

Summer 2009

# Aerospace / Defense & Government Services

*MarketView*



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## Summer 2009 *MarketView*

KippsDeSanto & Co., an investment bank focused on middle-market aerospace / defense and technology companies, is pleased to present the Summer 2009 issue of our Aerospace / Defense & Government Services *MarketView*, a newsletter providing strategic insight into key market dynamics, capital markets developments, and mergers and acquisitions trends impacting participants in the aerospace and defense industry.

Topics covered in this newsletter include:

- Update on current aerospace / defense and government services market conditions
- Discussion of recent defense budget developments
- Public company valuations
- M&A activity and valuations

The current environment offers a unique period of change and challenge for the industry. We hope you find this information helpful and welcome the opportunity to have a more detailed discussion.

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### Operational / Funding Environment

Key themes of the aerospace and defense industry's summer include: (i) the ongoing debate over the Department of Defense's ("DoD's") FY2010 budget and the effort to transform U.S. armed forces to address more irregular threats, and (ii) continued weakness in commercial aerospace traffic and order rates, highlighted by this year's Paris Air Show. As the market weaves its way through the current economic downturn and changing political dynamics, these themes remain important indicators of industry sentiment.

This summer has seen a great deal of activity with respect to the DoD's FY 2010 budget and future military posture. The House of Representatives recently passed a \$636 billion FY 2010 DoD appropriations bill that effectively killed efforts to order additional F-22s. Both Lockheed Martin and the U.S. Air Force did not vocalize much concern over the loss of this platform and both parties will benefit from corresponding increased F-35 attention. As the release of the 2010 Quadrennial Defense Review ("QDR") approaches, predictions for its results have led to speculation about the DoD's strategy moving forward. Thus far, initial analyses estimate that the U.S. military is \$50 – \$60 billion short in regards to its 2010 to 2015 defense plan. So, without additional funding (a long shot considering the various economic pressures impacting the budget), additional cuts will be needed. As the services prepare to submit their 2011 budget plans to the Secretary of Defense, each branch of the military will be tasked with determining which components are essential to its mission, with other items likely to be reduced or eliminated to address this shortfall. Potential winners of any future shifts in funding could include solutions providing irregular warfare tools, such as ISR capabilities as well as rapid insertion, deployment, and extraction capabilities.

The 2009 Paris Air Show illustrated the lingering effects of the tumultuous economic troubles overshadowing the aerospace industry. Many large aerospace / defense companies, in fact, opted not to participate or to significantly decrease their presence at this year's conference. Boeing and EADS have had significant difficulties in their respective 787 and A400M platforms and saw extremely weak orders at the show, down 74% from Farnborough 2008 and 84% from the record orders received at Paris in 2007. Other highlights from the show included the lack of any significant defense announcements and a growing acknowledgement of the overcapacity facing the commercial aerospace industry. As a result, commercial aircraft and business jet manufacturers have continued to decrease their delivery estimates for the intermediate term. While companies in the space remain cautiously optimistic about the long-term prospects for the sector, the lack of near-term visibility continues to weigh heavily on the industry.



**787**



**A400M**

*Boeing and EADS's problems only became more evident at the 2009 Paris Air Show. Both companies have had struggles with leading platforms, including Boeing's 787 Dreamliner and EADS's Airbus A400M. For more details on the Paris Air Show, see page 4.*

## Capital Markets and Public Market Valuation Trends

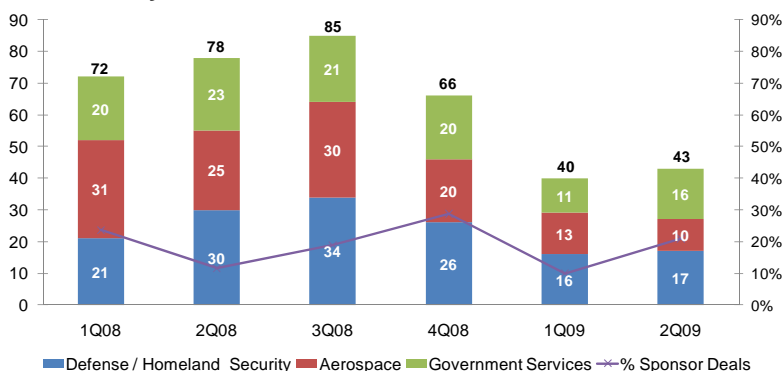
Share prices of aerospace and defense companies surged along with the broader market following the first quarter lows this year. An index of mid-cap defense systems companies increased 29.3% in the second quarter, while an index of mid-cap aerospace companies shot up 33.7%, compared with a 13.3% increase in the S&P 500. This resurgence comes on the heels of the significant decline among aerospace and defense share prices that began in the second half of 2008 and continued through the first quarter of 2009. As of late August, these sectors have continued to climb, with performance increases ranging from up 17.5% for defense primes, to up 47.8% for the aerospace sector. This continued strong performance has resulted in an almost full recovery for government services and defense primes, with aerospace surging to a YTD 15.4% return.

While the sectors still lag behind the all-time highs and robust growth seen throughout the decade, much of the expectations regarding slow growth in future defense budgets and the depths of the aerospace cycle have been priced into the market. Recently released second quarter 2009 earnings have reinforced this understanding. Most defense companies announced earnings that were either in-line or ahead of analysts' expectations as they continue to work off strong backlogs. Companies with commercial aerospace or business aviation exposure have lowered investor expectations throughout this downcycle.

## M&A Trends and Activity

Overall M&A activity in the aerospace, defense and government services sectors has remained quiescent relative to the blistering pace of last year. 43 transactions closed in the second quarter of 2009, compared with 78 closed transactions in the second quarter of 2008. Tight credit markets have been a major hurdle for transaction activity, particularly with private equity groups. Just 13 financial sponsor-backed transactions were closed in the first half of 2009, compared to 26 in the first half of 2008. However, the percent of sponsor-backed deals has started showing signs of life – with 21% of 2Q2009 deals compared to 10% in 1Q2009 –

Quarterly M&A Transaction Volume, 1Q2008 – 2Q2009













lending credence to the idea the worst may have passed with regard to lending. Although company balance sheets remain clean and lightly levered, some acquirers are opting to be selective on the transactions they pursue, conserving their “dry powder” for the right deal opportunity. For 2009 as a whole, M&A activity continues to lag behind 2008, with 83 deals closed, compared to last year’s first half total of 150. As the credit markets begin to thaw, stock prices rebound, and future defense spending priorities crystallize, acquisition activity is likely to bounce back sharply as there is a great deal of pent-up demand among both financial and strategic buyers.

