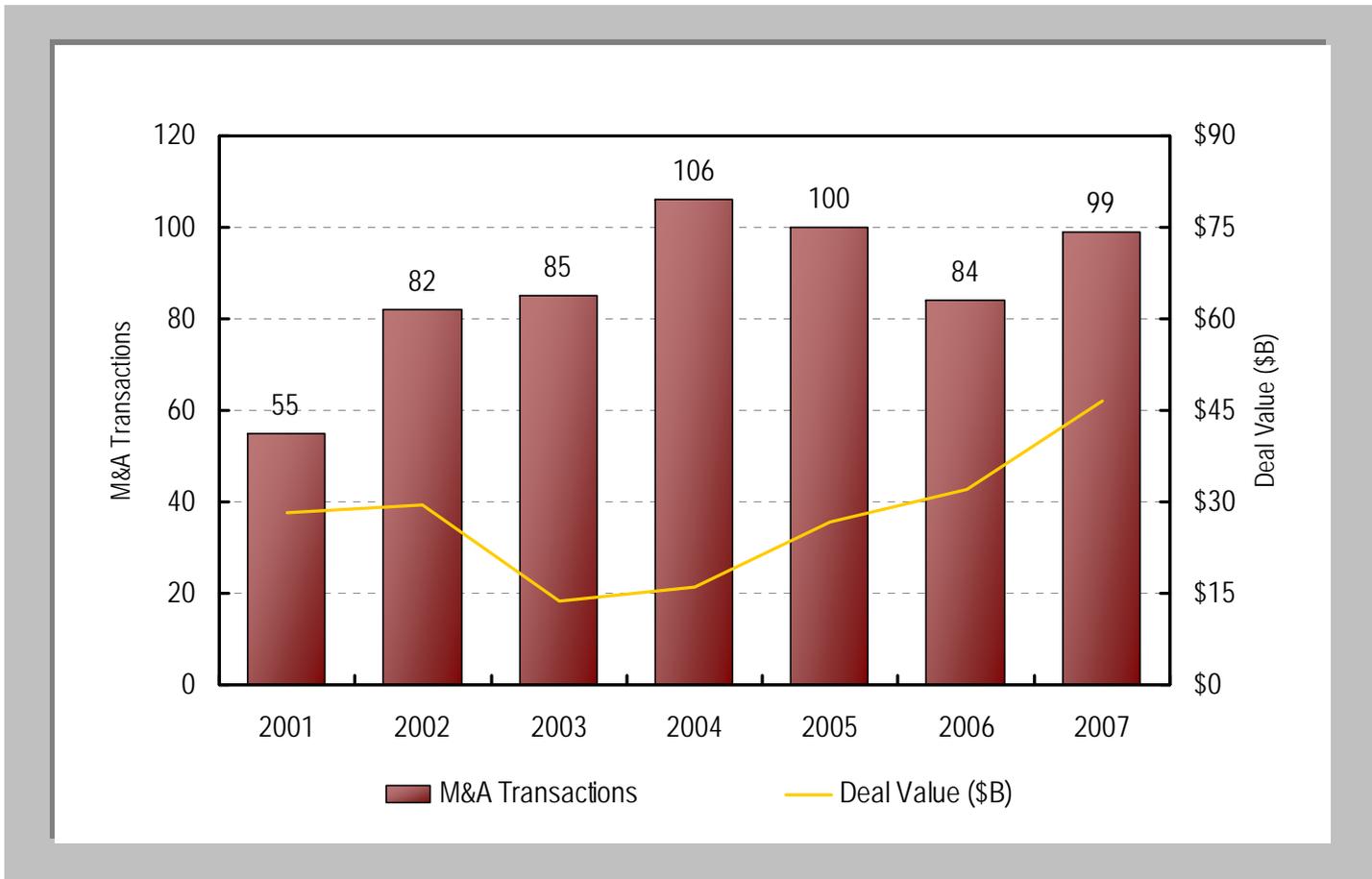
 McDONALD BRADLEY has acquired certain assets of  SPS Software Performance Systems, Inc.	TRAWICK & ASSOCIATES AN INFORMATION TECHNOLOGY COMPANY has been acquired by  VERITAS CAPITAL The Veritas Capital Fund II, L.P.	 GRS SOLUTIONS has been acquired by  ManTech International Corporation	 PAE has been acquired by  LOCKHEED MARTIN	 CHEMONICS The undersigned provided Financial Advisory Services to Chemonics Int'l BB&T Capital Markets   Windsor Group	 AOT has been acquired by  SAIC	 CAS INC. SYSTEM SOLUTIONS has been acquired by  EDO corporation GLOBAL TECHNOLOGY REACH	SGB Enterprises Inc. has been acquired by <b>Ascolese Enterprises Inc.</b>	 3e Technologies International has been acquired by  EFJ inc.	 Virtual Technology Corporation has been acquired by  Raytheon
 ENERDYNE Technologies, Inc. has been acquired by  ViaSat	 Multimax has been acquired by  Netco GOVERNMENT SERVICES	 OSEC OCEAN SYSTEMS ENGINEERING CORPORATION has been acquired by  APOGEN TECHNOLOGIES A QinetiQ Company	 BMH BMH Associates, Inc. has been acquired by  ALION SCIENCE AND TECHNOLOGY	 OPTIMUS CORPORATION Recapitalization Buy-out of majority equity holders Optimus  AVIEL	 TCS Design & Management Services has been acquired by  L3 communications	 FCBS has been acquired by GENERAL DYNAMICS	 NEXGEN COMMUNICATIONS has been acquired by  EDO corporation GLOBAL TECHNOLOGY REACH	 LEADS Corporation has been acquired by  ITS	 ITSolutions Business Technology Solutions has been recapitalized by the edgewater funds
 DLT SOLUTIONS INC. has been acquired by DLT Solutions Holdings, Inc. in a MBO	 CALIBER has been acquired by  ICF CONSULTING	 OPTIMUS CORPORATION has acquired  PMC	 ZKO INC. has been acquired by  McNeil Technologies a Veritas Capital Company	 McDONALD BRADLEY has acquired  INFODATA	 UTD INC. has been acquired by  Raytheon	Secure Network Services business of  HALIFAX CORPORATION has been acquired by  INDUS CORPORATION Knowledge-Based Solutions	 Galaxy Scientific Corporation has been acquired by  SRA INTERNATIONAL INC.	 INDUS CORPORATION Knowledge-Based Solutions has acquired  ARFlowd	 ManTech International Corporation has acquired  GRAY HAWK SYSTEMS INCORPORATED
 NORTEL has acquired  PEC Solutions, Inc.	 CODEM has been acquired by  DRS TECHNOLOGIES	 MAYA-VIZ has been acquired by GENERAL DYNAMICS	 Com Global Systems, Inc. has been acquired by  ANALEX CORPORATION	 Spacelink INTERNATIONAL has been acquired by  ES&I Engineered Support Systems, Inc.	 SETA Enterprise Enterprise Solutions has been acquired by  APTIS	 i2 has been acquired by  ChoicePoint	The Environmental Technology business of  ManTech International Corporation has been acquired by  ALION SCIENCE AND TECHNOLOGY	 CHM has been acquired by  FCBS	 SYTEL has been acquired by  TechTeam. We support IT

