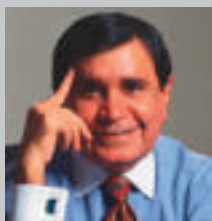


INTERVIEW

Ken Bajaj

Chief Executive Officer,
DigitalNet, Inc.



Ken Bajaj knows M&A deals. While CEO of AppNet from 1997 to 2000, he acquired 12 companies.

Now CEO of DigitalNet (NASDAQ: DNET), the latest IPO in the federal technology sector (October 2003), he sits at the heart of the mid-tier companies who figure to grow fast, with emphasis – again – on acquisition. DigitalNet is about to complete its first transaction since going public, the \$50 million cash purchase of \$59.6 million User Technology Associates, Inc. (UTA). Writing for **DM&A**, Paul Serotkin caught up with Ken and CFO Jack Pearlstein on their views on the federal IT M&A environment and DigitalNet's role in it.

DM&A: What made the fit with UTA so strong in your mind?

KB/JP: UTA gave us presence in the Department of Homeland Security, specifically in the CIO office, which extends throughout the DHS enterprise. Other key new customers for us were the FBI and Department of Justice, as well as 10 other agencies new to us.

DigitalNet mainly provides managed network services, building, integrating and managing enterprise networks. UTA adds 600 skilled professionals with technical depth to our services model. They bring high performance computing, high level application development and other specialized core competencies.

DM&A: Why was the UTA deal a cash transaction?

KB/JP: Cash is the preferable consideration for us right now. We believe our stock is quite undervalued and do not wish to expend equity at this time. Further, we were able to fund the transaction in part using funds from our credit facility (led by Bank of America) at attractive rates.

DM&A: Most of the recent M&A transactions in this sector have been for cash. Do you think this trend will continue?

KB/JP: We see greater use of stock to fund future deals. Sellers in this sector are conservative; the availability of public stock in this sector is a relatively new phenomenon. (Ed. note – Before 2002, when several federal companies went public after a multi-year drought, there had been a

paucity of available public equity to use in transactions.) As these public companies show stability and deliver on performance, seller aversion to stock will lessen.

DM&A: What is your philosophy about retaining existing management in the acquired company?

KB/JP: We feel strongly about keeping the management if they wish to stay. All 12 CEOs in the deals completed at AppNet stayed to help the larger company grow.

DM&A: What is your view on the prospect for additional IPOs this year in the federal sector?

KB/JP: We believe there are at least a few more companies lined up to go public this year. As long as they have a differentiated story, the market will support the offering.

The notion that there will be sector rotation out of defense and government and into commercial IT is not materializing as observers thought. The commercial IT firms still are not growing as some in the market expected. Government/defense firms remain a good value for investors.

DM&A: Why do you feel that the mid-tier buyers are so effective in this sector?

KB/JP: Mid-tiers have the ability to move out quickly in the M&A process. Speed counts in deal-making; we offer that. Further, our model is not to lay off people, where that practice is more common in large integrator deals. Culturally, we are



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more compatible with a smaller firm, which has direct access to the CEO's office at DigitalNet, an opportunity not available at large companies.

DM&A: What advice do you have for CEOs in federal IT companies as they contemplate the sale of their firm?

KB/JP: Three immediate things come to mind: 1) Get solid outside professional support (including investment banking, accounting and legal services); 2) Be responsive as quickly as you can when in the midst of discussions and negotiations with buyer prospects or the ultimate acquirer; and 3) Start with a firm position as to when you will expose the buyer to various elements of your business (such as to employees and customers). At each stage of the process make a conscious decision as to how deep that exposure will be.

DM&A: What can you say about DigitalNet's acquisition plans?

KB/JP: Our annual growth goals are 20-25%, which calls for ongoing deal-making. We look for firms in the \$20-\$100 million revenue range that add to our strategy of being - and remaining - the only public pure play in network computing for the

federal sector.

We are hiring the best and brightest people to support that goal, and expect that acquired companies will bring more of the same caliber employees with compatible skill sets.

These companies must have excellent customer relationships. Customer satisfaction is critical to DigitalNet. We have an independent source survey all of our customers twice a year. On a scale of 1-5 (five being the highest), we scored 4.65 last year. Our managers' financial incentives are tied to these survey scores from their customer.

By market segment, highest on our list will be companies that serve intelligence agencies, with firms serving the DoD agencies also critical. DigitalNet now has about 20% of its business in intelligence agencies; we'd like to increase that. ♦