A key theme that has driven some major recent deals and is likely to continue moving forward is defense primes and other large contractors looking to M&A as a means of “gap filling” technologies or capabilities. Two high-profile examples of this trend are General Dynamics’ announced acquisition of Axsys Technologies, a manufacturer of precision electro-optical systems, and Lockheed Martin’s acquisition of Gyrocam Systems, a manufacturer of gyro-stabilized optical surveillance systems.

The overarching theme across the traditional government services buyer universe has been strong interest in targets favorably positioned in well-funded priority areas such as cybersecurity, health IT, energy, and Intel. Laser focus in these priority areas has caused large public companies to snap up targets that would not have moved the needle previously. Moreover, in nascent verticals such as cybersecurity, \$100 million companies are almost non-existent. Thus we are seeing deals such as SAIC’s acquisition of Atlan, a niche cyber player.

## Defense Update

Defense	EPS (Latest Quarter Releases)		
	Estimated	Actual	Full Year Guidance
 <b>BOEING</b>	\$1.21	\$1.41	No Change
<b>GENERAL DYNAMICS</b>	1.57	1.61	↑
 <b>L3 communications</b>	1.77	1.90	↑
 <b>LOCKHEED MARTIN</b>	1.81	1.88	No Change
 <b>NORTHROP GRUMMAN</b>	1.29	1.21	No Change
 <b>Raytheon</b>	1.13	1.24	↑
<b>Aerospace</b>			
 <b>BOEING AEROSPACE</b>	\$0.34	\$0.35	No Change
 <b>CURTISS WRIGHT</b>	0.53	0.54	↓
<b>GOODRICH</b>	1.10	1.15	↑
 <b>Rockwell Collins</b>	0.90	0.91	No Change
 <b>SPIRIT AEROSYSTEMS</b>	0.59	(0.06)	↓
 <b>TRANSDIGM GROUP INC.</b>	0.79	0.87	↑

### EARNINGS RELEASES SHOW IMPROVEMENT FROM FIRST QUARTER

Primes and aerospace suppliers released quarterly earnings recently and overall fared better than in the first quarter, but still below year-over-year levels. Nearly all primes beat guidance, which had been slashed due to uncertainty and a teetering economy. Aerospace fared slightly worse as some suppliers reduced guidance and TransDigm was the sole company experiencing a significant positive earnings surprise.

L-3 Communications announced EPS up 15% from 1Q 2009, but down 14% from the 2Q2008. L-3 benefitted from its focus on technologies that underlie military priorities. The company's C3ISR division revenue increased 24% year-over-year. Boeing reported EPS of \$1.41, up 22% from 2Q2008, reflecting improvement from the impact of concerns about the overall economy. The aircraft manufacturer was plagued by further delays of the 787 Dreamliner, but its acquisition of Vought's South Carolina operations is expected to help shore up some of these issues.

In the aerospace sector, Spirit AeroSystems suffered an EPS loss of \$0.06, as compared to a gain of \$0.62 during the same period last year. This significant shortfall led to guidance revised lower for the remainder of 2009. Conversely, TransDigm beat estimates by \$0.08 per share. Coupled with the strong margins seen year-to-date, the company revised guidance upwards, and now projects full year EPS of \$3.18 – \$3.24, versus previous estimates of \$3.01 – \$3.13.



**M-ATV**



**F-35**

*Oshkosh was awarded over \$2 billion to provide M-ATVs for the growing conflict in Afghanistan. Competitor and MRAP manufacturer Force Protection took a 34% stock price hit after losing the contest. Lockheed Martin's F-35 program came away the winner as the air-to-air fighter F-22 was scrapped in favor of the more versatile, multi-role fighter.*

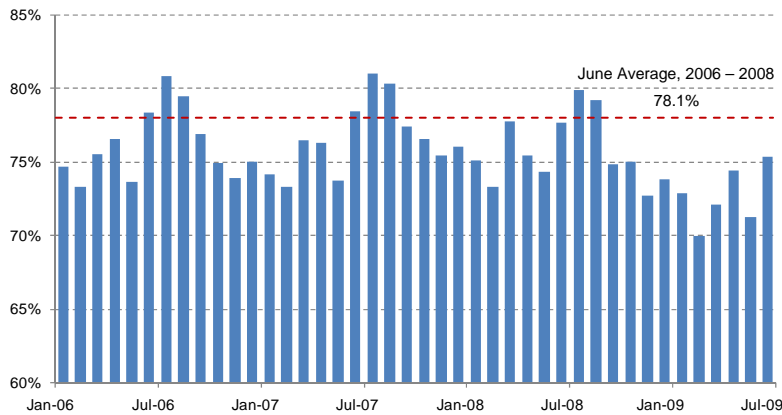
### OSHKOSH AND LOCKHEED WIN KEY AWARDS

In a much-anticipated and hotly-contested competition, the DoD awarded a \$1.05 billion contract to Oshkosh for 2,244 MRAP all-terrain vehicles ("M-ATVs") on June 30<sup>th</sup>. Oshkosh subsequently won a \$1.06 billion contract on July 31<sup>st</sup> to produce an additional 1,700 M-ATVs. The award marked a major victory for Oshkosh, which had been largely shut out of the MRAP awards of the past few years. The first M-ATVs are expected to be fielded in Afghanistan in October 2009. The M-ATV competition is a prelude to the ongoing Joint Light Tactical Vehicle ("JLTV") program, which aims to replace the approximately 120,000 Humvees the U.S. military uses as its main tactical vehicle.

Lockheed Martin was awarded a \$2.11 billion contract modification on June 2<sup>nd</sup> for F-35 fighters. The award reflects the trend of increased favor, first evidenced in the DoD's initial FY2010 budget request, shown to the F-35, which serves as a multi-role aircraft capable of providing tactical bombing and close ground support. The more expensive, air-to-air combat focused F-22, also built by Lockheed Martin, is thought to be less applicable to the current counterinsurgent priorities of the military and recently lost \$1.75 billion in funding slated by Congress to buy an additional seven units.

