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The McLean Group is a national, middle market investment bank serving businesses generating up to \$500 million in annual revenues. For more information, visit www.mcleanllc.com.

Feature Article:

The Shifting Multiple-award Contracts Landscape: Getting Your Share of the GWAC/MAC Task Order Pie

By Steve Lebischak

Think A GWAC is Too Big for Small Business- Think Again

During a November early morning panel discussion high atop Northern Virginia's Tower Club Mr. Jim Philoni, Deputy Director of the GWAC Programs for GSA, proclaimed new Government Wide Agency Contracts (GWAC) rulings were a "fairly seismic" change and would impact opportunities for small business. How can you turn these seismic changes into opportunities to grow your business? The first step is to understand the world of GWACs and how the program has evolved.

The federal government spends about \$200 billion annually on the acquisition of goods and services with a goal to provide at least a 23 percent, or a nearly \$50 billion share of these expenditures to small businesses. Acquisition streamlining reforms in the mid-1990's, however, reduced the opportunities for small businesses to compete for federal government contracts. The reforms included provisions to facilitate the increased use of multi-agency contracts or GWACs for federal agencies to access each other's information technology contracts.

Today as a result of the increased difficulty in getting contracts and task orders in place, contract's terms and dollar value ceilings are increasing so that fewer contract vehicles need to be created. These increases in size and scope make new contract opportunities fewer and farther between; all the more important and increasingly competitive as they draw broad industry interest. Companies realize that if

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Expert Tips: What to do in this economy: Acquire, Grow or Stay Put?

By Greg Boucher

Equity values of public companies across the board have plummeted, a new administration is upon us, and the liquidity of the US and major global financial markets is problematic at best. But what's happening on Main Street? For government contractors, is it a good time to acquire? Should businesses wait to see what happens, or is this a good time to implement an organic growth plan?

Today's overall financial market conditions clearly have reduced some valuations among middle market government contractors seeking acquirers (although not dramatically- on average perhaps 10% - 20% off their highs of two years ago). Certainly, some values have been less impacted by this economy than others. Many, perhaps most-of these companies are otherwise quite sound. In this respect, they may present excellent opportunities for would-be acquirers seeking to augment their own organic growth through the acquisition of one or more firms that fit the acquirers' short-and long-term corporate strategies.

Industries experiencing depressed valuations today offer excellent opportunities for well-prepared, well-positioned acquirers to buy competitors or complete vertical acquisitions at more favorable multiples than in recent years. The market also is favoring prospective buyers with more favorable terms and conditions. One critical caveat: cash is once again king, as it has become significantly more difficult to execute leveraged transactions. However, earn outs and other forms of deferred compensation have become the norm in today's GC M&A landscape and are to be expected to garner credit for future value of cash-flows and contract backlog as buyers remain skittish about what may look around the corner. When structured correctly, earn outs benefit both buyer and seller with an option that can bridge the gap of higher seller valuation expectations and a reduction of risk for that buyer.

Given current economic conditions, would-be acquirers first



should ensure that they have the bandwidth-advisors, staffing and no less important, the dry powder (cash reserves) to close one or more prospective acquisitions if the targets are suitable and the timing is right.

Today's economy also presents very good opportunities for organic growth. Strategy consultant Josh Hurewitz, PhD, writes in his newsletter *Key Business Issues for the Middle Market* that if this market is forcing a company to "...make significant changes to its approach to the market (getting new customers, new market channels or new products and services), then marketing should not necessarily be cut, and it might even need to be enhanced." Hurewitz goes on to say that sales should not be cut if a dedicated selling effort is required to grow or maintain revenue. However, many companies cut both as a way to save costs without a critical look at how this fits their long term strategies.

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Ratcheting up sales and marketing efforts in a down economy runs counter to what many companies' senior management feel forced to do to preserve cash. However, there are many reasons not to cut, but instead redouble these efforts in a market downturn. If companies have done their research, find that they can compete effectively, that sales are to be had, and that they have capital to increase sales and/or marketing- then doing so while many of their competitors retreat, may prove an excellent strategy in a bad economy.

Two studies to note:

McGraw-Hill Research analyzed 600 companies covering 16 different SIC industries from 1980 through 1985. The results showed that business-to-business firms that maintained or increased their advertising expenditures during the 1981-82 recession averaged significantly higher sales growth. By 1985, sales of companies that were aggressive recession advertisers had risen 256% over those that didn't keep up their advertising!

In analysis of the 1990-91 recession, Penton Research Services, Coopers & Lybrand, in conjunction with Business Science International, found that cuts in advertising during a recession decrease net income over the long haul. Companies that maintained advertising during the recession enjoyed measurably higher net income gains not only during the recession, but even more so two years after the recession.

