Homeland Security Opportunity Analysis:

An Assessment of DHS Budget and Contracting Trends

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The Avascent Group, formerly DFI Corporate Services, is a leading provider of strategy and management consulting services to global leaders in homeland security, defense, aerospace, logistics, transportation and high technology

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- **We provide strategy and management consulting services to firms operating at the nexus of business and government**
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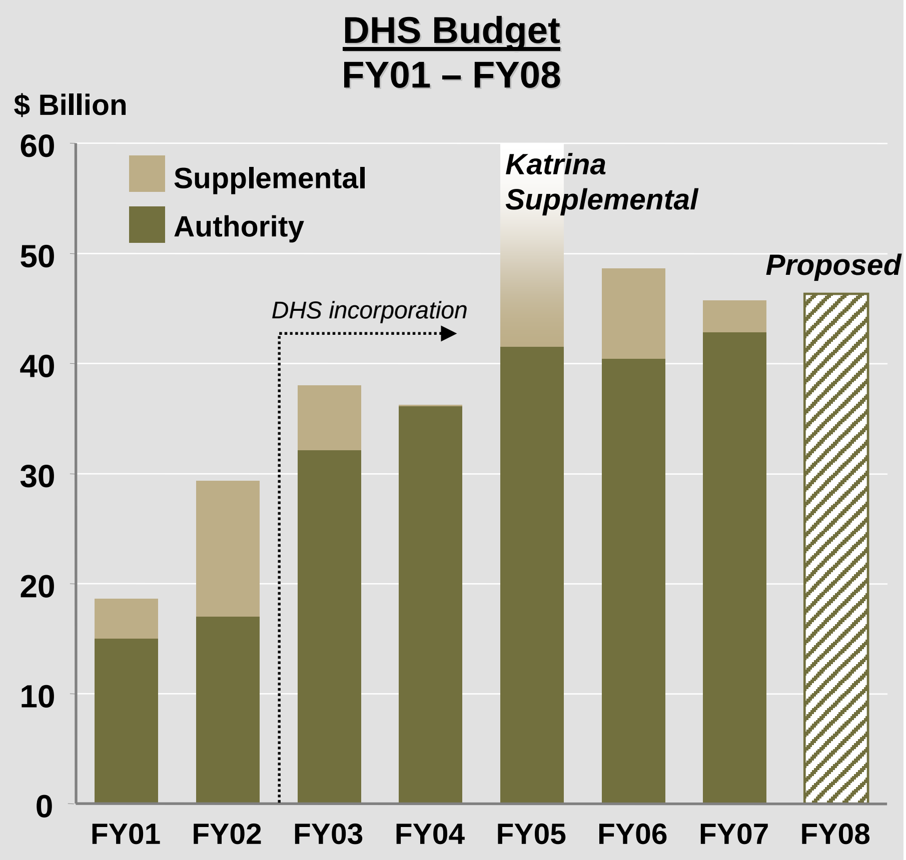
DHS spending remains robust, though below the FY06 peak following Hurricane Katrina

DHS Budget Trends



Sources: CBO (FY01-05), FY08 DHS Budget Request (FY06-08), FY07 Supp (H.R. 2206)

