

# Homeland Defense Journal

"He is best secure from dangers who is on his guard even when he seems safe." —Syrus Publilius

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## Congress Goes Home; Leaves Much Unfinished

### Lame Duck Session Scheduled

*Steven Kingsley  
For Homeland Defense Journal*

Unable to reach agreement on homeland security legislation, Congress passed a temporary funding bill last week and left town until after the elections.

When members return November 12 for a lame duck session, they face a full plate of legislation they were unable to agree upon during the regular session.

At the top of the agenda is work on legislation to create the new Department of Homeland Security, which began in June when President Bush sent his proposal to the Hill. Initially, Congress planned to pass the bill by the

first anniversary of the Sept. 11 attacks. But that date has come and gone. In July, the House passed a version of the bill. However, there has been less progress in the Senate.

Talks between the White House and Senate Democrats have been unsuccessful. Personnel rules remain the most contentious issue. The president demanded flexibility in administering civil service personnel rules to the staff of the new department. Democrats, backed by federal employee unions, opposed his demand, stating that it could lead to unfair treatment of federal workers. Discussions between the White House and

Congressional staff are expected to continue during the recess. If agreement isn't reached during the lame duck session, Congress will have to start from scratch next year.

Completing the fiscal year 2003 budget would also top the agenda in November. Only two of the 13 appropriations bills – Defense and Military Construction – have been sent to the president. A series of continuing resolutions (CR) have kept the federal government in operation since Oct. 1. The last CR would expire Nov. 22.

Budget completion isn't expected to be easy. House Republicans have sided with

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## Texas A&M Sets Framework for Safeguarding Food Supply

*By Kathleen Phillips  
For Homeland Defense Journal*

Agricultural experts with Texas Cooperative Extension have created a process to help local jurisdictions across the nation assess the vulnerability of the food supply for terrorist attacks.

The assessment guideline has gone forward to the U.S. Department of Agriculture and the U.S. Department of Justice, which are expected to recommend its implementation nationwide, according to John Guido, National Emergency Response and Rescue Training Center program director.

The training center, an agency of the Texas Engineering Extension Service, would assume responsibility for training localities across the nation on how to use the process.

"This assessment tool will be the national model used by officials in local communities to help determine possible targets for terrorist attacks on agriculture," Guido said. "It aims at protecting the food supply and the inputs used for agriculture production."

Guido said the national assessment process was ongoing prior to the Sept. 11 attacks but rural vulnerability – thus the U.S. food supply – was only partially considered until recently.

Extension experts were assembled after a meeting with Texas A&M University's Institute for Countermeasures against Agricultural Bioterrorism revealed the high level of potential vulnerabilities in rural areas. The team included Extension specialists from crops, animal science, veterinary medicine, plant pathology, wildlife and fisheries and communications.

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# Aronson Capital Partners' Homeland Defense Index

Aronson Capital Partners' Homeland Defense Index focuses on publicly traded companies that provide services and products to the federal government in support of homeland security and national defense. The index is further segmented into the following sectors:

- defense/aerospace
- federal information technology
- Diversified IT and security

Current valuation and operating metrics are provided for companies comprising the index. The companies targeting the homeland defense market provide novel technologies and services in the areas of biometrics, explosive detection and information technology solutions to enhance the government's communication systems and improve its intelligence,

surveillance and reconnaissance activities.

Since the Sept. 11 terrorist events, there has been unprecedented interest in these companies by the public markets, capped off by seven initial public offerings and a round of secondary offerings by the large prime defense contractors.

In response to the current threat, the president allocated approximately \$37.7 billion from the 2003 budget to be dedicated for homeland security, up from \$19.5 billion in 2002 (\$29.2 billion including the \$9.8 billion emergency supplemental funding).

The majority of the recent contracts awards to fund homeland security initiatives have focused on the most immediate needs, such as aviation security, border security and bio-terrorism.

