

Military Training & Simulation

Coverage Report

“Market Intelligence for Business Owners”

Q1 2013



Capstone Partners
Investment Banking Advisors



CAPSTONE PARTNERS LLC

200 South Wacker Drive
31st Floor
Chicago, IL 60606

www.capstonellc.com

Ted Polk

Managing Director
(312) 674-4531
tpolk@capstonellc.com

Lisa Tolliver

Director
(312) 674-4532
ltolliver@capstonellc.com

Military Training & Simulation

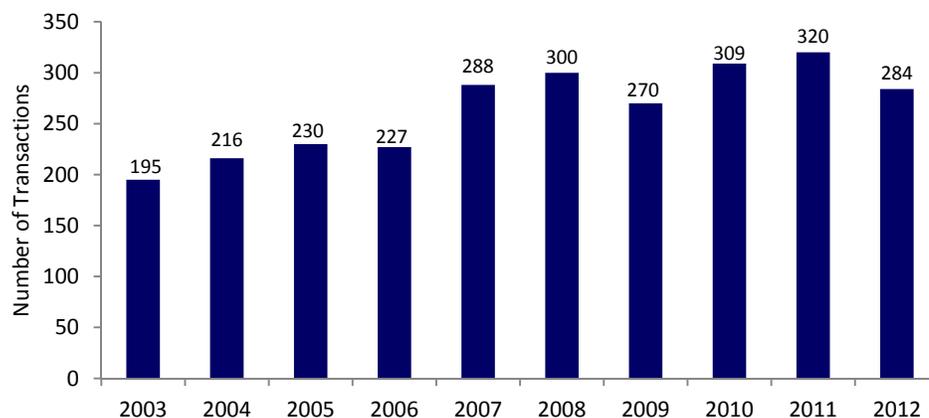
Coverage Report

MERGER & ACQUISITION ACTIVITY

If history repeats itself, as it usually does, the Military Training & Simulation industry is poised for a new wave of mergers and acquisitions. Such consolidation is typical during periods of significant cuts in defense spending and often includes both middle-market targets as well as transformative transactions. While the current environment remains clouded with questions as to exactly when and how sequestration cuts will be carried out, as the fog clears and the future becomes more certain, M&A activity in the space is expected to accelerate. The lifting of uncertainty is expected to reveal a defense industry that is perfectly primed for mergers and acquisitions, complete with buyers exhibiting strong pent-up demand, healthy balance sheets and excess cash, as well as a burning motivation to make acquisitions in response to a shrinking defense market.

PricewaterhouseCoopers estimates that more than 280 M&A transactions were completed globally in the aerospace and defense sector in 2012, following a record year in 2011. Recent deal activity was lead by acquisitions among aerospace companies. Acquisitions of defense companies were sidelined a bit in 2012, as buyers sat back and waited for more clarity on the issue of sequestration. Within the defense category, technology solutions, defense electronics and cybersecurity transactions represented the most active sectors.