## Aerospace Update

**Total Cargo and Passenger Capacity<sup>(1)</sup>, 2006 – 6/30/09**

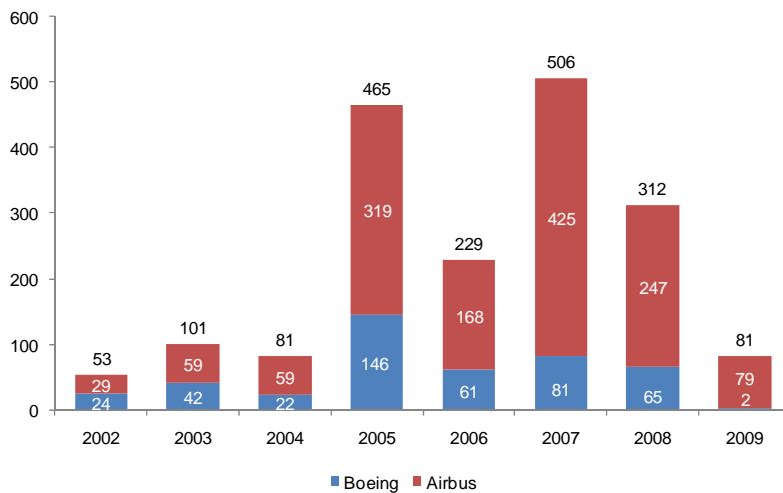


**CARGO AND PASSENGER CAPACITY LOWS CONTINUE THROUGH SUMMER**

Since the beginning of 2008, overall load factors for both cargo and passengers have been down. Notably, passenger load factors have lacked the typical mid-summer boost, with year-over-year June down to 75.3%, relative to the average of 78.1% in June from 2006 – 2008.

This continued downcycle ultimately affects Boeing and Airbus as cancellations have skyrocketed and new orders have plunged since 2008.

**Boeing and Airbus Commercial Air Show Orders<sup>(2)</sup>, 2002 – 2009**

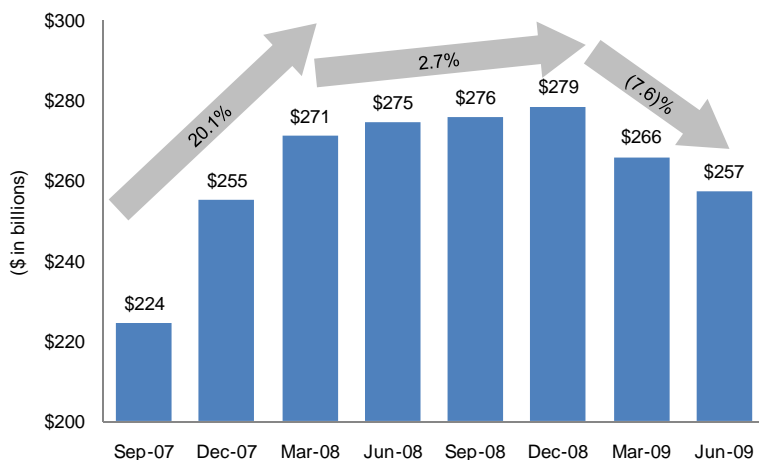


**BOEING AND AIRBUS SEE HISTORIC DECLINE IN AIR SHOW ORDERS**

In years past, the Paris Air Show was an opportunity for major aircraft OEMs to tout new orders. As evidence of continued softness in the commercial aerospace sector, this year's order totals were disappointing, with Airbus having 79 orders and Boeing just two. With airline traffic and load factors still low, there does not appear to be any near-term catalyst for increased order activity.

As of July 31<sup>st</sup>, Boeing and Airbus had racked up total gross orders for 129 and 118 aircraft, respectively, a far cry from the 2008 totals of 669 and 782, respectively.

**Boeing Commercial Airplane Backlog<sup>(3)</sup>, Sep. 07 – Jun. 09**












**BOEING'S BACKLOG REFLECTS CURRENT COMMERCIAL DOWNTURN**

Though long-term aerospace prospects remain solid, OEMs face significant near-term risk to backlog. Boeing's Commercial Airplanes Division backlog is down 7.6% since December 2008. Currently at less than \$260 billion, this represents Boeing's lowest backlog since 2007.

Lack of credit and uncertainty around the ability of airlines and leasing companies to finance new aircraft orders is creating further pressure on backlogs and future demand.

(1) Source: IATA.  
 (2) Source: KippsDeSanto research.  
 (3) Source: Company filings.

## Government Services Update

Government Services	EPS (Latest Quarter Releases)		
	Estimated	Actual	Full Year Guidance
 CACI <small>EVER VIGILANT</small>	\$0.92	\$0.95	↑
 DGC <small>Defense &amp; Government Contractors</small>	0.21	0.21	No Change
 DynCorp <small>INTERNATIONAL</small>	0.35	0.36	No Change
 ICF <small>INTERNATIONAL</small>	0.31	0.33	No Change
 ManTech <small>International Corporation</small>	0.72	0.80	↑
 ngi	0.35	0.37	↑
 SAIC <small>FOR SUCCESS BY DESIGN</small>	0.27	0.29	No Change
 SRA	0.26	0.30	NA
 STANLEY	0.41	0.45	↓

ManTech was one such company, beating both revenue and EPS estimates due in part to the success of its cybersecurity offerings. Revenues increased 10.6% for 2Q2009, and EPS of \$0.80 exceeded the \$0.73 estimate. Similarly, CACI revised its FY09 EPS guidance upwards from \$2.95 – \$3.05 to \$3.09 – \$3.16 due to strong performance in the intelligence, defense and security markets.

### EARNINGS REFLECT POSITIONING IN FUNDING HOT SPOTS

Recent earnings announcements by government services firms were mostly positive, as stock prices continue to outperform aerospace and defense counterparts and the S&P 500. Increased funding in key areas such as cybersecurity, health and energy have somewhat offset concerns about oversight, transparency, insourcing and broader budgetary pressures. Companies best positioned in priority Obama Administration areas have announced the most positive news.