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## II. Defense and Government Services Market Overview

## Defense and Government Services Market Overview

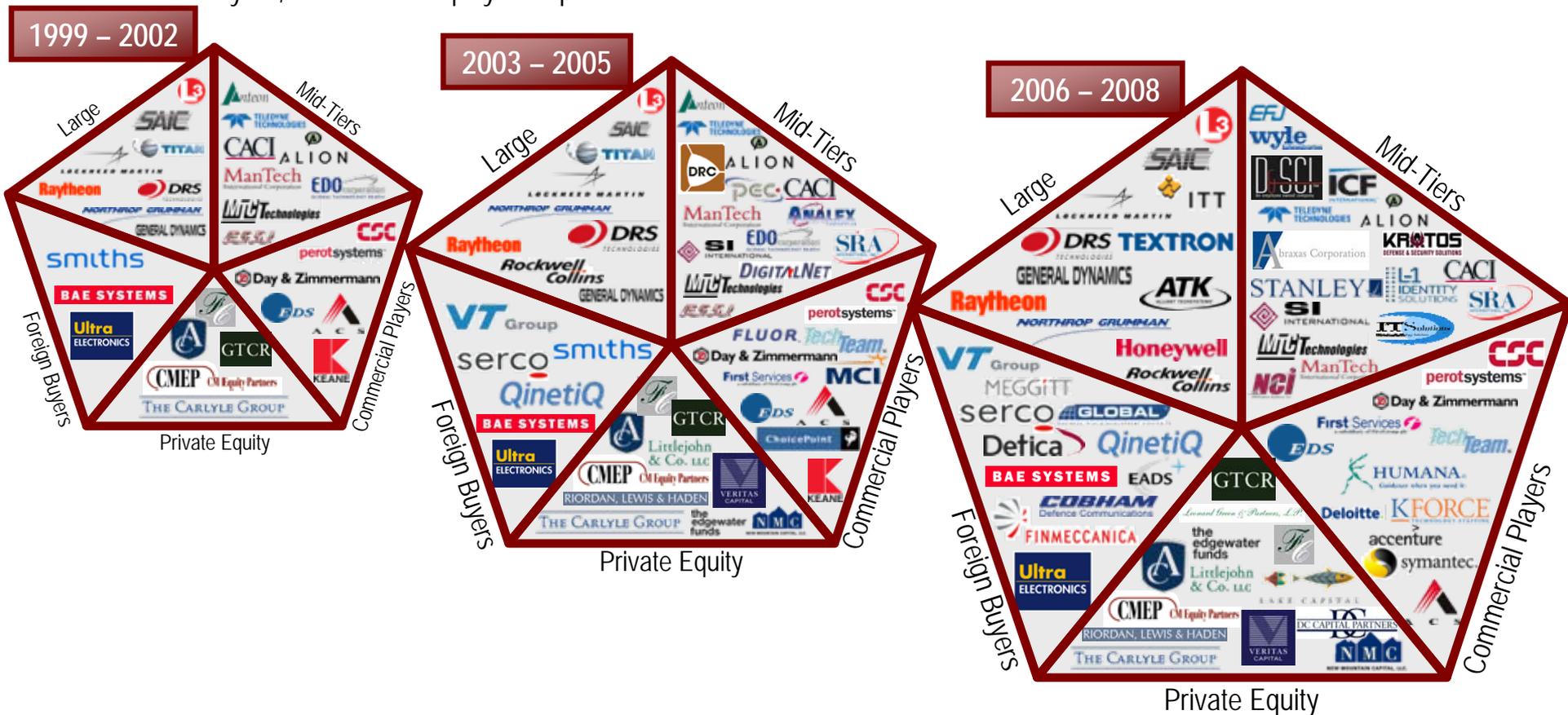
- Deal volume in the Defense and Government Services market has been robust during the past several years, driven by strong defense spending, access to capital, a strong supply of attractive acquisition targets, and a dramatically increasing universe of buyers