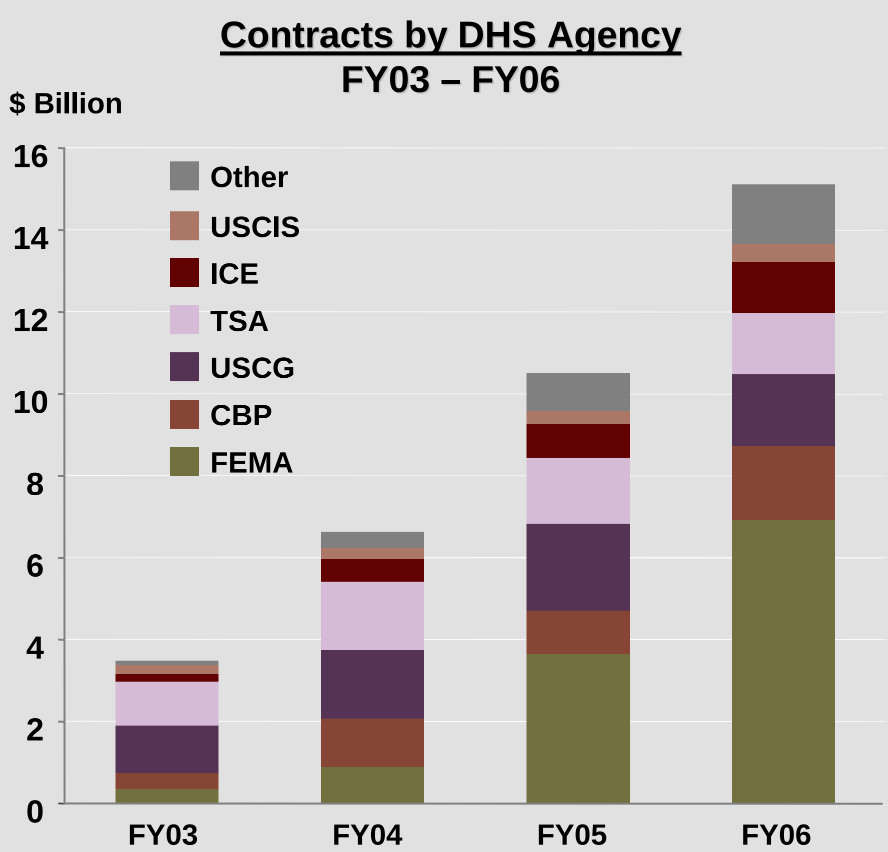
FY08 Major Budget Trends

- **2007 $42.8B plus $2.9B Supplementals**
  - More than $700M in supplemental funds reserved for aviation security and State & Local grants
- **2008 $46.4B**
  - 8% growth from 2007
  - 8% CAGR (not including Supplementals) since DHS incorporation in 2003
  - Growth across most agencies
- **R&D priorities at S&T, DNDO and OHA**
  - Continued spending on CBRNE technologies (current and next-gen)
  - S&T dedicating approximately $80M to innovative high-risk technologies

Despite net increases in virtually all agencies' budgets, not all growth will present opportunity for significant industry involvement

The fastest growth in contracting in recent years has taken place within FEMA, CBP, ICE, as well as select new offices and R&D programs under DHS

DHS Contracting Trends



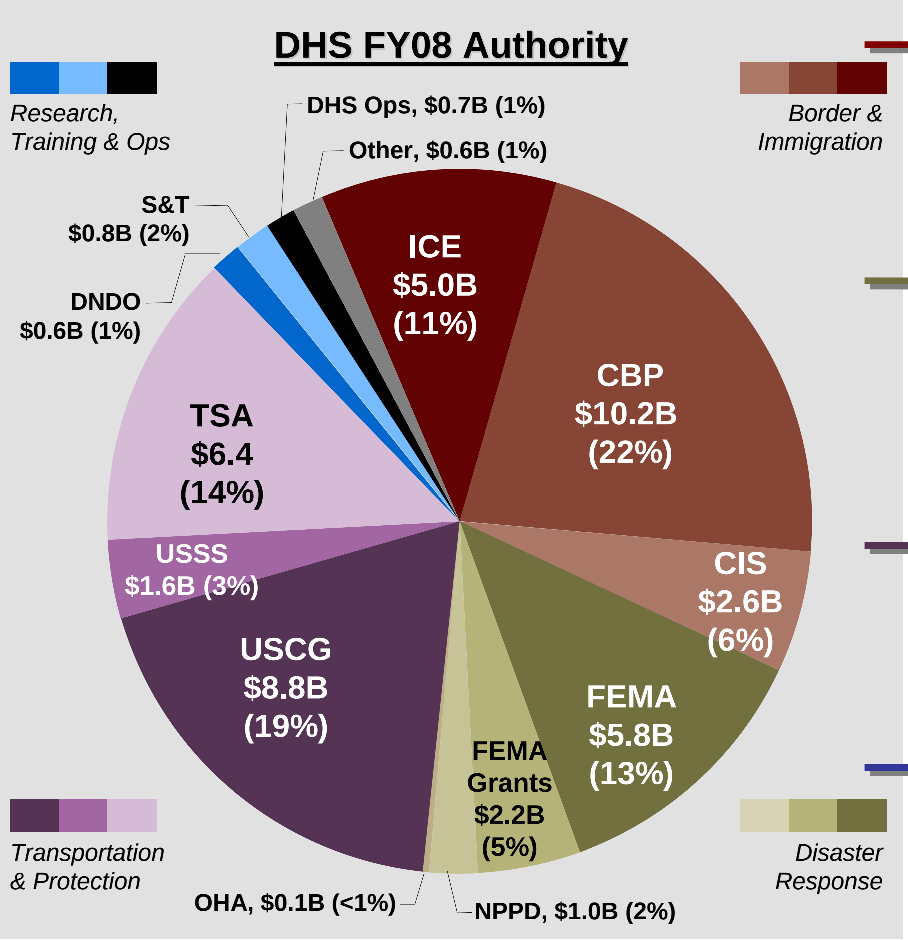
Sources: EagleEye Federal Prime Contract Database, Avascent Analysis

	Total Contracts (FY06)	Top 5 FY06 Contracts (% total)	CAGR FY03-06
Other	**$1.44 B**	27%	147%
USCIS	**$0.45 B**	52%	29%
ICE	**$1.26 B**	20%	86%
TSA	**$1.50 B**	44%	11%
USCG	**$1.77 B**	26%	15%
CBP	**$1.79 B**	39%	68%
FEMA	**$6.92 B**	48%	172%

