



# Argon ST

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**STST**



## Safe Harbor Statement

With the exception of historical information, the statements set forth in this presentation include forward-looking statements that involve risk and uncertainties. The company wishes to caution that a number of important factors could cause actual results to differ materially from those forward-looking statements. These and other factors which could cause actual results to differ materially from those in the forward-looking statement are discussed in the company's filing with the Securities and Exchange Commission, including its filings on forms S-4, 10-K, and 10-Q.



# Argon ST

- **This presentation will review:**
  - **Argon ST overview and markets**
  - **Argon ST FY07 Key Targets**
  - **Summary**



# Argon ST Overview

- **Argon ST supplies advanced electronic and signal processing systems into the Communications, Command & Control, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) market**
  - \$80 billion + market place
  - New threat environments continue to create need for intelligence
  
- **Argon ST provides sensors, communications, and systems for signals intelligence (SIGINT), electronic support measures (ESM), electronic and information warfare (EW/IW), imaging (EO/IR and hyper spectral), acoustic sensing and countermeasures, and testing**



## What we do

- **We design, develop, and produce a wide variety of sensors, systems, and products primarily for the U.S. and allied governments**
  
- **These systems and products are used to:**
  - **Gather intelligence on threats and potential threats**
  - **To protect our forces and platforms**
  
- **We provide full service to customers**
  - **White papers and concepts**
  - **Design and development**
  - **Production and system integration**
  - **Logistics, training, repair, spares, and field support**

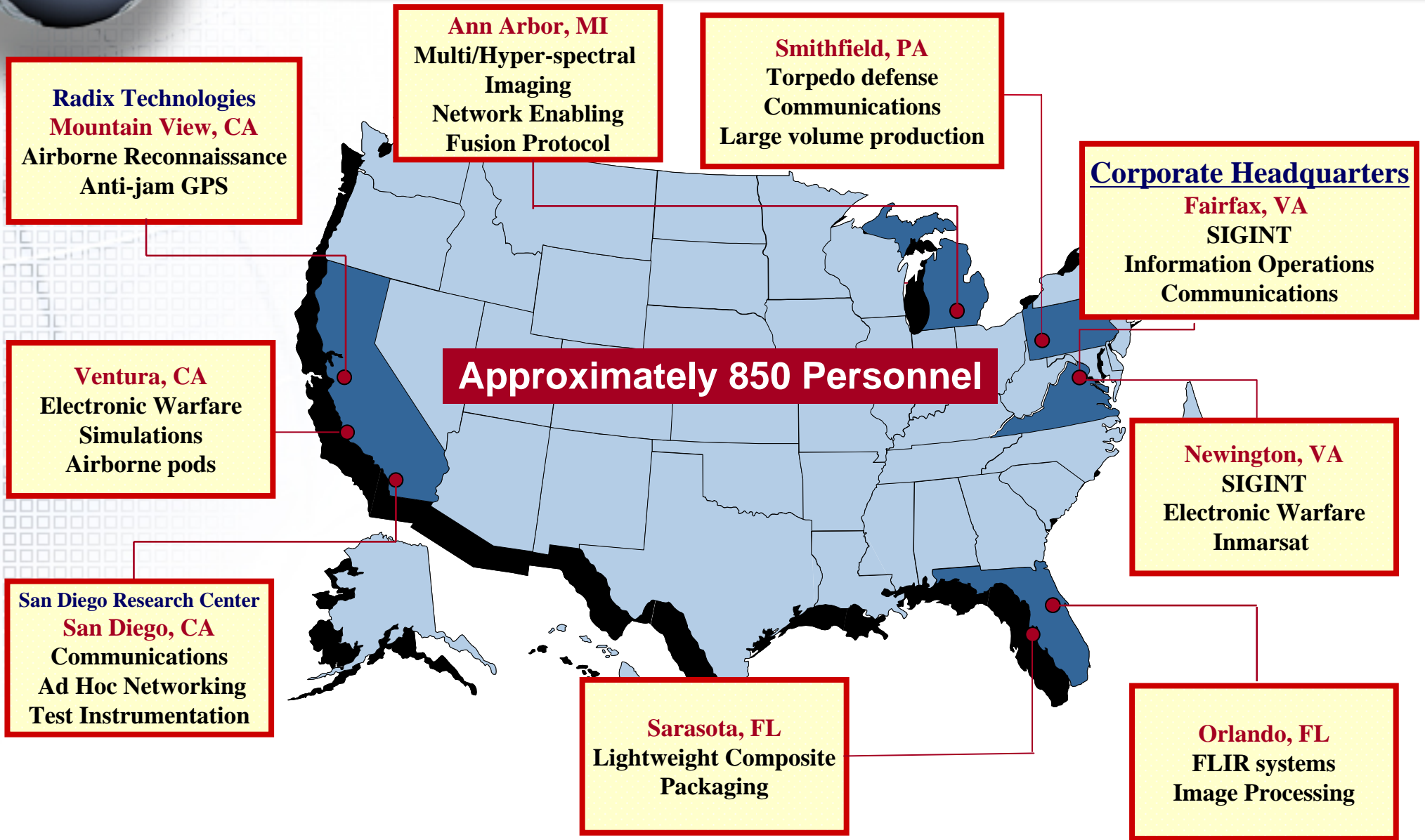


# Business strategy

- **Provide innovative, disruptive technology solutions to our customers**
  - Pursue and capture advanced R&D programs
  - Demonstrate technology
  - Get technology into production and onto platforms
  
- **Integrate COTS products when possible to enable system capability through unique design, software, or algorithms; but use whatever technology is needed to solve the problem**
  