Another strategy for government contractors to achieve growth is by acquiring sales talent. With many companies initiating hiring freezes or cutting back, the available talent pool has grown considerably in most industries. This has given employers better opportunities to hire highly qualified candidates who can hit the ground running. Good business developers already have established valuable relationships and contacts that should prove advantageous for their new employers from day one. Companies that ramp up their sales forces while their competitors are laying off talent may find that it's much easier to get in the door and close deals.

Government contractors whose senior management command clear strategies, reliable competitive intelligence and sufficient financial and managerial resources will find this an excellent time to make a concerted effort to reach opportunistically; capturing market share at a discount.

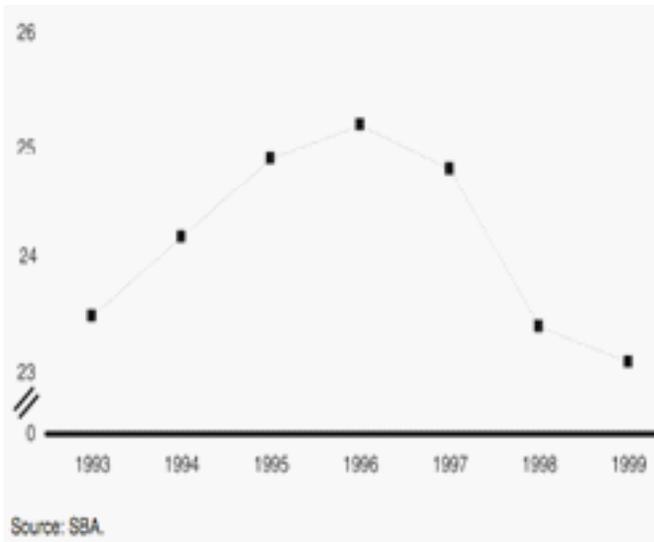
Both approaches to growth- either through business acquisition or organic customer acquisition- constitute smart strategies in down economies. Companies that pursue such strategies and execute these strategies well should find that their efforts will help them grow today while positioning themselves for success in an eventual market recovery.



Greg Boucher is a Managing Director in The McLean Group's Baltimore office. He has more than 20 years of industry and business consulting experience. He holds professional credentials as a Certified Business Intermediary (CBI) and a Certified Machinery and Equipment Appraiser (CMEA).



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Procurement emphasis has moved from streamlining to oversight as contracting officers strive to avoid a procedural misstep and now with the common post award protest, (with no penalty for frivolous protests) the number is bound to increase. In addition the government has a limited acquisition work force as there were few hires made in the 90s so missing is the band of ten to fifteen yeomen.

These super sized contract vehicles can diminish small businesses' ability to compete for federal contracts when the procurements consolidate multiple agencies' requirements or call for performance over a wider geographical area than a small business can accommodate.

However, in October the GAO reviewed the Navy's recent interpretation of the "Rule of Two". "The Rule of Two" is a long standing requirement for agencies to set aside any acquisition exceeding \$100,000 for small businesses if there is a reasonable expectation of receiving fair market price offers from at least two responsible small business concerns.

The Navy acted in saying the "Rule of Two" does not apply to issuance of task orders. In fact, the Navy further argued that Congress refused to require that agencies apply FAR to the issuance of task orders.

The SBA contended that the "Rule of Two" does apply to the issuance of task and delivery orders and that the Navy

was required to set aside the delivery order for the small business ID/IQ contract-holders.

In addition, the SBA contends that the Navy unreasonably decided that it could not expect to receive offers from at least two responsible small business concerns at fair market prices. The SBA is pushing back on the path of least resistance - to just go with the largest company, stating that in many cases, large businesses are, in essence, a collection (akin to a team) of smaller business units welded together after mergers and acquisitions - often of previously small businesses.

Now that you understand the background, here's the opportunity. Since small business now has an ally with the SBA, why can't small businesses combine to create their teaming federation and go after these contracts? Expect an increased opportunity to participate in GWACs, a high level of competition on-ramps to take place of small businesses that may no longer qualify. As in all proposals a key to winning is to develop a relation with the program manager and even consider a protest if you feel there is justification.



Steve Lebeschak is a Managing Director within The McLean Group's Government Contracting practice and a former government Contracting Officer's Technical Representative at what is now Homeland Security.



The McLean Group Advises Haselwood Enterprises on Sale To Tetra Tech, Inc.

McLean, VA, January 8th, 2009 – The McLean Group today announced that it acted as a mergers and acquisitions (M&A) advisor to Haselwood Enterprises, Inc. (HEI) in its sale to Tetra Tech, Inc. (NASDAQ: TTEK).

HEI is a professional services firm that focuses on providing key services to support the national security, environment and energy missions for primarily the Department of Energy and the National Nuclear Security Agency. HEI was recently named the US Department of Energy’s Small Business of the Year (2008). HEI has approximately 120 employees and is headquartered in Oak Ridge, Tennessee, with additional offices close to the DOE’s Portsmouth, Ohio and Paducah, Kentucky sites.