Source: Washington Technology, DM&A, and BB&T Capital Markets | Windsor Group proprietary research

## Defense and Government Services Market Overview

- The universe of active acquirers for Defense and Government Services companies has continued to evolve and expand throughout several years of industry consolidation
  - There are nearly 180 discrete buyers that have made at least one acquisition of a government contractor in the last three years; nearly 120 different companies made at least two or more acquisitions
  - Buyers fall into five distinct categories – Large Contractors, Mid-Tier Contractors, Foreign Buyers, Commercial Players, and Private Equity Groups



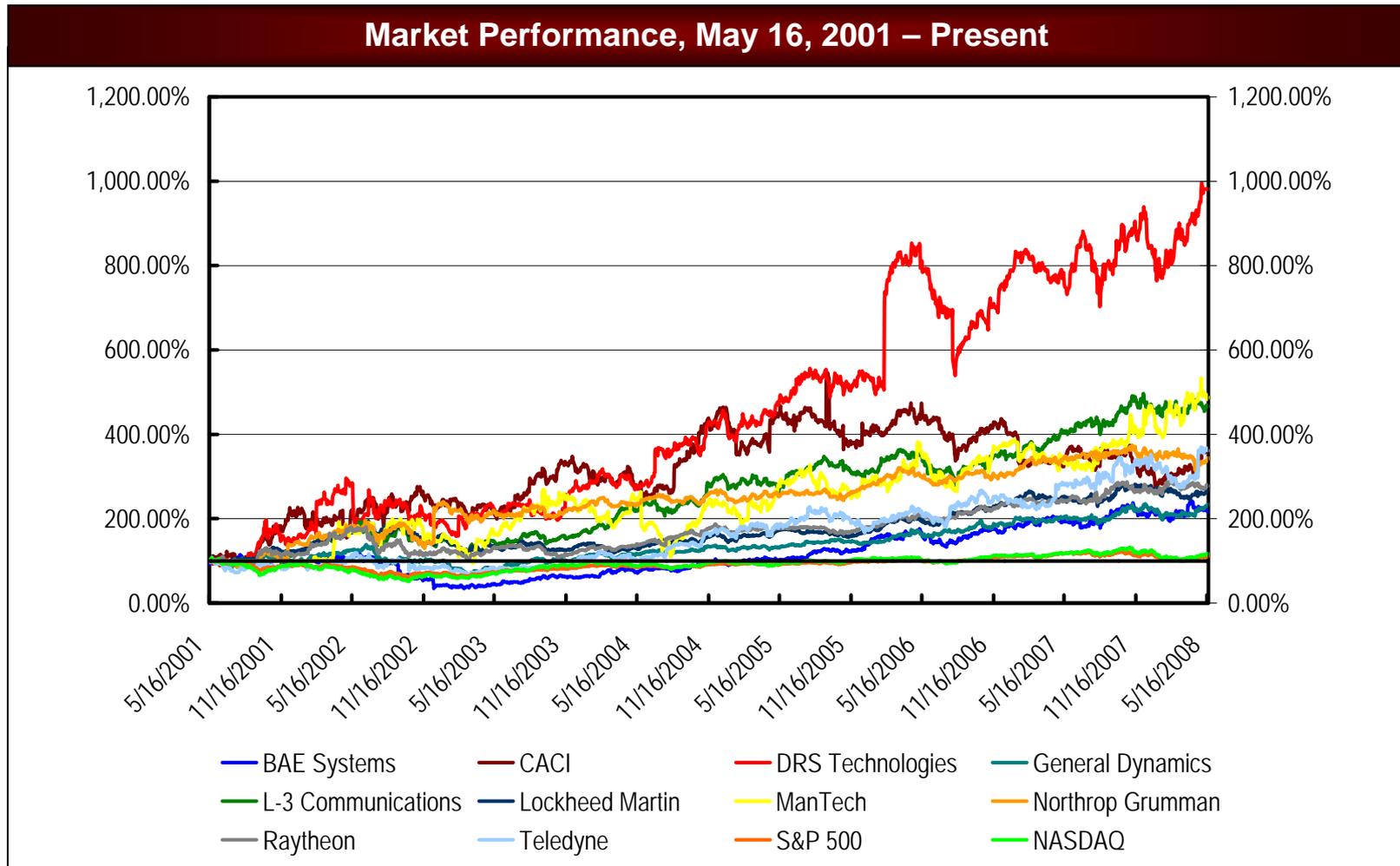
## Defense and Government Services Market Overview

