

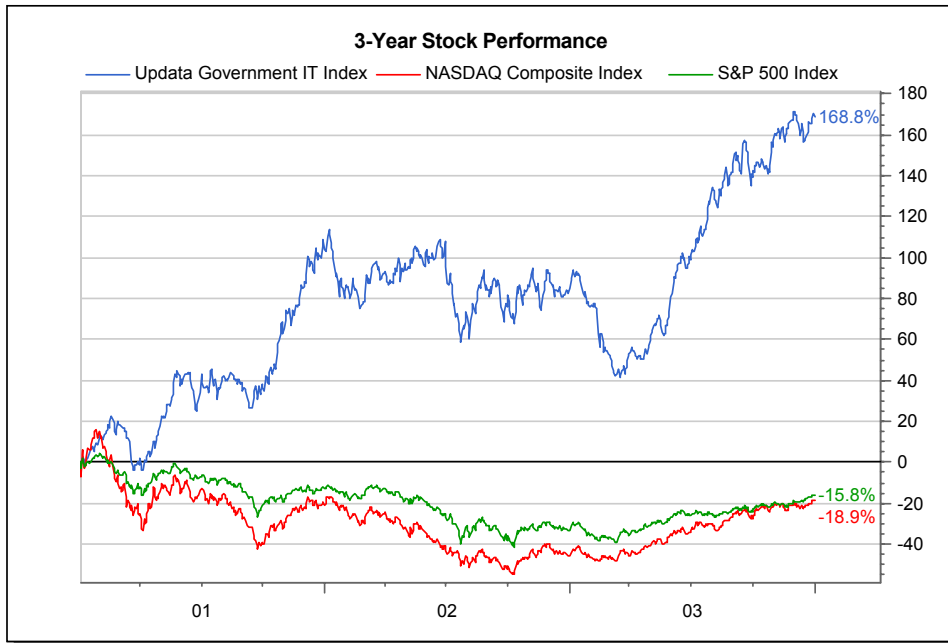
2003 Government IT Services Review

2003 has been another exemplary year for the government IT services sector. War, continued terrorist threats and the strong trends toward outsourcing all have continued to fuel the growth that government IT services companies have enjoyed for over 2 years. While the Update Government IT Index reflects a 45% increase over the past year, the same index is up nearly 170% over the past three years. The robust valuations in this sector held their value over the past year, even as the struggling commercial sector began showing signs of life and offered other positive areas for investment. M&A activity also

continued at a robust pace throughout 2003 with over 30 transactions and 2 mega mergers in the sector.

Public offerings

The Capital Markets continued to reward the government IT services sector in 2003. While the number of offerings was significantly down from 2002, each transaction represented a successful offering, demonstrating continued investor appetite. In June, SRA International raised \$91 million in a secondary



offering to use for general purposes, including future acquisitions. Anteon completed its secondary in September and raised \$223 million, although all proceeds went to unnamed selling shareholders rather than to the Company. Ending the nearly year-long dry spell of IPOs in this sector, DigitalNet completed its IPO in October, raising \$85 million. After canceling the offering earlier in the year, the company had a successful IPO with the stock trading up more than 15% on the first day of trading.

Deals and Mega Deals

The completion of the CSC / Dyncorp transaction in early 2003 set the stage for a year of robust M&A activity. 2003 was the year of mega deal announcements with the Veridian / General Dynamics and Titan / Lockheed Martin transactions, which further solidified the acquirors in their dominant positions as top tier federal vendors. Together these two deals represented almost \$4 billion of deal value. These deals also further illustrate the premium associated with larger sized deals.

Selected Transactions	Enterprise Value	Revenue Multiple	EBITDA Multiple	1-Day Deal Premium
General Dynamics / Veridian	\$1,484	1.6x	17.8x	28%
Lockheed Martin / Titan	\$2,446	1.5x	19.2x	30%

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The pace of consolidation remained strong with over 30 deals announced last year. Deal values ranged from .6x trailing revenue on the low end to 1.6x revenue on the high end. Companies focused on the faster growing DoD and intel markets continued to command a slight premium over civilian agency focused targets. Companies with high barriers to entry, such as security clearances, represented the highest deal multiples. Active acquirors in 2003 were the usual suspects such as CACI, Mantech and MTC, with three transactions each. Aerospace and defense companies also fueled consolidation as they sought to broaden their services offerings, while financial buyers continued to pick over the sector with a notable investment by Arlington Capital in ITS Services and New Mountain in PlanetGov.

2004 Outlook

In 2004, we will continue to see sector consolidation, including a couple mega deals, as the pure play government services companies look for new areas of growth. The President's FY 2005 budget for information technology contains only a 1% increase over the previous year, encouraging acquisition growth over organic growth.

With 7 IPOs and 5 secondary offerings in the past two years, this sector continues to show signs of investor enthusiasm. Maintaining this momentum will be difficult considering the pipeline of companies in the government sector. While the DigitalNet IPO was successful and demonstrated continued investor demand, the supply of good candidates with over \$100 million in revenue is still very uncertain.