*continued on page 12*

## Aronson Capital Partners, LLC - Homeland Defense Index<sup>®</sup>

(\$ in Millions)	Ticker Symbol	Recent <sup>1</sup> Stock Price	Enterprise <sup>2</sup> Value	HISTORICAL RESULTS <sup>3</sup>			DEBT-FREE MULTIPLES			EQUITY MULTIPLES		OPERATING MARGINS		
				Trailing Twelve Months			Enterprise Value to:			Forward P/E <sup>4</sup>	Price/ Book	EBITDA	EBIT	
				Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT					
<b>Defense/Aerospace</b>														
Lockheed Martin Corp.	LMT	64.67	\$34,439.0	\$25,811.0	\$2,437.0	\$1,735.0	1.33x	14.1x	19.8x	22.6x	4.0x	9.4%	6.7%	
Northrop Grumman Corp.	NOC	124.04	\$18,981.2	\$16,391.0	\$1,904.0	\$1,232.0	1.16x	10.0x	15.4x	18.8x	1.7x	11.6%	7.5%	
General Dynamics	GD	81.33	\$18,000.2	\$13,160.0	\$1,772.0	\$1,517.0	1.37x	10.2x	11.9x	14.8x	3.3x	13.5%	11.5%	
Raytheon Company	RTN	29.30	\$17,983.6	\$17,004.0	\$1,434.0	\$863.0	1.06x	12.5x	20.8x	14.0x	1.1x	8.4%	5.1%	
L-3 Communications	LLL	52.70	\$6,378.7	\$2,976.0	\$430.6	\$345.7	2.14x	14.8x	18.5x	19.9x	2.3x	14.5%	11.6%	
Rockwell Collins, Inc.	COL	21.94	\$4,049.8	\$2,610.0	\$281.0	\$189.0	1.55x	14.4x	21.4x	16.4x	3.3x	10.8%	7.2%	
Alliant Techsystems Inc.	ATK	69.25	\$3,550.0	\$1,926.3	\$321.4	\$241.5	1.84x	11.0x	14.7x	19.0x	4.5x	16.7%	12.5%	
United Defense Industries, Inc.	UDI	23.60	\$1,512.6	\$1,354.2	\$139.2	\$89.7	1.12x	10.9x	16.9x	12.2x	nm	10.3%	6.6%	
DRS Technologies, Inc.	DRS	37.22	\$652.9	\$545.1	\$66.8	\$52.8	1.20x	9.8x	12.4x	20.2x	2.4x	12.3%	9.7%	
Integrated Defense Technologies, Inc.	IDE	19.70	\$455.6	\$283.1	\$46.7	\$31.7	1.61x	9.8x	14.4x	15.9x	2.4x	16.5%	11.2%	
EDO Corporation	EDO	22.41	\$401.1	\$273.7	\$38.9	\$28.1	1.47x	10.3x	14.3x	21.8x	2.5x	14.2%	10.3%	
							Median	1.37x	10.9x	15.4x	18.8x	2.4x	12.3%	9.7%
							Average	1.44x	11.6x	16.4x	17.8x	2.7x	12.6%	9.1%
<b>Federal IT</b>														
Titan Corp.	TTN	9.60	\$1,347.3	\$1,375.6	\$94.3	\$53.1	0.98x	14.3x	25.4x	15.2x	1.2x	6.9%	3.9%	
Anteon International Corp.	ANT	27.18	\$1,032.0	\$764.9	\$70.0	\$54.9	1.35x	14.7x	18.8x	26.6x	9.0x	9.2%	7.2%	
Veridian Corp.	VNX	24.98	\$921.5	\$723.2	\$57.3	\$41.3	1.27x	16.1x	22.3x	23.6x	2.8x	7.9%	5.7%	
