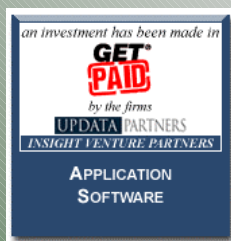
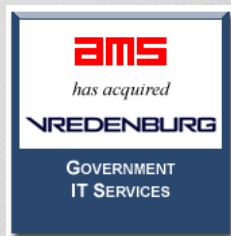


Government IT Services M&A Update

Recent Udata Deals



For more information contact:
Gretchen Guandolo
Vice President
Greg Treger
Vice President

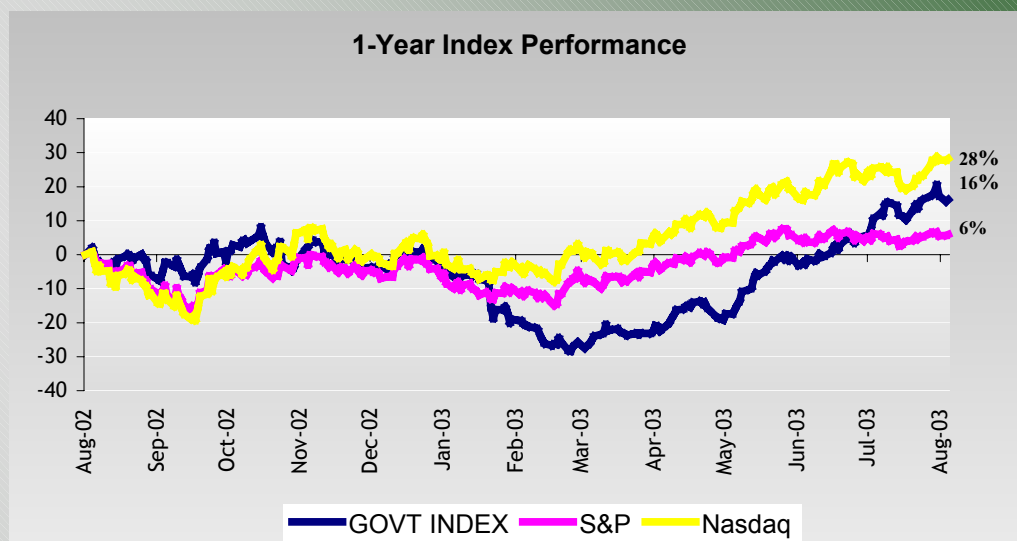
2100 Reston Parkway
Suite 430
Reston, VA 20191
P: (703) 736-0020
F: (703) 736-0022
125 Half Mile Road
Red Bank, NJ 07701

www.updata.com

Overview of the Current Market

The government IT services sector has had a solid run for over two years now. The sector continues to attract investor attention as top-line growth remains strong and companies continue to meet, if not beat, earnings expectations. As a result, the Udata Government Services Index is up 16% over the past year, versus the 6% return on the S&P 500 and just below the 28% return on the NASDAQ.

Figure 1



Udata Government Index includes: AMS, Anteon, CACI, Mantech, Maximus, PEC Solutions, Titan, SRA International, MTC Technologies and SI International.