Tetra Tech is a leading provider of consulting, engineering, and technical services. It supports commercial and government clients, providing responsible resource management and sustainable infrastructure services that encompasses the full-life cycle of solutions. Tetra Tech’s Chairman and CEO Dan Batrack stated, “This acquisition is evidence of our focus on serving the NNSA, DOE, and commercial nuclear markets, which we believe will provide a strong foundation for our commitment to the alternative energy market.”

The McLean Group was successful in identifying, securing and negotiating the strategic transaction with Tetra Tech on behalf of HEI shareholders. Lead banker Cameron Hamilton focused on identifying potential acquirers to which HEI would represent a strategic expansion into the nuclear services federal contracting market. “Mr. Hamilton’s superior knowledge of the market and skills to handle every facet of the transaction made him the ideal financial advisor,” HEI’s co-founder Rose Wood commented.

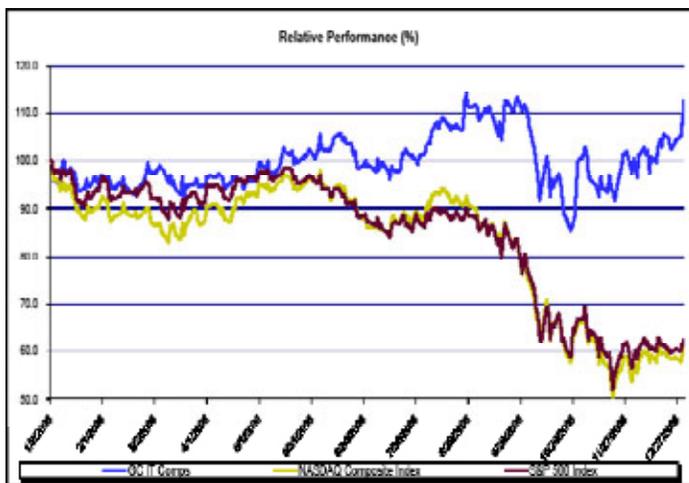
As a close advisor to HEI on all aspects of the transaction, “The McLean Group has the superior financial skills, experience and tenacity to assure success,” said Dr. Hal Haselton co-founder of HEI.

GC Industry Landscape Overview

Market Highlights

- **STILL ACTIVE M&A MARKET...**The worldwide economic downturn has dealt only a slight blow to the mergers and acquisitions market for federal contractors, with deals at all sizes moving forward. Major deals included the final approval for Italian defense firm Finmeccanica SpA's \$5.2 billion acquisition of DRS Technologies and Serco's \$423 million acquisition of SI International.
- **RISING INTELLIGENCE BUDGET...**According to the Office of the Director of National Intelligence, spending on National Intelligence Programs reached \$47.5 billion in fiscal 2008, up 9 percent from the previous year's \$43.5 billion.
- **ACTIVE PRIVATE EQUITY...**Despite liquidity issues, private equity continues to be active in acquiring and expanding platforms. Recently, Veritas Capital acquired CherryRoad GT Inc. and DC Capital Partners bought Multi-Threaded Inc.
- **FALLOUT OF SMALL BUSINESS REGULATIONS...**Despite the regulatory changes, there continues to be a steady stream of deals closed with small business attributes.
- **DOWN BUT NOT OUT...**Government IT spending is expected to slow from its growth rates over the last decade, but it is still forecasted to grow at two percent annually from 2009 to 2014 (Source: ITAA).

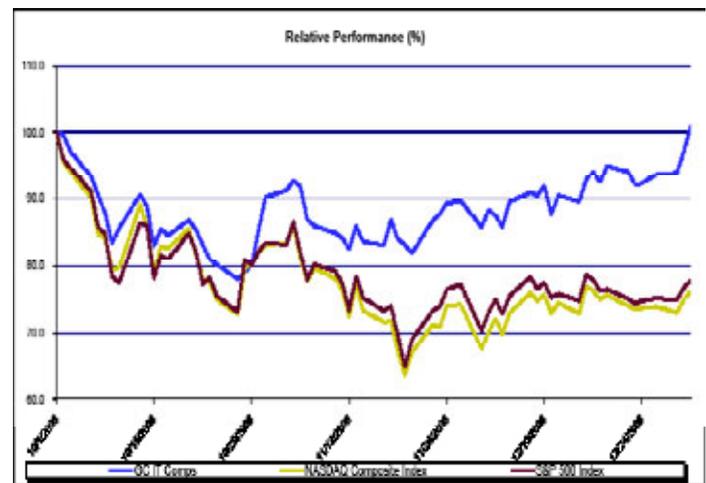
Year 2008



GC IT public companies* held its own while the overall market has gone through an approximate 40% downfall.