M&A Activity: Aerospace & Defense



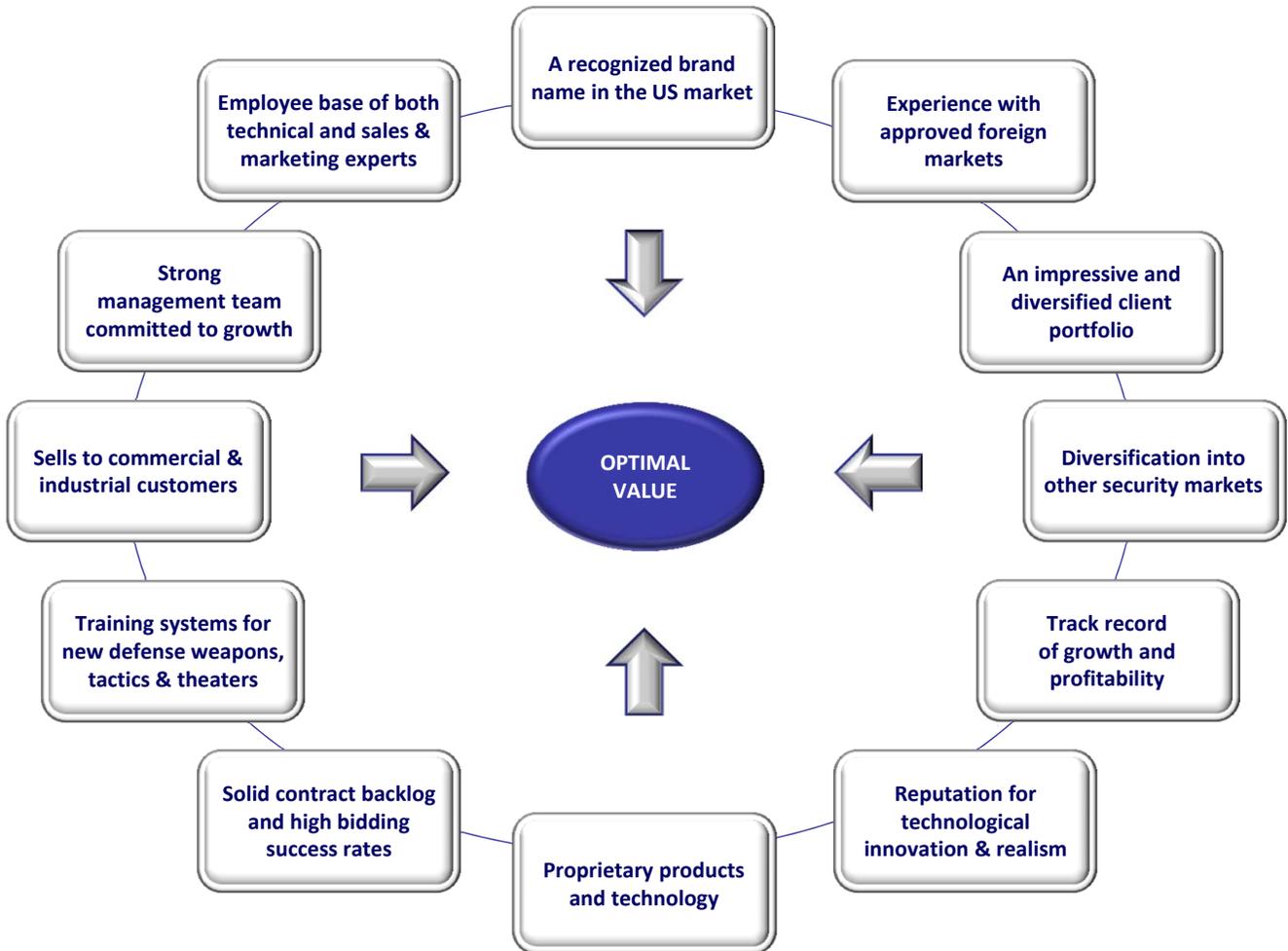
Source: PricewaterhouseCoopers, 2013

Capstone believes that 2013 will be a healthy year for M&A activity in the Military Training & Simulation industry. Not only will there be more clarity re: the effects of budget cuts, but there will be continued emphasis on the use of modeling and simulation tools and techniques to maintain ready forces in a cost-effective manner. In fact, the cuts in defense spending should only serve to reinforce this industry more. While many defense categories are expected to decline in coming years, the modeling and simulation market is expected to expand. Furthermore, the industry could be aided by troop drawdowns abroad. As the troops come home, over time fewer and fewer active military will have first-hand battle experience, emphasizing the benefits of modeling and simulation training.

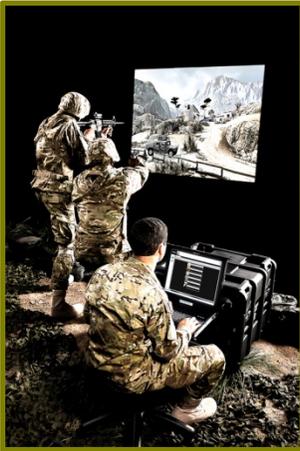
MARKET OBSERVATIONS: VALUE DRIVERS

Over the past six to nine months, we have been approached by an increasing number of private business owners in the Military Training & Simulation industry who are beginning to plan for an M&A exit. As a group, these owners believe that now might be a good time to begin planning for an exit in the next year or two if M&A activity – and corresponding values – in the industry rise as expected. Furthermore, business owners have skipped an entire exit cycle waiting for conditions to improve and, demographically speaking, there is now a large contingent of owners who are of or approaching retirement age. We also consistently hear that entrepreneurs in this space expect to feel increased competition from larger players. With such dynamics in place, owners appear to be more keenly focused on pursuing either a full exit from the business or merely taking some “chips off the table” in the form of a recapitalization and with the intent to diversify their concentrated wealth management risk.