- Private Equity Groups have shown tremendous interest in the Government Services market and now account for a significant share of M&A transactions

Private Equity Group	Selected Portfolio Companies
Arlington Capital Partners	Apogen (Sold); Woven Electronics; TSI Group; NLX (Sold); SECOR (Sold)
Behrman Capital	Hunter Defense (Sold); ILC Industries
Berkshire Partners LLC	AmSafe Partners
Brazos Private Equity Partners	Comark Building Systems (Sold)
The Carlyle Group	Booz Allen Hamilton [U.S. Gov't Business]; ARINC; QinetiQ (IPO); BDM (IPO / Sold); Federal Data Corp (Sold); United Defense (IPO/Sold); EG&G (Sold)
Caxton-Iseman Capital	Anteon (IPO/Sold); Covant
Cerberus Capital	IAP, Multimax / Netco (Sold)
CM Equity Partners	ICF (IPO); RCI (Sold); Laguna Ventures (Oak Hill Group); Preferred Systems Solutions; AverStar (Sold)
DC Capital Partners	NISC (Edge Consulting; IMC; Athenyx); Omen; TMS; NISS
Edgewater Funds	ITSolutions (ITEQ)
Frontenac	SI International (IPO)
General Atlantic	SRA International (IPO)
Greenbriar Equity Group LLC	AmSafe Partners
GTCR	SystemsNet; DigitalNet (IPO/Sold)
J.F. Lehman & Co.	Atlantic Marine; Atlantic Inertial Systems; Elgar Electronics (Sold); Racal Instruments (Sold); McCormick Selph (Sold)
Kelso & Co.	Overwatch Systems (Sold)
Kohlberg & Co.	Allied Aerospace (Sold)
Lake Capital	NetStar-1
Leonard Green & Partners, L.P.	Scitor
Littlejohn & Co.	Wyle Labs
Monitor Clipper	Veridian (Sold); Olive Group
Metalmark Capital	Hunter Defense
New Mountain Capital	Apptis
Pine Creek Partners	Engineering Support Personnel
Providence Equity Partners	USIS
Relativity Capital	Nivisys; Berkshire Manufactured Products
Riordan, Lewis & Haden	ITS Corp. (Sold)
Silver Lake	i2 [ChoicePoint]
Thayer Capital	Quadel Consulting; TEAC Aerospace (Sold)
Veritas Capital	DynCorp (IPO); McNeil Technologies (ZKD; Trawick; Vistar); Vangent; Athena (Sold); Wornick; Aeroflex; IDT (Sold); Vertex (Sold)
The White Oak Group	EOIR Technologies; Dataline; DataPath

## Defense and Government Services Market Overview

- Acquisitions work – Consolidators in the Defense and Government Services sector have created tremendous shareholder value
  - In the last five years, stock price appreciation of leading consolidators has significantly outpaced the broader markets