CACI International Inc.	CAI	35.45	\$909.5	\$681.9	\$65.2	\$53.1	1.33x	13.9x	17.1x	21.9x	2.8x	9.6%	7.8%	
Mantech International Corp.	MANT	23.46	\$563.1	\$448.0	\$37.0	\$32.7	1.26x	15.2x	17.2x	22.8x	4.3x	8.3%	7.3%	
PEC Solutions Inc.	PECS	22.26	\$535.3	\$141.2	\$24.5	\$23.3	3.79x	21.8x	23.0x	26.8x	4.6x	17.4%	16.5%	
SRA International, Inc.	SRX	28.63	\$476.1	\$361.2	\$28.5	\$20.7	1.32x	16.7x	23.0x	27.8x	3.5x	7.9%	5.7%	
MTC Technologies, Inc.	MTCT	21.66	\$256.3	\$98.7	\$8.1	\$7.4	2.60x	31.7x	34.8x	26.4x	7.2x	8.2%	7.5%	
Dynamics Research Corp.	DRCO	14.58	\$120.2	\$201.2	\$16.0	\$12.3	0.60x	7.5x	9.8x	13.6x	2.8x	7.9%	6.1%	
							Median	1.32x	15.2x	22.3x	23.6x	3.5x	8.2%	7.2%
							Average	1.61x	16.9x	21.3x	22.8x	4.2x	9.2%	7.5%
<b>Diversified IT</b>														
Electronic Data Systems Corp.	EDS	13.98	\$10,765.7	\$22,281.0	\$3,734.0	\$2,303.0	0.48x	2.9x	4.7x	5.9x	0.9x	16.8%	10.3%	
Computer Sciences Corp.	CSC	27.79	\$6,985.8	\$11,477.2	\$1,534.6	\$680.1	0.61x	4.6x	10.3x	9.0x	1.3x	13.4%	5.9%	
Affiliated Computer Services Inc.	ACS	42.55	\$6,286.9	\$3,062.9	\$511.1	\$400.6	2.05x	12.3x	15.7x	16.8x	2.7x	16.7%	13.1%	
URS Corporation	URS	16.57	\$1,048.5	\$2,357.9	\$205.6	\$167.8	0.44x	5.1x	6.2x	6.4x	1.0x	8.7%	7.1%	
American Management Systems	AMSY	12.73	\$466.6	\$1,044.5	\$117.1	\$73.8	0.45x	4.0x	6.3x	11.7x	1.3x	11.2%	7.1%	
Keane Inc.	KEA	6.75	\$465.8	\$821.1	\$42.5	\$16.5	0.57x	11.0x	28.1x	14.7x	0.9x	5.2%	2.0%	
Maximus Inc.	MMS	22.40	\$374.6	\$511.7	\$72.4	\$65.3	0.73x	5.2x	5.7x	10.9x	1.5x	14.2%	12.8%	
							Median	0.57x	5.1x	6.3x	10.9x	1.3x	13.4%	7.1%
							Average	0.76x	6.4x	11.0x	10.8x	1.4x	12.3%	8.3%
<b>Security</b>														
Identix Incorporated	IDNX	5.95	\$446.6	\$73.2	(\$28.0)	(\$31.5)	6.10x	nm	nm	nm	1.3x	df	df	
InVision Technologies Inc.	INVN	32.01	\$349.7	\$141.1	\$28.2	\$24.5	2.48x	nm	14.3x	nm	3.2x	20.0%	17.4%	
OSI Systems, Inc.	OSIS	17.30	\$160.8	\$124.2	\$13.9	\$10.0	1.29x	11.5x	16.1x	15.7x	1.6x	11.2%	8.1%	
Viisage Technology, Inc.	VISG	3.88	\$78.4	\$28.5	\$0.7	(\$3.8)	2.75x	nm	nm	nm	1.7x	2.4%	df	
							Median	2.62x	11.5x	15.2x	15.7x	1.7x	11.2%	12.7%
							Average	3.16x	11.5x	15.2x	15.7x	2.0x	11.2%	12.7%