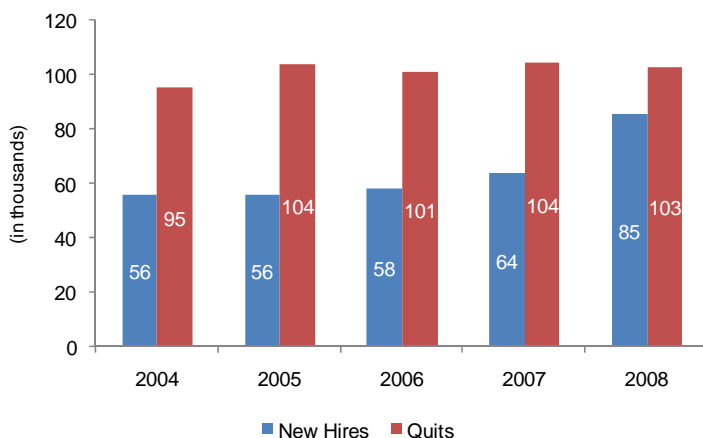
White House cybersecurity advisor Melissa Hathaway announced her resignation on August 3, 2009

### CONTINUED EMPHASIS ON CYBERSECURITY

While cybersecurity remains a focus for the Obama Administration and top of mind amongst government contractors, the White House has yet to anoint the Cyber Czar. Despite uncertainty surrounding the Administration's appointment, cyber remains "white hot" given the general consensus it represents above average growth. Nearly all government services, defense prime and mid-tier companies alike have already stood-up a dedicated cyber practice or centers of excellence and/or have acquisition of cyber capabilities as a top priority.

Contractors continue to map their cyber strategy with the first critical decision focused on market approach – services only (labor-based), product (software or management solutions) or a hybrid (services enabled by proprietary technology). These market approach decisions will significantly influence the competitive dynamics and M&A activity across the cyber space.

### Government Employee Hires vs. Quits<sup>(1)</sup>, 2004 – 2008



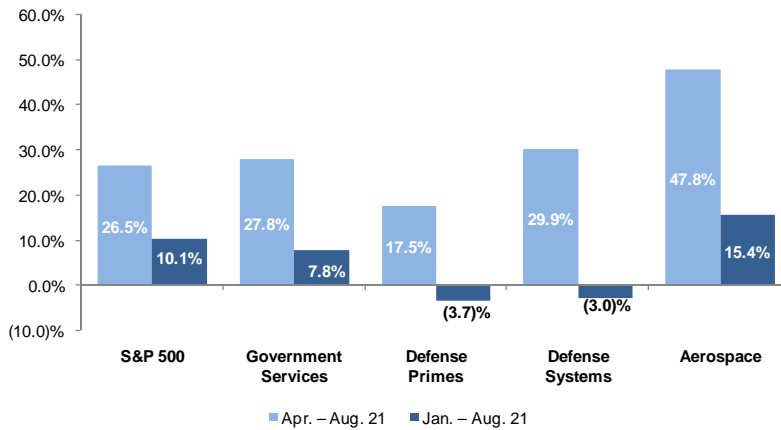
### INSOURCING – IF, WHEN AND HOW

Chatter continues regarding the execution of President Obama's March 2009 memorandum on government contracting that included broad policy statements supporting insourcing inherently governmental functions. In this spirit, OMB issued a memorandum in late July with a framework to better manage the workforce. Additional clarification regarding a comprehensive definition of "inherently governmental" to facilitate related policies is forthcoming. In the meantime, contractors continue to review their contract portfolios to assess exposure, if any, and position accordingly.

(1) Source: Office of Personnel Management.

## Public Company Performance and Market Valuation Trends

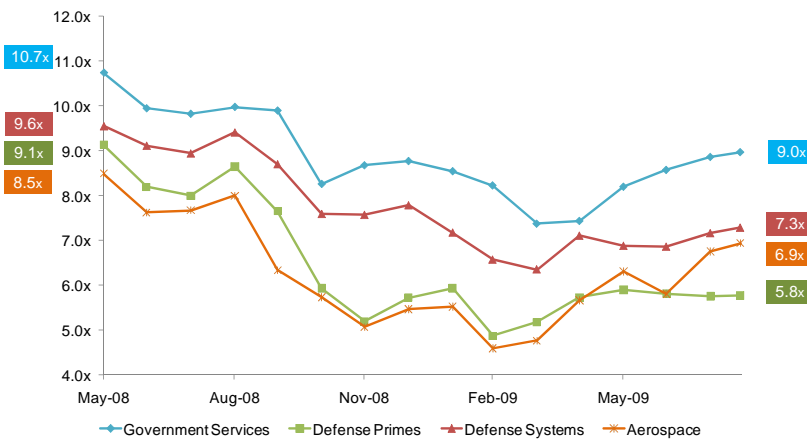
Stock Price Performance, 2Q2009 – YTD and YTD<sup>(1)</sup>



### A&D SECTORS ENJOY RECENT BOOST ALONG WITH BROADER MARKET

The release of the defense budget request, which had been a major point of uncertainty, gave some clarity to the markets. Coupled with the overall equity market up-tick experienced since March, A&D companies have rebounded significantly in the second quarter of 2009. Since the end of the second quarter, A&D stock prices have continued to climb higher in-line with the market as a whole and reaction to recently released earnings shows that the downturn has been priced into the market.

Public Market Valuation Trends: EV / LTM EBITDA<sup>(2)</sup>

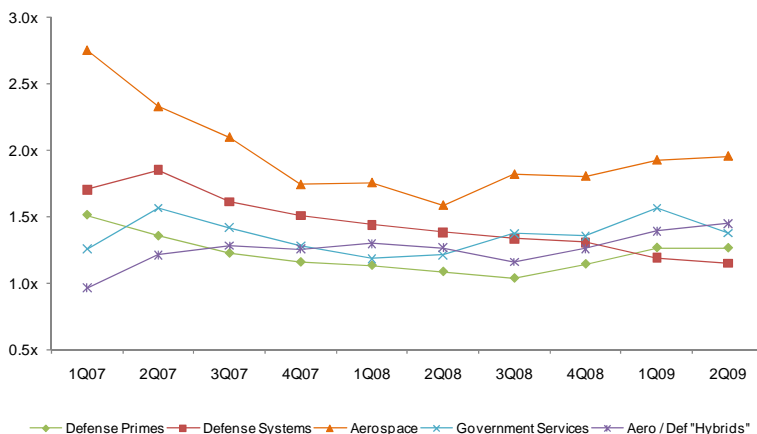


### VALUATIONS APPEAR TO HAVE BOTTOMED OUT

Market valuations of defense and aerospace companies have shown positive growth since bottoming out in early 2009. While still down year-to-date, current valuations are at levels more in-line with long-term historical norms.