## Defense and Government Services Market Overview

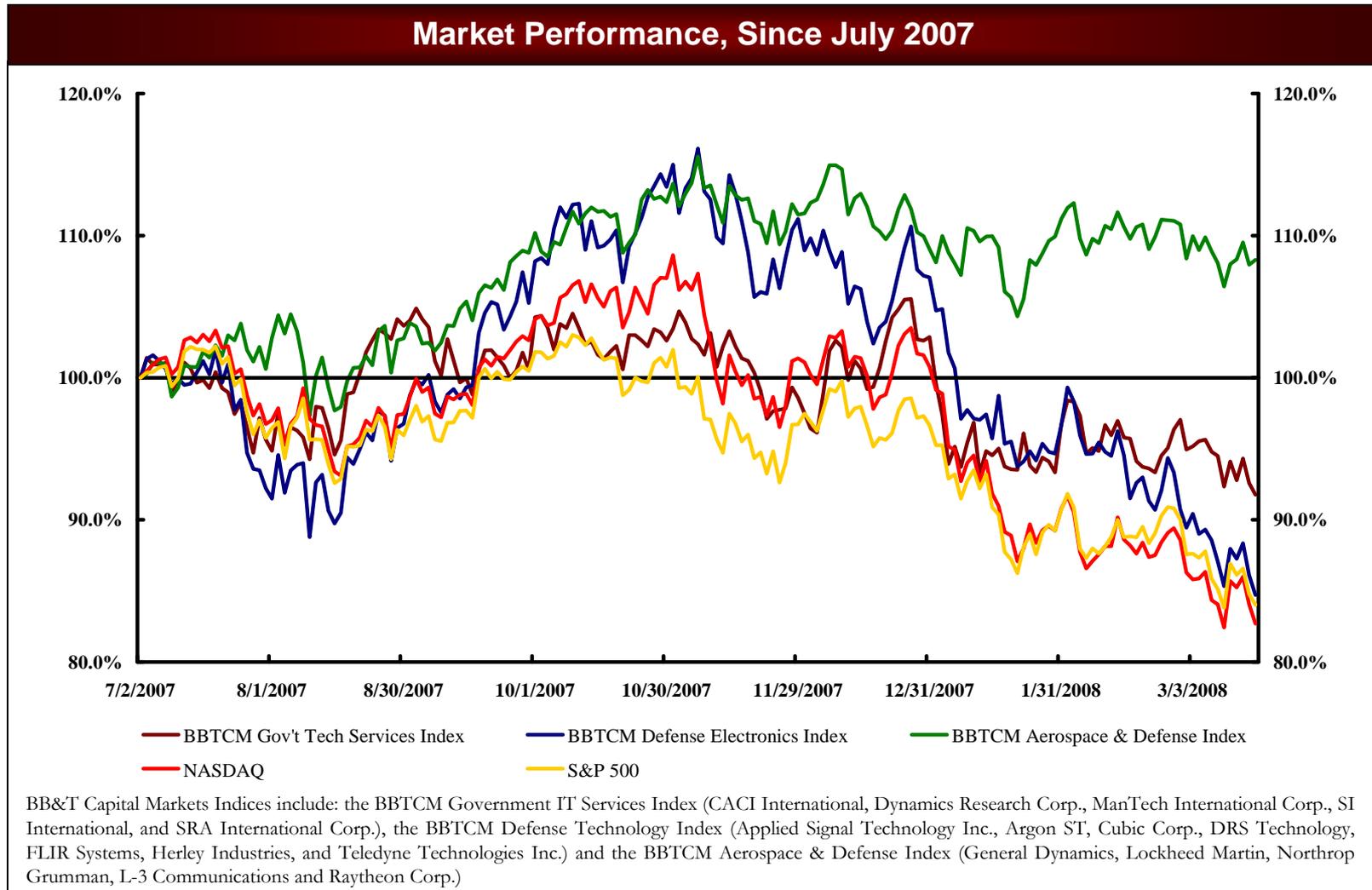
- The Defense and Government Services market has been in a protracted state of consolidation for nearly 20 years. Only a few examples of the most active buyers in just the last three years include:

	<b>CACI</b>	<b>BAE Systems</b>	<b>General Dynamics</b>	<b>L-3 Comm.</b>	<b>Lockheed Martin</b>	<b>SAIC</b>
	<ul style="list-style-type: none"> <li>Dragon Development Corporation</li> <li>Athena Innovative Solutions, Inc.</li> <li>The Wexford Group International</li> <li>Institute for Quality Management, Inc.</li> <li>Sophon Partners Ltd.</li> <li>AlphalInsight Corporation</li> <li>Information Systems Support, Inc.</li> <li>National Security Research, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>MTC Technologies</li> <li>Tenix Corp. (Aust.)</li> <li>Pitch Technologies AB</li> <li>CyberSim (Pty)</li> <li>Information Science Consultants Ltd.</li> <li>Armor Holdings</li> <li>SELEX Sensors and Airborne Systems SpA</li> <li>National Sensor Systems, LLC</li> <li>United Defense Industries Inc.</li> </ul>	<ul style="list-style-type: none"> <li>Mediaware International Pty Ltd. (Australia)</li> <li>WECO Aerospace Systems, Inc.</li> <li>SNC Technologies, Inc. (Canada)</li> <li>Chamberlain Manufacturing Corporation, Artillery Projectile and Mortar Body Business</li> <li>Anteon Corp.</li> <li>FC Business Systems, Inc.</li> <li>Itronix Corporation</li> <li>MAYA Viz Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Northrop - Garland</li> <li>GCS, Inc.</li> <li>Geneva Aerospace</li> <li>Nova Engineering</li> <li>Nautronix Holdings</li> <li>Crestview Aerospace Corporation</li> <li>TRL Technology</li> <li>Medical Education Technologies, Inc.</li> <li>SSG Precision Optronics, Inc.</li> <li>SafeView</li> <li>CyTerra</li> <li>Magnet-Motor GmbH</li> <li>TCS</li> <li>Titan Corp.</li> <li>10 others</li> </ul>	<ul style="list-style-type: none"> <li>Eagle Group</li> <li>PercepTek, Inc.</li> <li>3Dsolve, Inc.</li> <li>RLM Systems Pty Ltd (50%)</li> <li>MSD, Inc.</li> <li>Pacific Architects and Engineers</li> <li>ISX Corporation</li> <li>Savi Technology, Inc.</li> <li>HMT Vehicles Ltd.</li> <li>Aspen Systems</li> <li>Coherent Technologies, Inc.</li> <li>INSYS Limited</li> <li>The Sytex Group, Inc.</li> <li>STASYS Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>SM Consulting</li> <li>Icon Systems</li> <li>Scicom Technologies</li> <li>Benham LLC</li> <li>AMTI</li> <li>AETC, Inc.</li> <li>bd Systems, Inc.</li> <li>Varec, Inc.</li> <li>Cornerstone Industry, Inc.</li> <li>Applied Ordnance Technology</li> <li>GeoViz.com</li> <li>Geo-Spatial Technologies</li> <li>GEO-CENTERS</li> <li>IMAPS, LLC</li> <li>Object Sciences</li> </ul>
<b>Est. Rev. Acquired</b>	<b>\$0.6 B</b>	<b>\$6.4 B</b>	<b>\$2.0 B</b>	<b>\$3.2 B</b>	<b>\$1.0 B</b>	<b>\$0.5 B</b>
<b>Stock Appreciation, 12/31/04 – 5/19/08</b>	<b>(22%)</b>	<b>128%</b>	<b>80%</b>	<b>61%</b>	<b>79%</b>	<b>10%*</b>

\*SAIC appreciation measured from date of IPO in October 2006

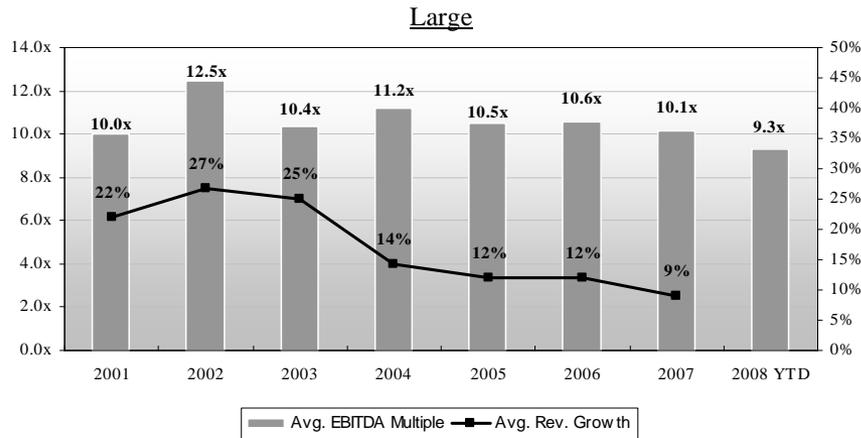
## Defense and Government Services Market Overview

- The larger companies have avoided volatility in the otherwise challenging economic environment; smaller companies in the sector have declined along with the broader market



# Defense and Government Services Market Overview

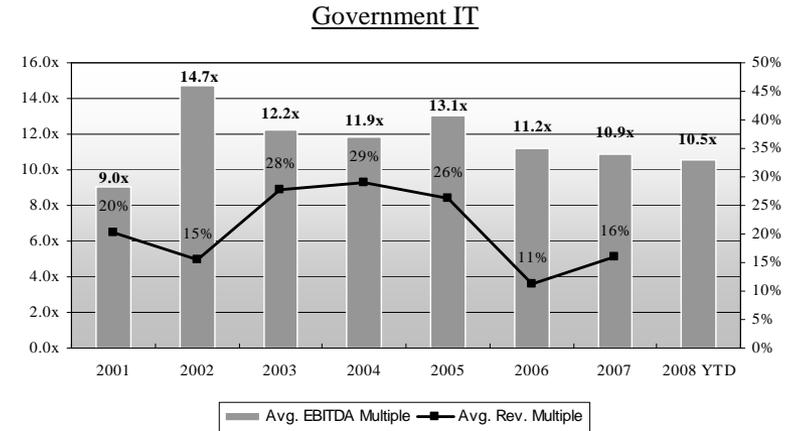
- Valuation multiples for publicly traded Defense and Government Services companies are below post-9/11 peaks and are increasingly under pressure as growth rates decline



Average EV/EBITDA multiples spanning all trading days for each year.