Key Observations in the Government IT Services Arena

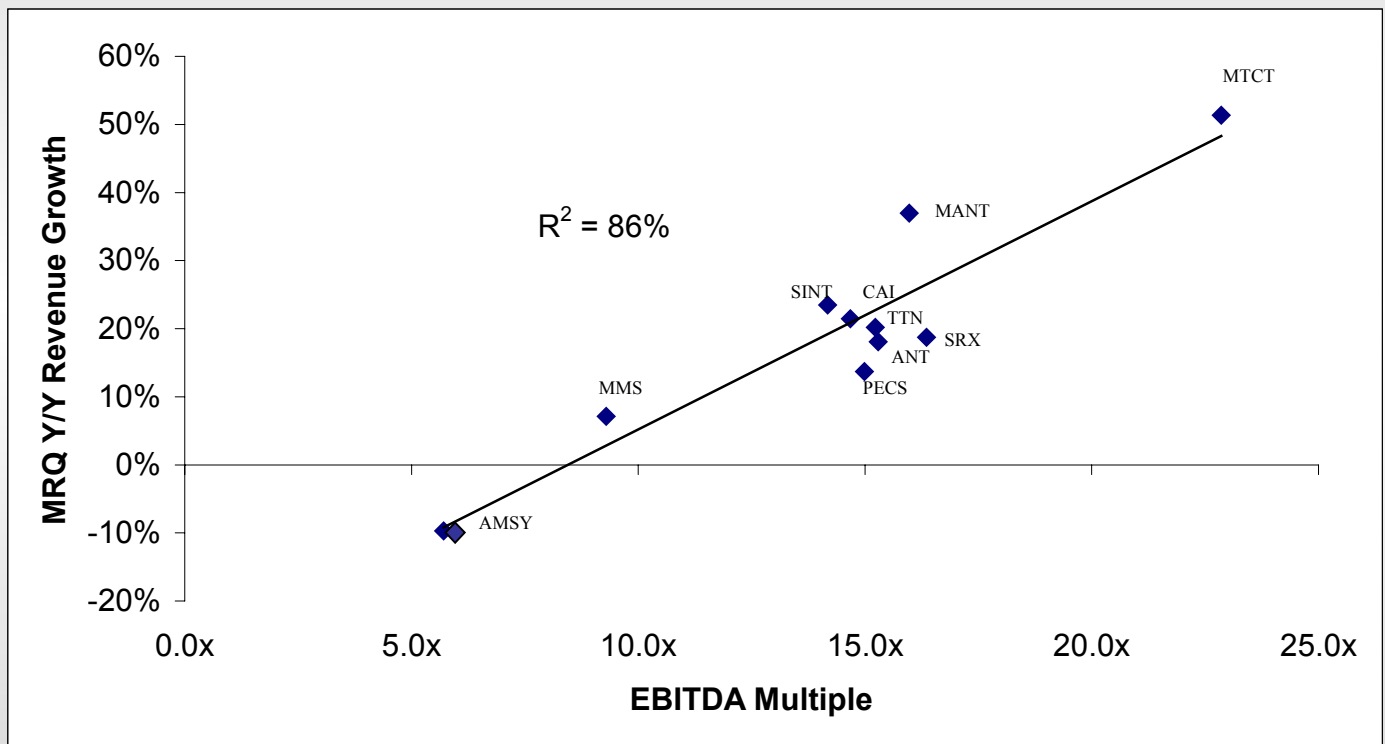
- Given the improving market sentiment from just a couple months ago, public equity markets for government firms are becoming increasingly favorable. DigitalNet recently re-filed for its IPO after shelving plans to go public earlier this year. The company expects to raise as much as \$75 million according to recent reports. In another instance, SRA International announced in June 2003 its plan for a follow-on offering to raise approximately \$70 million, a portion of which will surely be used for acquisitions.

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Key Observations in the Government IT Services Arena (Continued)

- The public markets appear to reward growth over other valuation metrics (such as profitability, size, etc.) in the pure-play government IT services companies. As the chart below indicates, there is a high correlation between growth rates and value, whether that growth is organic or acquired. The need for growth will further fuel M&A in this sector.
- Changes in procurement rules increasingly favor “bundling” of contracts. Agencies are using larger sized awards, which gives contractors who provide a wide range of products and services a distinct advantage. This trend inevitably fuels the M&A activity as companies race to achieve greater scale.
- Slightly higher deal multiples are awarded to companies providing services to Department of Defense and Intel as barriers to entry such as clearances remain highly valuable.

Figure 2 Revenue Growth Drivers Value



Accelerating Pace of Consolidation

The government IT services sector is one of the few sectors that has enjoyed robust M&A activity. A total of 23 M&A deals have been completed so far this year compared with only 14 during the same time period last year - an increase in deal volume of nearly 65%. The gap between commercial and government IT budget growth rates remains the main motivation behind the M&A activity. Commercial IT budgets, for example, are expected to expand 2-3% at best in 2003 versus double-digit growth for government IT services - driving M&A as companies from both commercial and government sectors pursue a bigger piece of the pie.