Following an apparent right-sizing of the market and evidence of green shoots across the broader economy, many experts are optimistic for a continued recovery through the coming 24 months.

Quarterly Debt-to-EBITDA, 2007 – 2Q2009<sup>(3)</sup>



### INDUSTRY BALANCE SHEETS REMAIN CLEAN

Throughout the robust funding days of the mid-2000s, defense primes remained particularly diligent about paying down debt as they benefitted from positive budgetary and spending environments. Despite the economic downturn, primes have maintained this low level of leverage, and balance sheets remain well-positioned to adapt to changing industry dynamics.

While aerospace companies also de-levered through the upswing of the past cycle, turbulent times have led to increased leverage and company balance sheets have begun to reflect the impact of recent events.

(1) Source: Company filings and Capital IQ.  
 (2) Source: Company filings and Capital IQ.  
 (3) Source: Company filings and Capital IQ.

## Public Company Trading Analysis<sup>(1)</sup>

Defense Primes	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
Boeing Co.	\$45.87	67.0%	\$33,321.4	\$37,821.4	\$67,717.9	\$6,821.4	10.1%	\$65,756.7	\$6,467.9	9.8%	0.6x	5.5x	0.6x	5.8x
Lockheed Martin Corp.	74.92	62.3%	28,619.4	29,752.4	45,258.6	5,395.8	11.9%	48,136.6	5,875.1	12.2%	0.7x	5.5x	0.6x	5.1x
General Dynamics Corp.	58.49	62.0%	22,524.0	24,825.0	32,530.7	4,144.4	12.7%	33,495.0	4,234.2	12.6%	0.8x	6.0x	0.7x	5.9x
BAE Systems plc	5.50	67.8%	19,479.8	19,575.5	33,977.3	4,211.4	12.4%	35,444.5	4,313.9	12.2%	0.6x	4.6x	0.6x	4.5x
Raytheon Co.	48.22	75.3%	18,776.3	18,970.3	24,767.9	3,390.6	13.7%	26,008.2	3,460.1	13.3%	0.8x	5.6x	0.7x	5.5x
Northrop Grumman Corp.	49.96	69.2%	15,892.7	18,657.7	34,891.2	3,423.5	9.8%	36,350.7	3,715.5	10.2%	0.5x	5.4x	0.5x	5.0x
L-3 Communications Holdings Inc.	74.76	69.9%	8,715.2	12,424.2	15,614.5	1,842.2	11.8%	16,310.3	1,950.5	12.0%	0.8x	6.7x	0.8x	6.4x
<b>Median</b>		<b>67.8%</b>					<b>11.9%</b>			<b>12.2%</b>	<b>0.7x</b>	<b>5.5x</b>	<b>0.6x</b>	<b>5.5x</b>

Defense Systems	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
FLIR Systems Inc.	\$23.05	58.5%	\$3,491.6	\$3,234.1	\$1,138.6	\$387.0	34.0%	\$1,224.1	\$407.6	33.3%	2.8x	8.4x	2.6x	7.9x
Alliant Techsystems Inc.	78.61	70.3%	2,588.1	3,832.2	4,709.0	604.9	12.8%	5,063.4	666.9	13.2%	0.8x	6.3x	0.8x	5.7x
Teledyne Technologies Inc.	34.72	53.4%	1,250.3	1,585.4	1,807.4	225.8	12.5%	1,911.1	247.3	12.9%	0.9x	7.0x	0.8x	6.4x
Cubic Corp.	38.98	92.3%	1,042.0	839.8	988.0	96.2	9.7%	1,068.3	107.2	10.0%	0.8x	8.7x	0.8x	7.8x
AeroVironment, Inc.	28.50	69.1%	613.0	475.0	269.9	37.3	13.8%	328.6	52.8	16.1%	1.8x	12.7x	1.4x	9.0x
Ducommun Inc.	18.74	65.8%	195.8	245.9	437.1	46.9	10.7%	463.2	52.3	11.3%	0.6x	5.2x	0.5x	4.7x
<b>Median</b>		<b>67.4%</b>					<b>12.7%</b>			<b>13.1%</b>	<b>0.9x</b>	<b>7.7x</b>	<b>0.8x</b>	<b>7.1x</b>

Defense Communications / Electronics	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
Harris Corp.	\$35.23	64.1%	\$4,664.5	\$5,663.7	\$5,129.2	\$914.7	17.8%	\$5,217.4	\$924.1	17.7%	1.1x	6.2x	1.1x	6.1x
Comtech Telecommunications Corp.	35.07	69.4%	987.3	732.1	626.9	95.1	15.2%	770.8	149.5	19.4%	1.2x	7.7x	0.9x	4.9x
ViaSat Inc.	25.11	90.5%	793.7	773.5	665.6	90.9	13.7%	726.7	103.6	14.3%	1.2x	8.5x	1.1x	7.5x
Argon ST, Inc.	21.41	79.1%	464.7	435.8	383.0	49.0	12.8%	421.0	55.7	13.2%	1.1x	8.9x	1.0x	7.8x
Applied Signal Technology, Inc.	24.57	91.3%	321.2	271.1	208.9	26.5	12.7%	234.5	30.9	13.2%	1.3x	10.2x	1.2x	8.8x
Herley Industries Inc.	13.67	67.2%	185.9	187.2	166.3	22.0	13.2%	NA	NA	NA	1.1x	8.5x	NA	NA
CPI International, Inc.	9.48	59.2%	157.2	335.0	330.4	NA	NA	342.3	NA	NA	1.0x	NA	1.0x	NA
<b>Median</b>		<b>69.4%</b>					<b>13.4%</b>			<b>14.3%</b>	<b>1.1x</b>	<b>8.5x</b>	<b>1.0x</b>	<b>7.5x</b>