GC IT Comps included in graph: :CAI, DRCO, ICFI, MANT, NCIT, SINT, SRX, SXE

Q4 2008



GC IT public companies* maintained their market value throughout the 4th quarter, while the general market dropped over 20%.

Select GC M&A Transaction Deals in 2008

Acquired	Acquirer	Select Highlights
CRGT, Inc.	Veritas Capital; Veritas Capital Fund III, L.P.	D.E. Shaw and SunTrust Bank provide financing
DPK Consulting	Tetrattech/ARD, Inc.	DPK Consulting provides rule-of-law expert consulting to USAID.
The Federal Software Group, Inc.	Boeing Co. (NYSE: BA)	Military supply-chain and logistics provider.
Chesapeake Sciences Corpora-	L-3 Communications Holdings (NYSE:LLL)	\$70 million US Navy supplier of ASW systems.
EWA Services, Inc.	ManTech International Corp. (NasdaqGS: MANT)	\$20 million in 2009 with 90% of employees holding
Camber Corporation	New Mountain Capital, LLC	Acquired 70% stake from employees and senior managers
RDI Systems, Inc.	Kforce Government Solutions, Inc.	\$38 million in cash (1.19x revenues).
International Resources Group	L-3 Communications Holdings Inc. (NYSE:LLL)	IRG expected to generate \$100M in revenue in 2009.
Log.Sec Corporation	Computer Sciences Corporation (NYSE:CSC)	Defense contractor with 385 employees.

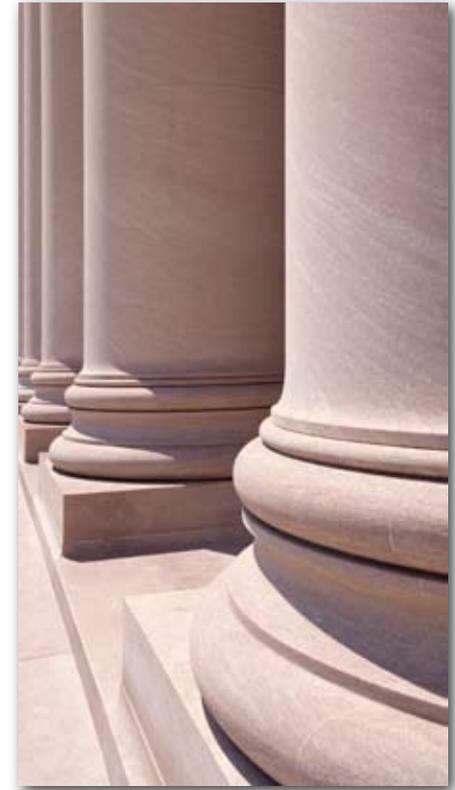
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The McLean Group: Specializing in Government Contracting

The McLean Group’s investment bankers can help companies address the challenges ahead. We act as trusted, essential advisors to government contractors considering short-term or long-term sell-side and/or buy-side M&A and capital formation opportunities. The McLean Group’s investment bankers leverage their skills in navigating the complex M&A process particular to this industry to maximize their clients’ value.

The McLean Group’s GC practice incorporates:

- An industry-focused team led by highly-experienced investment bankers
- The McLean Valuation Services Group, which annually completes more than 50 valuation engagements involving government contractors
- A Board of Advisors comprised of prominent business leaders, many of whom have extensive experience in politics, government, the military and government contracting
- An exceptional research staff
- An in-house Exit Strategies Institute for business owners planning exit strategies 18 months to 48 months out.



The McLean Group’s Select GC Transactions

Office Locations:

Washington, DC (Headquarters)

Anchorage, AK

Atlanta, GA

Austin, TX

Baltimore, MD

Baton Rouge, LA

Boston, MA

Bozeman, MT

Charlotte, NC

Cheyenne, WY

Chicago, IL

Cleveland, OH

Columbus, OH

Dallas, TX

El Paso, TX

Halifax, Nova Scotia

Los Angeles, CA

Lubbock, TX

Miami, FL

Orlando, FL

Phoenix, AZ

Reno, NV

Sacramento, CA

San Diego, CA

Silicon Valley, CA

St. Louis, MO

Tulsa, OK

Winchester, VA

Wooster, OH

About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. The McLean Group serves businesses generating up to \$500 million in annual revenues. Headquartered in Washington, DC's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the region. The McLean Group is a FINRA Registered Broker/Dealer and Member FINRA/SIPC.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates in order to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from \$5 million to \$250 million to support clients' expansion, mergers & acquisitions (M&A), refinancing, recapitalization, leveraged buyout and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, we provide business executives with comprehensive market intelligence reports, which give the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.
- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.
- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that can have a significant impact on the value of a business.

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