Companies used in calculation:

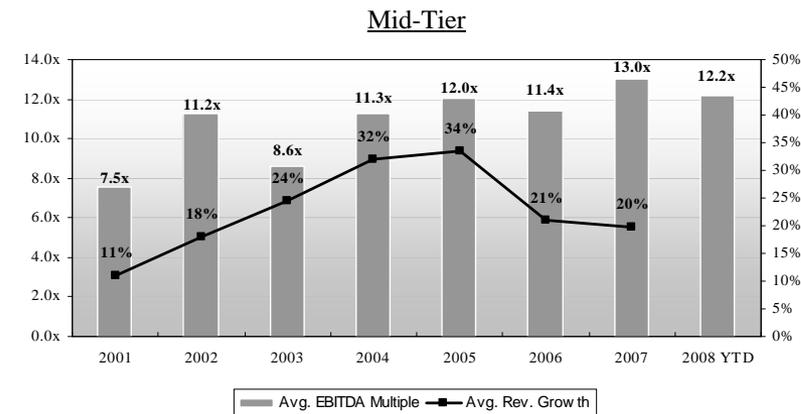
2001 to present: General Dynamics, L-3 Communications, Lockheed Martin, Northrop Grumman, and Raytheon



Average EV/EBITDA multiples spanning all trading days for each year.

Companies used in calculation:

2001: CACI, and Dynamics Research Corp; 2002 to 2004: CACI, Dynamics Research Corp., ManTech, MTC Technologies, SRA International, and SI Int'l; 2005: CACI, Dynamics Research Corp., ManTech, MTC Technologies, SRA International, SI Int'l and NCI Inc.; 2006 to 2007: CACI, Dynamics Research Corp, ManTech, MTC Technologies, NCI Inc., SAIC, SRA International, SI Int'l, and Stanley Inc.; present: CACI, Dynamics Research Corp, ManTech, NCI Inc., SAIC, SRA International, SI Int'l, and Stanley Inc



Average EV/EBITDA multiples spanning all trading days for each year.

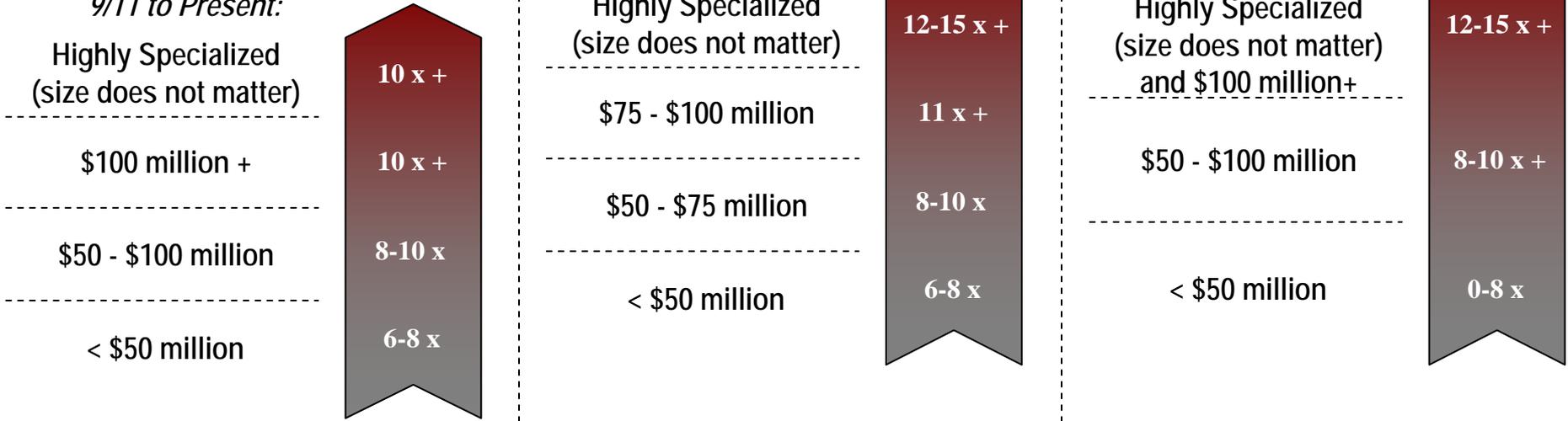
Companies used in calculation:

2001 to 2003: DRS Technologies, EDO Corporation, FLIR Systems Inc., Herley Industries, Inc., Teledyne Technologies Inc., and United Industrial Corporation ; 2004 to 2007: Argon ST, DRS Technologies, EDO Corporation, FLIR Systems Inc., Herley Industries, Inc, Teledyne Technologies Inc., and United Industrial Corporation; present: Argon ST, Herley Industries Inc., DRS Technologies, FLIR Systems Inc., and Teledyne Technologies Inc.