Accelerating Pace of Consolidation (Continued)

Attractive targets continue to be courted by several of the usual suspects. Pure-play government IT services companies are aggressively pursuing acquisitions to gain scale and meet Wall Street’s growth expectations, exemplified by the recent acquisition of Information Spectrum by Anteon International. Deals such as General Dynamics acquisition of Veridian demonstrate that the traditional aerospace and defense companies are also vying for government IT services companies to broaden their offering and better position themselves for the larger contracts. We believe we will see more deals announced by aerospace and defense companies in the next couple of quarters. With high barriers to entry, the commercial IT services vendors also look to acquire into the federal government sector as a new source of growth. However these commercial businesses have had difficulty in both understanding and valuing government targets, and therefore few have been successful with this strategy. Private equity investors are also following the money as they pursue buyouts in the government sector as demonstrated by Arlington Capital’s recently completed buyout of ITS Services.

A synthesis of the 23 deals completed this year revealed that over half were acquisitions of contractors providing services primarily to the DoD (for example, Veridian/General Dynamics, Information Spectrum/Anteon, and R.M. Vredenburg/AMS among others). Four of the 23 deals involved targets serving the intel community. These include Premier Technology/CACI, Applied Technology/CACI, Integrated Data Systems/ManTech, and Conquest/Boeing). Transactions in the DoD and intel segments have commanded slightly higher deal multiples than the broader government IT services deals, due to both the higher margin work and the barriers to entry such as clearances.

Five deals in 2003 were platform deals or those that meaningfully expanded the presence of the acquirer in the federal sector. Examples include Computer Horizon’s acquisition of RGII and Perot’s acquisition of Soza.

<u>GENERAL DYNAMICS/VERIDIAN</u>	
<u>TRANSACTION</u>	
DEAL VALUE	\$1,484.2M
REVENUE MULTIPLE	1.6X
EBITA MULTIPLE	17.8X
PREMIUM	27%
CONSIDERATION	CASH AND
	ASSUMPTION OF DEBT

Figure 4 Selected Deals in the Government Sector

(\$ in Millions)

Date Closed	Seller	Buyer	Enterprise Value	Multiple of Revenue
Pending	ACS' Federal Government Unit	Lockheed Martin	\$551.0	0.8x
Pending	Veridian	General Dynamics	\$1,484.2	1.6x
Pending	National Systems & Research	SCB Computer Technology	ND	NA
Aug-03	Opta	SAIC	ND	NA
Aug-03	R.M. Vredenburg	American Management Systems	\$48.7	0.9x
Jul-03	XonTech	Northrop Grumman	ND	NA
Jul-03	RGII Technologies	Computer Horizons	\$31.0	0.9x
May-03	Information Spectrum	Anteon International	\$90.7	0.7x
May-03	Premier Technology Group	CACI International	ND	NA
May-03	Technical and Management Services	Engineered Support Systems	\$66.5	0.6x
Apr-03	Computer Systems Technology	SAIC	ND	NA
Apr-03	ITS Services	Arlington Capital Partners	ND	NA
Mar-03	Mevatec	BAE Systems	\$82.0	0.7x
Mar-03	MSM Security Services	ManTech International	\$4.6	0.2x
Mar-03	Dyncorp	CSC	\$950.0	0.4x
Mar-03	Applied Technology Solutions	CACI International	ND	NA
Feb-03	Integrated Data Systems	ManTech International	\$62.7	1.6x
Feb-03	Soza	Perot Systems	\$119.2	0.9x
Feb-03	Conquest	Boeing	ND	NA
Feb-03	Remtech Services	SCB Computer Technology	\$12.5	0.4x
Feb-03	The Analysis Corp.	SFA, Inc.	ND	NA
Feb-03	Sciencetech's DoD Business Unit	SAIC	ND	NA
Feb-03	Adroit Systems Inc	SRA International	\$38.9	0.9x
Feb-03	Paragon Dynamics	Zanett	\$4.8	0.9x

Where are Values Today?

Public Government IT services companies' valuations remain at all time highs, with the average EV/LTM Revenue and EV/LTM EBITDA multiples hovering around 1.5x and 15.1x, respectively. Strong fundamental performance coupled with a sector rotation back into technology has aided multiple expansion in the sector.