As an investment banking advisor to Defense & Government Contractors, Capstone is involved with entrepreneurs at various stages of their exit process – from pre-liquidity planning to deal execution and close. As part of the process, we work with shareholders to help them assess their relative market position, strengths and weaknesses in an effort to ultimately help maximize shareholder value. Within the Military Training & Simulation space, we find the following characteristics are attracting buyers to targets, and contributing to market value premiums for companies.



If you are considering exploring the M&A or liquidity markets in the near future and would like to better understand your market position and relative valuation, please feel free to reach out to one of Capstone’s investment bankers focused on the Government & Defense sector.



NOTABLE TRANSACTIONS

With several transactions announced late last year, there has been a flurry of recent M&A activity in the industry. Most larger defense contractors now have a company, division, or group focused on training and simulation. These include Boeing Training & Flight Services, Lockheed Martin Information Systems & Global Solutions and L-3 Link Simulation and Training. There are also several large companies, such as CAE and FlightSafety International, Inc. that focus primarily on training and simulation, although CAE serves several different markets including healthcare. In addition, there are a number of companies that specialize in technologies related to training and simulation, as well as numerous small and mid-sized companies that operate either as systems integrators, subsystems and parts suppliers for training systems, or service providers specific to military training and simulation. Some of the industry's notable transactions are highlighted below, with a more inclusive summary of recent deals on the following page:

CAE makes several training & simulation acquisitions (2012) – CAE Inc. designs, manufactures and supplies simulation equipment and integrated training solutions for the military, airlines, healthcare and other markets. The company has been on an acquisition spree, making at least three acquisitions in 2012, on the heels of five completed transactions in 2011. In 2012 the company purchased the Oxford Aviation Academy, a provider of aviation training courses and flight simulator solutions, in a transaction valued at over \$300 million. This was followed by the acquisition of 80% of Flight Simulator-Capital L.P. Then in November, the company acquired Advanced Medical Technologies LLC, dba Blue Phantom, for \$20 million. The company has been diversifying away from its core in military and aeronautics training, with a new focus on healthcare and industrial applications. Founded in 1947, the company had annual revenues last year exceeding \$1.6 billion and employs 8,000 people at more than 100 sites and training locations in more than 20 countries.

The Riverside Company acquires Bohemia Interactive Simulations s.r.o. (December 2012) – Private equity firm The Riverside Company has invested in Bohemia Interactive Simulations s.r.o. (Bohemia), a developer and provider of games for training technology and interactive simulation systems sold to defense, emergency and mission-critical customers. Headquartered in Australia but with its primary operations in the US, Bohemia supplies the US Department of Defense, UK Ministry of Defense, Australian Defense Force and a range of other international clients. Riverside, with several technology investments, was attracted to Bohemia's tremendous growth opportunity in the simulation field, as it believes the provision of high-quality training across a wide range of skills and scenarios is critical to the effectiveness of modern militaries.

L-3 Communications purchases Thales Training & Simulation (August 2012) – The US company L-3 Communications acquired the civil aircraft simulation and training business of UK-based Thales Training & Simulation. The deal expanded L-3's military simulation unit, Link, into the airline market. With this acquisition, L-3 also strengthened its existing military training and simulation business by adding full flight simulator capability. The addition will enable L-3 to offer a full range of total training system solutions to both military and commercial customers.