Homeland Security	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
Mine Safety Appliances Co.	\$28.23	67.8%	\$1,015.2	\$1,100.1	\$918.1	\$96.5	10.5%	\$950.5	\$110.1	11.6%	1.2x	11.4x	1.2x	10.0x
L-1 Identity Solutions Inc.	7.37	42.8%	667.2	1,095.2	706.8	101.8	14.4%	811.7	118.5	14.6%	1.5x	10.8x	1.3x	9.2x
American Science & Engineering Inc.	62.75	75.4%	555.8	423.7	233.3	54.8	23.5%	244.9	50.7	20.7%	1.8x	7.7x	1.7x	8.4x
Analogic Corporation	37.34	49.2%	478.1	324.8	389.0	34.7	8.9%	NA	NA	NA	0.8x	9.4x	NA	NA
OSI Systems, Inc.	20.32	79.5%	353.4	384.5	596.3	44.5	7.5%	644.3	52.9	8.2%	0.6x	8.6x	0.6x	7.3x
ICx Technologies, Inc.	5.22	56.5%	179.9	155.3	195.0	2.0	1.0%	231.5	14.6	6.3%	0.8x	NM	0.7x	10.6x
<b>Median</b>		<b>62.2%</b>					<b>9.7%</b>			<b>11.6%</b>	<b>1.0x</b>	<b>9.4x</b>	<b>1.2x</b>	<b>9.2x</b>

(1) Source: Company filings, Capital IQ and KippsDeSanto research.

Public Company Trading Analysis, cont.<sup>(1)</sup>

<u>Aerospace Systems Suppliers</u>	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
Goodrich Corp.	\$57.03	99.9%	\$7,070.8	\$8,261.8	\$6,862.2	\$1,185.4	17.3%	\$6,894.4	\$1,195.9	17.3%	1.2x	7.0x	1.2x	6.9x
Rockwell Collins Inc.	44.40	81.0%	6,999.5	7,428.5	4,576.1	1,025.1	22.4%	4,896.8	1,034.2	21.1%	1.6x	7.2x	1.5x	7.2x
TransDigm Group Incorporated	43.76	95.9%	2,121.4	3,274.6	759.6	357.7	47.1%	775.7	377.3	48.6%	4.3x	9.2x	4.2x	8.7x
BE Aerospace Inc.	17.77	68.6%	1,797.5	2,771.1	1,914.4	351.2	18.3%	1,834.1	353.4	19.3%	1.4x	7.9x	1.5x	7.8x
Curtiss-Wright Corp.	33.43	59.6%	1,511.9	2,014.0	1,834.7	274.3	15.0%	1,941.7	294.6	15.2%	1.1x	7.3x	1.0x	6.8x
HEICO Corp.	37.72	78.1%	984.5	1,097.6	558.5	107.2	19.2%	601.6	NA	NA	2.0x	10.2x	1.8x	NA
AAR Corp.	18.49	90.9%	718.4	1,046.6	1,440.1	172.8	12.0%	1,483.1	172.3	11.6%	0.7x	6.1x	0.7x	6.1x
Triumph Group Inc.	42.68	73.9%	711.3	1,133.9	1,294.4	200.7	15.5%	1,303.9	203.1	15.6%	0.9x	5.7x	0.9x	5.6x
<b>Median</b>		<b>79.6%</b>					<b>17.8%</b>			<b>17.3%</b>	<b>1.3x</b>	<b>7.3x</b>	<b>1.4x</b>	<b>6.9x</b>

<u>Aerospace Structures Suppliers</u>	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
Spirit AeroSystems Holdings Inc.	\$14.07	59.1%	\$1,955.0	\$2,602.6	\$4,209.3	\$502.7	11.9%	\$4,060.9	\$566.2	13.9%	0.6x	5.2x	0.6x	4.6x
Hexcel Corp.	11.47	52.9%	1,108.6	1,440.0	1,115.2	173.3	15.5%	1,145.8	183.5	16.0%	1.3x	8.3x	1.3x	7.8x
Ladish Co. Inc.	14.27	50.9%	226.9	313.4	388.1	30.4	7.8%	399.5	44.6	11.2%	0.8x	10.3x	0.8x	7.0x
LMI Aerospace Inc.	8.94	34.2%	107.4	145.1	246.9	30.2	12.2%	249.9	31.4	12.6%	0.6x	4.8x	0.6x	4.6x
<b>Median</b>		<b>51.9%</b>					<b>12.1%</b>			<b>13.3%</b>	<b>0.7x</b>	<b>6.7x</b>	<b>0.7x</b>	<b>5.8x</b>

<u>Government Services</u>	Stock Price 8/21/09	% of 52 Week High	Market Cap	Enterprise Value	CY 2009			CY 2010			EV / CY 2009		EV / CY 2010	
					Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Revenue	EBITDA
SAIC, Inc.	\$18.28	87.1%	\$7,257.0	\$7,463.0	\$10,865.3	\$985.5	9.1%	\$11,562.6	\$1,074.7	9.3%	0.7x	7.6x	0.6x	6.9x
ManTech International Corp.	54.28	88.3%	1,936.1	1,922.7	2,062.7	200.1	9.7%	2,276.7	220.1	9.7%	0.9x	9.6x	0.8x	8.7x
CACI International Inc.	46.42	89.3%	1,390.7	1,819.8	2,826.8	237.1	8.4%	3,013.6	254.0	8.4%	0.6x	7.7x	0.6x	7.2x
SRA International Inc.	20.77	83.8%	1,168.2	1,168.5	1,576.8	140.6	8.9%	1,681.7	157.8	9.4%	0.7x	8.3x	0.7x	7.4x
DynCorp International Inc.	16.76	76.1%	942.8	1,355.7	3,338.4	233.3	7.0%	3,967.7	271.0	6.8%	0.4x	5.8x	0.3x	5.0x
Stanley, Inc.	27.00	69.2%	648.0	807.9	846.4	84.5	10.0%	919.6	90.7	9.9%	1.0x	9.6x	0.9x	8.9x
ICF International Inc.	28.08	96.9%	430.1	647.4	671.2	61.3	9.1%	733.7	71.7	9.8%	1.0x	10.6x	0.9x	9.0x
NCI, Inc.	30.66	89.6%	413.1	437.7	453.2	40.3	8.9%	516.1	46.8	9.1%	1.0x	10.9x	0.8x	9.3x
Dynamics Research Corp.	13.14	99.8%	129.0	156.4	281.8	25.3	9.0%	295.1	27.4	9.3%	0.6x	6.2x	0.5x	5.7x
<b>Median</b>		<b>88.3%</b>					<b>9.0%</b>			<b>9.3%</b>	<b>0.7x</b>	<b>8.3x</b>	<b>0.7x</b>	<b>7.4x</b>

(1) Source: Company filings, Capital IQ and KippsDeSanto research.