Despite a rise on public valuations, M&A exit multiples have been mixed and vary largely by end-market focus, growth and profitability of individual targets. Interestingly, in spite of premium stock valuations majority of public acquirers have resorted to the use of cash to pay for acquisitions.

As growth opportunity for the sector remains intact, we expect government IT services M&A pipeline to remain strong for the remainder of this year.

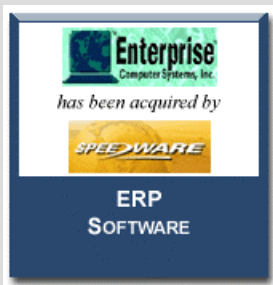
Figure 5 Selected Government IT Services Companies

Company	Market Value				LTM EBITDA		Enterprise Value as a Multiple of				Equity Multiple	
	Price	% of 52	Market	Enterprise	LTM EBITDA	MRQ Y/Y	Revenues		EBITDA (2)		Price / Earnings	
	9/2/2003	Week High	Cap	Value (1)	Margin	Rev Gwth	LTM	CY 2003	LTM	CY 2003	LTM	CY 2003
AMS	\$14.78	92.4%	\$624.0	\$522.2	9.4%	(9.7%)	0.6x	0.6x	5.9x	5.3x	20.8x	26.9x
Anteon Int'l	32.70	90.8%	1,131.7	1,220.1	8.9%	18.1%	1.5x	1.2x	16.5x	14.4x	33.0x	28.4x
CACI Int'l	45.53	99.0%	1,341.4	1,200.1	9.5%	21.4%	1.5x	1.3x	15.7x	14.0x	30.0x	26.8x
ManTech	24.14	92.8%	770.9	817.0	8.6%	37.0%	1.5x	1.2x	17.5x	12.8x	25.4x	22.1x
Maximus	36.45	98.5%	766.0	676.4	13.2%	7.1%	1.3x	1.2x	9.5x	8.9x	21.1x	23.2x
MTC Technologies	22.90	79.0%	299.9	277.9	9.3%	51.4%	2.1x	1.6x	22.9x	14.6x	29.0x	25.7x
PEC Solutions	20.94	53.7%	617.5	574.1	20.0%	13.7%	3.0x	2.9x	15.2x	16.6x	28.3x	30.3x
SI Int'l	17.90	126.1%	151.1	138.6	5.9%	23.5%	0.9x	0.8x	15.0x	9.6x	37.3x	22.9x
SRA Int'l	36.63	99.0%	872.9	792.6	10.5%	18.7%	1.9x	1.6x	17.7x	13.9x	33.3x	30.0x
Titan	16.24	95.5%	1,317.0	1,629.0	7.3%	20.2%	1.1x	1.0x	15.3x	12.3x	27.5x	22.9x
Mean		92.7%			10.3%	20.1%	1.5x	1.3x	15.1x	12.2x	26.6x	25.9x
Median		94.2%			9.3%	19.5%	1.5x	1.2x	15.5x	13.3x	27.5x	26.3x

(1) Enterprise value is equal to market capitalization plus debt minus cash.

(2) EBITDA excludes all one-time charges and expenses.

UPDATA's 2003 ANNOUNCED/COMPLETED TRANSACTIONS



Updata Capital, Inc. is a leading investment banking firm specializing in mergers and acquisitions for the technology industry. Since its inception in 1987, Updata has managed over 350 mergers and acquisitions for software, e-commerce, Internet and IT consulting firms, representing an aggregate value over \$10 billion. For the past four years, Thomson Financial Securities Data Co. has ranked Updata as one of the top ten leading advisors for IT mergers and acquisitions in the United States. Updata Capital has offices in Red Bank, New Jersey and Reston, Virginia.

For more information, please contact:

Gretchen Guandolo
Vice President, Updata Capital
gguandolo@updata.com

Greg Treger
Vice President, Updata Capital
gtreger@updata.com

Reston, VA: 2100 Reston Parkway, Suite 430, Reston, VA 20191
Red Bank, NJ: 125 Half Mile Road, Red Bank, NJ 07701