RECENT MILITARY TRAINING & SIMULATION TRANSACTIONS

Date	Target	Buyer	Target Line of Business	Enterprise Value (\$mm)	EV / LTM Revenue	EBITDA
Jan-13	GeoEye, Inc.	DigitalGlobe, Inc. (NYSE:DGI)	Provides geospatial information and insight for defense and other markets.	-	-	-
Dec-12	Bohemia Interactive Simulations s.r.o.	The Riverside Company	Provides simulation technologies and integrated training solutions for military and civilian organizations.	-	-	-
Dec-12	Versant Corp.	Action Corporation	Develops database management software for complex applications including battlefield simulation.	\$16.4	1.1x	-
Dec-12	Novonics Corporation	Camber Corporation	Provides training simulation systems for decision making in high-stress environments.	-	-	-
Nov-12	Blue Phantom	CAE Healthcare, Inc.	Manufactures ultrasound training models for medical training including in the military.	\$20.0	-	-
Nov-12	VR Solutions Pty Ltd.	Christie Digital Systems USA, Inc.	Distributes video processing hardware products for simulation & training and other uses.	-	-	-
Nov-12	ECA Group S.A.	Raphael Gorgé	Provides robotics, simulation, control and security systems and training simulators for aeronautics.	-	-	-
Oct-12	Spatial Technology AB	Cartesia Informationsteknik AB	Develops geographic information solutions (GIS) and software for military training and other markets.	-	-	-
Sep-12	Aurora Integrated Systems Pvt. Ltd.	Tata Advanced Systems Limited	Manufactures systems & subsystems for applications including UAV training and external pilot training.	-	-	-
Sep-12	Open Kernel Labs, Inc.	General Dynamics Broadband, Inc.	Provides systems software and virtualization technology for embedded systems.	-	-	-
Aug-12	Infoscitex Corporation	DCS Corporation	Engages in the modeling, analysis and evaluation of war fighter capabilities.	-	-	-
Aug-12	Micro Nav Ltd	Quadrant Systems Limited	Develops air traffic control (ATC) and fighter control simulators and training systems for the aviation sector.	-	-	-
Aug-12	Thales Training & Simulation Ltd.	L-3 Link Simulation & Training	Provides simulation and training systems for military aircraft /defense, aerospace and air travel industries.	\$131.9	1.0x	-
Jul-12	OptiMetrics, Inc.	DCS Corporation	Provides training & simulation technology, including vehicle embedded modeling and simulation tools.	-	-	-
May-12	Oxford Aviation Academy UK Ltd.	CAE Inc. (TSX:CAE)	Offers training courses and flight simulator solutions for commercial and military crew and maintenance.	\$310.7	1.1x	-
Apr-12	Delphi Research, Inc.	TSG Solutions, Inc.	Provides information technology engineering, including modeling and simulation for the DoD and others.	-	-	-
Mar-12	Artis, LLC	Plasan North America, Inc.	Develops modeling and simulation technologies for defense systems and health science applications.	-	-	-
Feb-12	Defense & Security Technology Group, LLC	Acquired Sales Corp. (OTCPK:AQSP)	Offers modeling and simulation solutions to the intelligence community, homeland security & defense.	\$1.0	-	-
Feb-12	IP Video Systems, Inc.	Barco NV (ENXTBR:BAR)	Designs hardware and software for real-time, high-definition streaming for missile and virtual war gaming.	-	-	-
Jan-12	VT MAK, Inc.	Vision Technologies Kinetics, Inc.	Develops COTS tools and toolkits to link, simulate, and visualize a virtual world, including battlefield scenarios.	\$3.0	-	-
Jan-12	Procerus Technologies LLC	Lockheed Martin Corporation (NYSE:LMT)	Develops autopilot systems for unmanned aerial vehicles (UAVs) for military applications.	-	-	-

LTM = last twelve months; EV = enterprise value

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE'S EXPERIENCE

Capstone Partners has represented numerous companies that serve the needs of federal, state and local or foreign governments, as well as the needs of civilian and defense-related agencies. Our transactions include advising on the sale of Autometric, Incorporated, a company that assists with the modeling, simulation, visualization and analysis of geospatial used for mapping and related purposes; the company was acquired by Boeing. Our advisory work has spanned multiple industries and involved companies of diverse specialties. Capstone's professionals have completed transactions and/or developed sector-specific expertise in the following areas:

- ▶ Battlefield Simulation Software
- ▶ Educational Training of Defense/Government Personnel
- ▶ Geospatial Information and Analysis
- ▶ Biometric Identification Software Systems
- ▶ C⁴ISR Products and Services
- ▶ Cryptography
- ▶ Data Communication Systems
- ▶ Enterprise IT Support
- ▶ Enterprise Software Systems for State Governments
- ▶ First Responder Public Safety Software
- ▶ High Level Consulting
- ▶ Infantry Back Packs
- ▶ Intelligence Data Processing/Decision Support Activities
- ▶ Photogrammetry
- ▶ Tactical Data Linking and Remote Monitoring
- ▶ Testing of Body and Vehicle Armor, Explosives and Ordnance
- ▶ Large Aperture, Deep-Space Antennas
- ▶ Military Infrastructure Construction
- ▶ Mobile and Flyaway VSAT Antennas
- ▶ Post-Conflict/Disaster Support
- ▶ Remote Sensing Systems
- ▶ Satcom Antennas
- ▶ Trailers and Shelters for the Military
- ▶ Workforce Automation and Efficiency Tools

Representative Government Contractor Transactions

 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>Autometric, Incorporated</p> <p>has been acquired by</p> 	 <p>H.P. White Laboratory, Inc.</p> <p>has been acquired by</p> 	 <p>ATRISOT Antenna Systems</p> <p>has been acquired by</p> 	 <p>Henley-Putnam University</p> <p>has secured financing from</p> <p>CMS SMALL-CAP PRIVATE EQUITY FUND</p>
 <p>ProLogic Incorporated</p> <p>has been acquired by</p> 	 <p>AMERICAN SENTINEL UNIVERSITY</p> <p>has been acquired by</p> 	 <p>ARCHON TECHNOLOGICAL, INC.</p> <p>has been acquired by</p> 	 <p>Vitrenix Inc.</p> <p>has been acquired by</p> 	 <p>INTEGRATED BIOMETRIC TECHNOLOGY</p> <p>controlling interest has been acquired by</p> <p>L-1 Investment Partners, LLC</p>	 <p>MilestTek®</p> <p>has been acquired by</p> <p>CASTLE ISLAND PARTNERS, LLC</p>
 <p>TALANT SOFTWARE</p> <p>has been acquired by</p> 	 <p>HDM</p> <p>has been acquired by</p> 	 <p>MSI MOBILIZED SYSTEMS INC.</p> <p>has been acquired by</p> 	 <p>Command System, Inc.</p> <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>the ame group</p> <p>has acquired</p> <p>CERTIFIED IT & ITRICITY FREEDOM DATA</p>

THE GOVERNMENT & DEFENSE TEAM

Ted Polk, Managing Director
tpolk@capstonellc.com • (312) 674-4531

Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuemetrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.



Lisa Tolliver, Director
ltolliver@capstonellc.com • (312) 674-4532

Lisa has 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone's Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within various industries including government and defense, software and technology, manufacturing, and outsourced business services. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading international investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Government & Defense sector. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

LEADERSHIP TEAM

BOSTON

John Ferrara
Founder, President
(617) 619-3325
jferrara@capstonellc.com

CHICAGO

Ted Polk
Managing Director
(312) 674-4531
tpolk@capstonellc.com

LOS ANGELES

David Bench
Managing Director
(949) 460-6431
dbench@capstonellc.com

SAN DIEGO & SILICON VALLEY

David Michaels
Managing Director
(858) 926-5950
dmichaels@capstonellc.com

BOSTON

Kevin Jolley
Managing Director
(617) 619-3330
kjolley@capstonellc.com

LONDON

John Snead
Managing Director
+44 7979 704302
jsnead@capstonellc.com

PHILADELPHIA

Eric Williams
Managing Director
(215) 854-4065
ewilliams@capstonellc.com

CORPORATE RESTRUCTURING

Brian Davies
Managing Director
(617) 619-3328
bdavies@capstonellc.com



Capstone Partners
Investment Banking Advisors

www.capstonellc.com

World Class Wall Street Expertise. Built for the Middle Market.