## Select Recent M&A Transactions<sup>(1)</sup>

### Select Defense M&A Transactions

(\$ in millions)

Date	Buyer	Target	Target Description	EV Revenue		EBITDA Margin		Enterprise Value / Revenue	
								EBITDA	EBITDA
08/18/09 (A)	AgustaWestland NV	PZLSwidnik S.A.	Develops, manufactures, and sells helicopters and passenger and military aircraft for the aerospace industry in Western Europe and the United States	\$129.0	\$148.6	NA	NA	0.87x	NA
08/10/09	TransDigm Group Inc.	Woodward Governor's Pneumatic Valve Product Line	Manufactures a range of highly engineered fuel and pneumatic valves and surge suppressors	48.0	20.0	NA	NA	2.40x	NA
07/27/09	LIGATT Security International, Inc.	Cyber Defense Systems, Inc.	Designs, develops, and markets UAVs, as well as manned and unmanned lighter-than-air airships	NA	NA	NA	NA	NA	NA
07/22/09 (A)	Lockheed Martin Corp.	Gyrocam Systems, LLC	Develops and manufactures gyro-stabilized optical surveillance systems and sustainment field services for the U.S. military and law enforcement community	NA	NA	NA	NA	NA	NA
07/20/09 (A)	Elbit Systems Ltd.	BVR Systems	Engages in the development, manufacture, marketing, and sale of training and simulation systems for military applications worldwide	34.0	36.5	\$5.8	15.9%	0.93x	5.9x
06/30/09	Saab AB	Tietosaab Systems Oy (remaining 60%)	Offers C4ISR solutions, including sensor systems, training systems, onboard degaussing systems, signature measurement ranges, and influence mine sweeping systems	NA	NA	NA	NA	NA	NA
06/30/09	J.F. Lehman & Company	Defense Venture Group	Holding company with two operating businesses: (i) Indigen Armor, which designs and manufactures low-profile, purpose-built armored vehicles and (ii) ArmorLine, which develops and manufactures force protection products	NA	NA	NA	NA	NA	NA
06/23/09	BAE Systems, Inc.	Sabie's Iguana Light Armored Vehicle	Mine resistant light armored vehicle designed with multi-link hydro-pneumatic suspension, which is mounted on a very rigid structure	NA	NA	NA	NA	NA	NA
07/21/09	Smith & Wesson Holding Corp.	Universal Safety Response, Inc.	Manufactures vehicle barrier systems and perimeter security solutions for military and law enforcement customers	52.5	50.0	9.0	18.0%	1.05x	5.8x
06/11/09	FILIR Systems, Inc.	Salvador Imaging, Inc.	Provides camera solutions for imaging applications, with infrared imaging capabilities to military and commercial customers	13.0	NA	NA	NA	NA	NA
06/09/09	Ceradyne, Inc.	Diaphorm Technologies, LLC	Manufactures polyer based ballistic helmets and other protective equipment for the law enforcement, security, and military markets	9.8	3.5	NA	NA	2.80x	NA
06/04/09	Tactical Holdings (Golden Gate Capital)	Massif Mountain Gear Company, LLC	Designs and manufactures professional outdoor and backcountry gear for rescue professionals, fire teams, ski patrols, and the military and private industries	NA	NA	NA	NA	NA	NA
06/04/09 (A)	General Dynamics Corp.	Axsys Technologies, Inc.	Designs and manufactures precision optical solutions for defense, aerospace, homeland security, and commercial applications	614.0	255.6	48.9	19.1%	2.40x	12.6x
05/01/09	Goodrich Corporation	Cloud Cap Technology, Inc.	Provides proprietary end-to-end avionics solutions for small UAVs and sensors for manned vehicles	29.1	NA	NA	NA	NA	NA

### Select Aerospace M&A Transactions

(\$ in millions)

Date	Buyer	Target	Target Description	EV Revenue		EBITDA Margin		Enterprise Value / Revenue	
								EBITDA	EBITDA
07/30/09	Boeing Company	Vought Aircraft Industries Inc., Operations In South Carolina	Manufactures and supplies aerostructures for commercial, military, and business jet aircraft manufacturers in the United States and internationally	\$1,002.0	NA	NA	NA	NA	NA
07/01/09	Praxair Surface Technologies, Inc.	Sermatech International, Inc.	Develops and applies engineered protective coatings for the aerospace, oil and gas, general industrial, industrial gas turbine, semiconductor, and power generation industries	NA	\$116.0	NA	NA	NA	NA
06/30/09	MCR, Inc.	Aerodyne, Inc.	Provides aerospace engineering solutions to government and industrial companies, including systems engineering, integration and testing, research, and training	NA	NA	NA	NA	NA	NA
06/25/09	Premier Precision Group (Spell Capital)	Aimco Precision, Inc.	Specializes in machining small to mid-sized, complex aerospace products	NA	NA	NA	NA	NA	NA
05/28/09	Mint Turbines LLC	Northstar Aerospace Turbine Engine Service Group (TESG)	Provides repair and overhaul services specializing in Pratt & Whitney PT6 turboprop engines	9.4	14.2	NA	NA	0.66x	NA
05/21/09	Ultra Electronics Holdings plc	Tisys SA	Engages in the design and development of data-processing software solutions for airports	6.9	NA	NA	NA	NA	NA
05/28/09	EDAC Technologies Corp.	Manufacturing unit assets of MTU Aero Engines North America	Manufactures rotating components, such as disks, rings, and shafts for the aerospace industry	NA	NA	NA	NA	NA	NA
05/15/09 (A)	Hawthorne Corp.	Ronson Aviation, Inc.	Provides aircraft fueling and servicing, avionics sales, aircraft repair and maintenance, hangar and office leasing and related services at Trenton-Mercer Airport	9.5	NA	NA	NA	NA	NA
05/04/09	Israel Aerospace Industries Ltd	Analytical Methods, Inc.	Provides consulting and software solutions for a wide array of computational fluid dynamics including aerodynamics, hydrodynamics, propulsion and aero elasticity	NA	NA	NA	NA	NA	NA
05/01/09	Imprimis (Singapore) Pte. Ltd.	Piper Aircraft, Inc.	Manufactures a variety of general aviation aircraft for personal, training, and business use	NA	NA	NA	NA	NA	NA

(1) Select closed and / or announced transactions since 05/01/09.  
Source: Company filings, press releases, Capital IQ and KippsDeSanto research.