<sup>1</sup> Price data as of 9/30/02

<sup>2</sup> Enterprise Value = Market Value + Preferred Equity + Minority Interests + Total Debt - Cash & Marketable Seci

<sup>3</sup> Source data as of most recently filing with S

<sup>4</sup> Forward P/E ratios calculated based on EPS estimates provided by Thomson Financial Sen

## Aronson Capital Partners' Homeland Defense Index

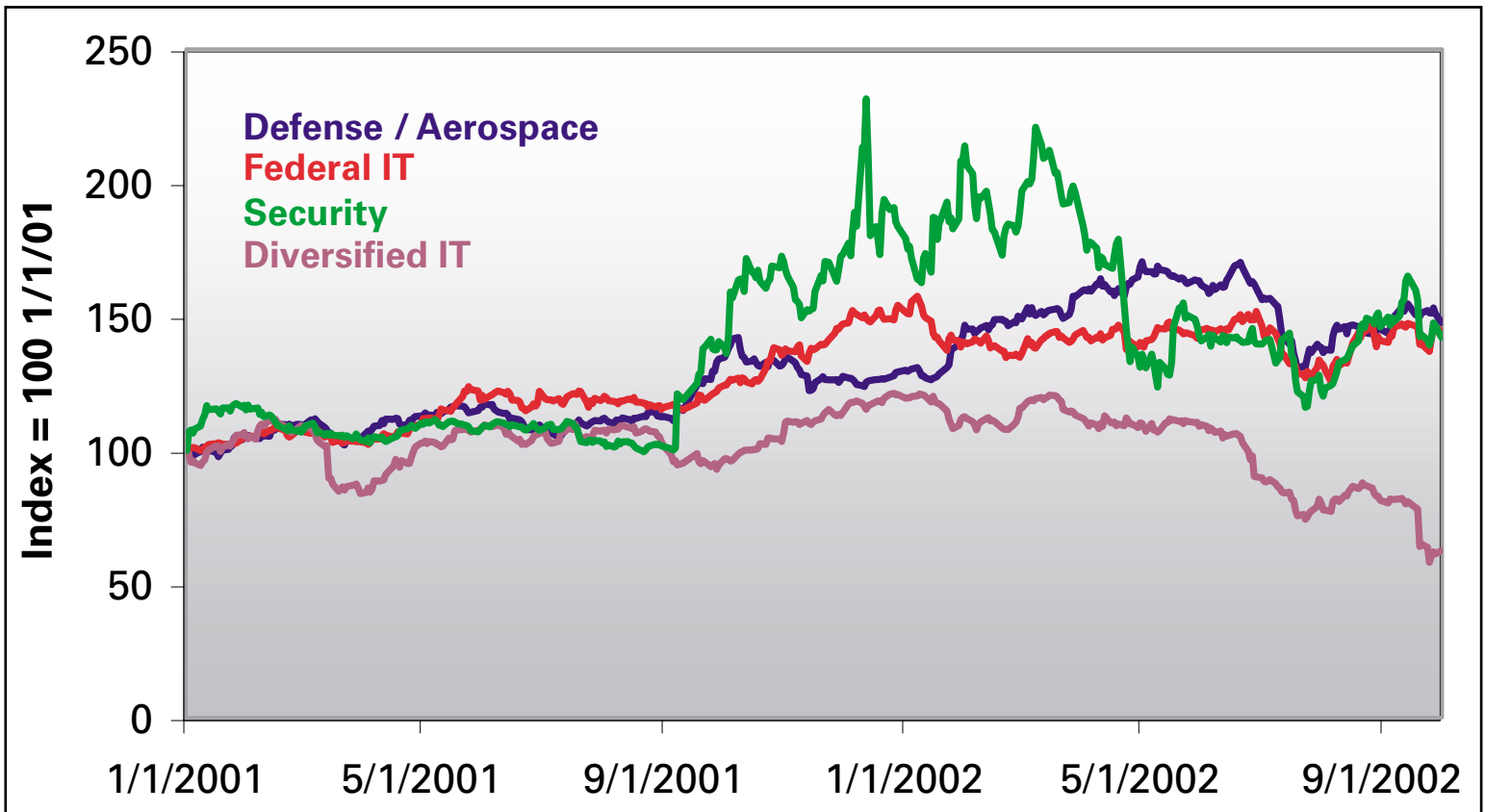
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President Bush signed into law the Transportation Security Act, which requires 100 percent explosive device screening of checked baggage at U.S. airports by the end of the year. The TSA awarded a \$508 million contract to Boeing to install 1,100 EDS and 6,000 explosive trace detection machines in the airports. There are currently only two certified suppliers of EDS to TSA – Invision Technologies and L-3 Communications. Future growth in this area will include detection systems earmarked for carry-on baggage, international airports, and other government, military, and sensitive installations, such as nuclear plants and courthouses.

With the exception of the diversified IT companies that have large exposure to the commercial technology downturn, the companies in the index have been growing organically by more than 10 percent annually due to increased federal spending on IT and homeland defense initiatives.

Also, many of these companies have active mergers and acquisitions programs to further augment their organic growth. There have been more than 140 acquisitions announced in the past 12 months in the industry, an increase of 25 percent over 2001.

Attracted by the prospects of rapid growth, increasing valuations, and further industry consolidation, private equity funds have also become active participants in the recent M&A activity. Profit margins also have improved as continued procurement reform has accelerated use of larger government-wide vehicles and fixed price contracts. As a result of increased federal budgets, investor focus, and improved profitability, industry valuations are at historically high levels as detailed in the index.



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