# Defense and Government Services Market Overview

## Evolution of EBITDA Multiples

9/11 to Present:



### Market Characteristics

- Size was an important discriminator
- Multiples were 25-30% higher than pre-9/11 valuations
- Uncertainty around ultimate duration of wars in Iraq and Afghanistan

### Market Characteristics

- Size thresholds fell as supply of larger businesses dwindled and small business rule changes had not taken effect
- Iraq "war tax" began to take its toll on organic growth rates in the sector

### Market Characteristics

- Bifurcation begins to occur, as well-positioned businesses continue to attract strong interest and less attractive companies struggle to find buyers
- Diminished supply of well-positioned targets due to small business issues and high volume of consolidation

9/11/2001

12/31/2005

6/30/2007

Today

## Defense and Government Services Market Overview

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- In the decade of the 1990s, buyers pursued acquisitions to “bulk up” or gain critical mass. Today, acquisitions are pursued to “fill gaps” or gain a presence in attractive growth segments of the market
- Buyers are currently focused on a number of attractive external funding priorities, including:
  - Intelligence Community
    - NISC / Edge Consulting
    - ManTech / McDonald Bradley
    - L-1 / Advanced Concepts
  - Network-centric Solutions
    - Kratos / SYS Technologies
    - Raytheon / VTC / HAI
    - Accenture / Gestalt LLC
  - Information Operations
    - Abraxas / Anonymizer
    - Raytheon / SI Government Solutions
    - Raytheon / Oakley Systems
  - Healthcare IT
    - Vangent / Aptiv Technology Partners
    - SRA / Constella Group
    - NCI / Karta Technologies
    - ICF / Z-Tech
  - Logistics/RESET
    - Lockheed Martin / Eagle Group
    - Honeywell International / Dimensions International
    - BAE Systems / MTC
    - VT Group / AEPCO
  - Training & Simulation
    - SAIC / Icon Systems
    - Lockheed Martin / 3DSolve
  - Nation Building / Peacekeeping
    - Lockheed / PAE3

## Defense and Government Services Market Overview

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- The terms and conditions that help a buyer protect and preserve the value of an acquired business have also swung in favor of sellers
- The current market features some of the following attributes for sellers:
  - Form of Consideration: Largely cash (vs. stock)
  - Earnouts: Not typical, usually milestone driven
  - Escrows: 10%-15% of Purchase Price
  - Indemnity Caps: Approximate Escrow; less often are slightly higher
  - Length of Escrows: 12-24 months
  - Structure: Purchase of Stock (vs. Assets)
  - Working Capital Target: 10-15% pf TTM Revenue
  - Non-Competes: 2-5 years for Principals with a “sunset” provision (vs. from date of termination)  
1-2 years for other key employees
  - Exclusivity after LOI: 7-day rolling basis (vs. 60-90 days)
- In addition, many buyers are willing to “invest” in due diligence without the benefit of exclusivity
  - This increases certainty of closing after exclusivity has been granted and keeps leverage in the hands of sellers

## Defense and Government Services Market Overview

### Merger and Acquisition Environment – Risks

- While M&A valuations remain very strong for attractive companies, there are several factors that could impact valuations in the market

Impact of Downturn in Credit Markets	→	The recent turmoil in the credit markets has resulted in lenders becoming more risk averse and reducing maximum leverage multiples and increasing interest rates. This impacts both the availability and cost of capital, particularly for private equity buyers
Federal Spending	→	Budgetary spending on new weapons systems procurements and transformational initiatives continues to be diverted to support the war effort. In 2007, this resulted in significant contract delays for non-war related procurements
Political Uncertainty	→	The 2008 presidential race will result in a change of administration, which creates uncertainty about future spending priorities
Capital Gains Tax Rate	→	Both Democratic Party candidates have talked of repealing the Bush Tax Cuts to various extents, including potentially raising the capital gains tax rate
Public Equity Valuations	→	Continued volatility in the valuations of mid-tier public companies in the Defense and Government Services market could cause a heightened sense of conservatism among some dealmakers
Procurement Reform	→	The Democrat-controlled Congress has increased emphasis on procurement reform and could roll back or mitigate many of the previous reforms that resulted in a more commercial-like environment for federal contractors

- BB&T Capital Markets | Windsor Group has established a nationwide presence to better serve our clients
- Please do not hesitate to contact us with any follow-up questions

Virginia / Washington D.C. Office

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