## Select Recent M&A Transactions, cont.<sup>(1)</sup>

### Select Government Services M&A Transactions

(\$ in millions)

Date	Buyer	Target	Target Description	EV Revenue	EBITDA	EBITDA		Enterprise Value /	
						Margin	Revenue	EBITDA	EBITDA
08/03/09	NCI, Inc.	TRS Consulting, Inc.	Provides agile software development, database management, and analytical computing solutions focused on information sharing and collaboration to the IC	NA	NA	NA	NA	NA	NA
08/03/09	SAIC, Inc.	R. W. Beck, Inc.	Provides a range of business and technical consulting services to utilities, financial institutions and government clients, specializing in infrastructure protection, risk management, emergency response and disaster recovery	NA	NA	NA	NA	NA	NA
07/21/09	Six3 Systems / GTCR	Harding Security Associates, Inc.	Provides highly specialized security services, including biometric intelligence / forensics analysis, and training to the DoD, DIA, DoS and DHS	NA	NA	NA	NA	NA	NA
07/13/09	SAIC, Inc.	Atlan, Inc.	Provides cybersecurity product testing in addition to FIPS and SCAP certification for the federal government and commercial clients	NA	NA	NA	NA	NA	NA
07/13/09	Keane, Inc.	BearingPoint, Inc., New York City Practice	Acquired BearingPoint's New York City Public consulting practice	NA	NA	NA	NA	NA	NA
07/08/09	Trace Systems, Inc.	SynExi, LLC	Provides systems engineering, enterprise architecture, and technology transition services to DISA, VA, and DoD	NA	NA	NA	NA	NA	NA
07/07/09	Snow Phipps Group, LLC	ITSolutions, LLC	Provides program management, strategic planning, infrastructure operations, call center consulting, and network engineering and operations commercial and government clients including DoJ, DoS, DIA, CIA, and FBI	NA	NA	NA	NA	NA	NA
07/01/09	QinetiQ North America	Cyveillance	Provides continuous, comprehensive Internet monitoring and sophisticated intelligence analysis that proactively identifies and eliminates threats to information, and infrastructure	\$40.0	\$10.4	NA	NA	3.85x	NA
06/29/09	Court Square Capital Partners	Wyle Holdings, Inc.	Provides specialized engineering, professional and information technology services to military and civilian government agencies including NASA, Navy, and NIH	NA	800.0	NA	NA	NA	NA
06/22/09	Boeing	eXMeritus	Develops hardware and software to securely share information across federal government and law enforcement networks and systems	NA	NA	NA	NA	NA	NA
06/03/09	Andrews International	World Security Corporation (U.S. and Mexico guarding operations)	Provides uniformed security, strike security / asset protection and U.S. consulting and investigations operations	44.3	128.0	\$4.5	3.5%	0.35x	9.8x
06/01/09	A-T Solutions, Inc.	Accelligence LLC	Provides operational, technical, analytical, instructional and commercial operations support for intelligence agencies	NA	NA	NA	NA	NA	NA
06/01/09	Veritas Capital	Kroll Government Services, Inc.	Provides compliance monitoring services and conducts security clearance background investigations of the United States government personnel	NA	NA	NA	NA	NA	NA
05/22/09	Cobham plc	Argotek, Inc.	Provides information assurance and systems security engineering, specializing in enabling Technology & Standards and Communications Security to DoD, DHS, and IC	36.3	NA	NA	NA	NA	NA
05/21/09	CMA Capital Partners, LLC	SENTECH, Inc.	Provides complete solutions to clients by developing, evaluating, and deploying clean energy and energy efficiency technologies for stationary and transportation applications	NA	NA	NA	NA	NA	NA
05/18/09	USIS	Labat-Anderson Inc.	Provides information systems, records management services, and litigation support to the DOJ and SEC	NA	NA	NA	NA	NA	NA

(1) Select closed and / or announced transactions since 05/01/09.  
 Source: Company filings, press releases, Capital IQ and KippsDeSanto research.

## Recent KippsDeSanto & Co. Transactions



- KippsDeSanto acted as exclusive financial advisor to Harding Security Associates (“HSA”) in its July 2009 sale to Six3 Systems, a portfolio company of GTCR
- HSA provides biometrics-enabled intelligence analysis, as well as counter-intelligence training and security services
- The transaction marked the first for Six3 Systems, a company focused on acquiring government services providers with a focus on national security
- HSA received strong interest as the government’s continued focus on funding intelligence programs positions the Company well for future growth



- KippsDeSanto acted as exclusive financial advisor to Labat-Anderson Incorporated (“Labat”) in its May 2009 sale to US Investigations Services, Inc. (“USIS”), a portfolio company of Providence Equity Partners
- Labat is a leading provider of litigation support and information systems and services for a number of U.S. government agencies
- The acquisition highlighted USIS’s strategic interest in developing litigation support capabilities
- Despite the difficult state of the capital markets, Labat received strong interest from a variety of strategic and financial suitors

**About KippsDeSanto & Co.**

KippsDeSanto is an investment banking firm focused on delivering strategic advice and M&A and financing transaction expertise. Our solutions are focused on the technology sectors we know – Aerospace / Defense, Government Services, and Software and IT Services. We are recognized for our depth of industry experience, knowledge of sector-specific transaction drivers, and long-standing relationships with industry participants.

We welcome the opportunity to have a more detailed discussion of developments in our focus industries. For more information, please contact us:

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