A handful of contracts account for a large share of contracting dollars within FEMA, CBP, TSA, and USCIS

Border & Immigration is the largest DHS market segment; Transportation & Protection remains large but funds are largely committed

FY08 Budget by DHS Agency



Border & Immigration Trends

- SBI*net* milestones and major immigration reforms, such as Temporary Worker Program
- CIS fee reform critical to future procurements

Disaster Response Trends

- Continued FEMA reform focused on business process management
- Massive S&L grant program is a major focus of this year's appropriations cycle

Transportation & Protection Trends

- Major programs at USCG (Deepwater) and TSA (Secure Flight, TWIC), but funds largely spoken for; continued Congressional scrutiny

Research, Training & Ops Trends

- S&T budget cut due to transfer of detection research to other agencies (NPPD, TSA); new leadership wants greater industry involvement

CBP, CIS and DNDO all post double-digit budget growth, whereas the S&T Directorate is receiving an 18 percent decline

Despite net funding increases at almost every DHS agency, only a few organizations present significant near-term opportunity

FY08 Opportunity Assessment

	Agency	Net $ Change	Major Trends	Opportunity Assessment
Immigration	ICE	+$288M	Spending increases are focused on adding staff, rather than technology	↕
	CBP	+$829M	Significant personnel & infrastructure resources, strong focus on first SBInet task orders	↑
	CIS	+$582M	Critical next two years as CIS undergoes fee reform and modernization to lay foundation for TWP	↑
Disaster Response	FEMA	+$329M	Despite massive funding for State & Local grants, FEMA does not yet have mature procurement	↕
	NPPD	+$105M	Lost a number of programs to FEMA, but retains chemical security and biometric collection/sharing	↕
	OHA	+$118M	Transfer of BioWatch and and BWIC from S&T requires OHA to significantly increase its role at DHS	↑
Transportation & Protection	USCG	+$99M	Remains an important industry customer, programs proceed incrementally, but no new FY08 opportunities	↓
	USSS	+$132M	Agency is neither well integrated nor a major procurer, budget is largely personnel and one-time costs	↓
	TSA	+$138M	Workforce enhancements remain high priority, checkpoint redesign lurks in the future	↕
Research, Training & Ops	DNDO	+$81M	DNDO will continue to procure heavily both current and next-generation technology	↑
	S&T	-$49M	New leadership is trying to dramatically increase relevance to both DHS customers and industry	↕
	Dept Ops	+$57M	Despite many programs, opportunities are small in scope and involve software solutions	↕

Six macro priorities are driving DHS-wide spending objectices

FY08 Macro Priorities

Comprehensive Immigration Reform

- **SBI**
  - Largest funding item for 2008
- **CIS Processing Capacity**
  - Modernization critical to building credibility for TWP
- **Detention Capacity**
  - Needs more efficient processing to support significant interior activity

Biometrics and ID Programs

- **USVISIT**
  - Focus on building increased biometric interoperability; exit not a priority
- **WHTI**
  - Significant infrastructure outlays
- **Real ID**
  - Deadline for state implementation spring 2008

Transportation Security

- **Air Cargo**
  - Congressional pressure to inspect/screen 100% on passenger planes
- **Securing the Cities**
  - Technology for NYC pilot to be deployed by end of 2008
- **TWIC**
  - Expect next phase to include infrastructure

Bio-security and Public Health Emergencies

- **OHA**
  - New OHA with biological detection and response authorities
  - Important role with State and Locals given BioShield and Medical Readiness activity

Nuclear Detection and Chemical Facility Security

- **RPM Deployment and Next-Generation Research**
  - Deployed technology to scan 99% of containerized cargo
  - Policy questions regarding overseas screening
- **Chemical Site Security Office**
  - New regulations in place

Federal Response to Hazards and Disasters

- **State & Local Assistance**
  - More defined, categorical approach to grants
- **FEMA Retooling**
  - Vision for a new FEMA
- **Workforce Enhancements**
  - Converting cadre of on-call response employees

Business with DHS will become increasingly relationship based

Customer Lessons Learned	
On-schedule Deliveries for Existing Programs	▪ Premium on delivery, especially for high-profile programs ▪ No surprises – keep client informed of any challenges or delays ▪ Increasing use of performance metrics
Low-risk Technical Solutions	▪ Low-risk solutions = new business wins (e.g. SBI*net*, TWIC) ▪ Eagle/First Source as preferred vehicle ▪ Watch SBI*net* closely ▪ Personal relationships are important to build customer trust
Small Business Partnerships	▪ Eagle Small Business as the critical vehicle ▪ Incumbent small businesses provide additional customer comfort ▪ Small business teaming opportunities increase program access
Public Support of Key Programs	▪ Bite back in the press where necessary ▪ Industry invited/required at more Congressional hearings ▪ Proactively manage messaging and public perception with DHS customer