- **Capture additional market share by leveraging our advanced products and systems to new customers**
  
- **Be a full service provider**



# A Diverse Broad Spectrum Company





# Argon ST Market/Customers

## ■ Department of Defense

- NAVY
- ARMY
- AIR FORCE
- MARINES
- SOCOM
- DARPA



## ■ Agencies

- NSA
- NRO
- CIA
- DIA
- NGA



## ■ DHS

## ■ National Guard

## ■ Allied governments



## Platforms with our sensors:

**Ships**

**Submarines**

**Aircraft**

**Unmanned (air and sea)**

**Mobile land vehicles**

**Fixed ground stations**

**Humans**

## Revenue FY06

**Navy 59%**

**Other U.S. 31%**

**International 10%**



## Barriers to competition

- **Most of our products are technically advanced and are very difficult to duplicate**
- **Most of our work is highly classified with high level clearances required to do the work**
- **We are prime on most of our work**
- **We maintain excellent relationships with our customers**



## Some important program areas

**STST**



# Information Operations

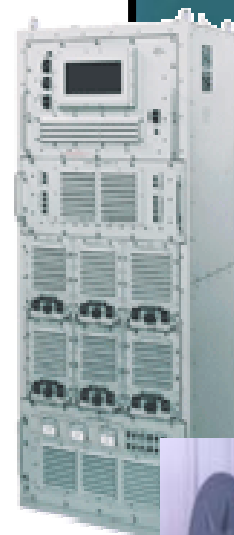
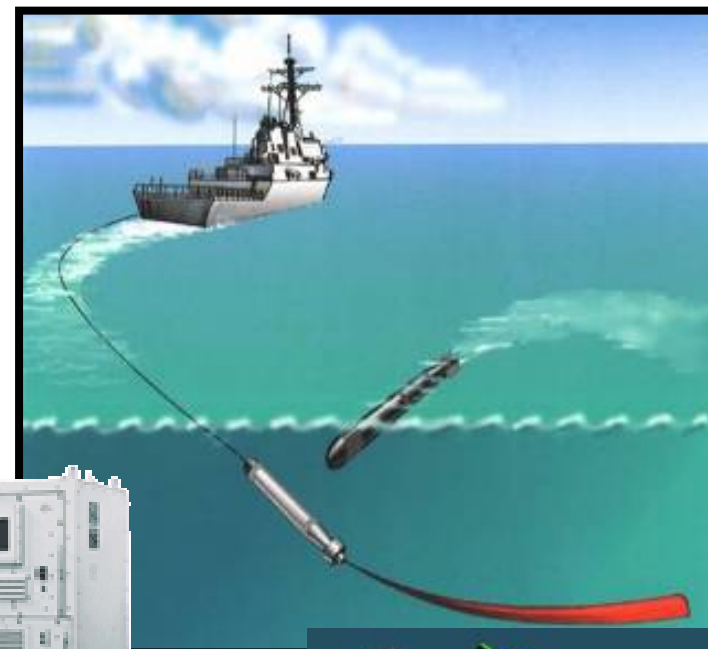
- **Information Operations systems for US Navy surface ships-Argon ST is prime contractor**
- **Platforms:**
  - CG, DDG (Flight I & II), LPD, LHD, LHA, LCC, CV, CVN
  - Planned for USCG
- **Status:**
  - Won SSEE Inc E production contract in FY06 for production through FY08
  - Won the SSEE Inc F R&D and production contract in FY06 for development of new system and production through 2013
- **Key wins in FY06 position company with DHS (Coast Guard) and allied Navies to generate future growth**
- **See article in AOC “Journal of Electronic Defense” July 2006 on importance of system**
- **Technology developed under these contracts will create opportunities in other services and agencies**





# Surface Ship Torpedo Defense

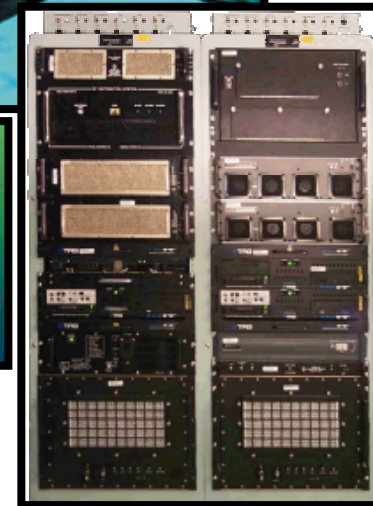
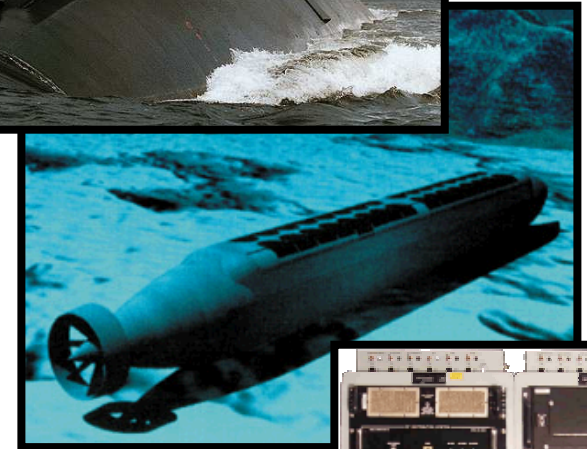
- AN/SLQ-25A-Argon ST is prime contractor
- Platforms: Early version installed on over 300 platforms world wide
- Awarded engineering upgrades to build an open architecture system in September 2005
- Awarded five year follow-on contract in November 2006
- Open architecture and successful sea trials positions Argon for upgrades to US and the world market
- See article in “Jane’s Navy International” June 06





# Sub-surface systems

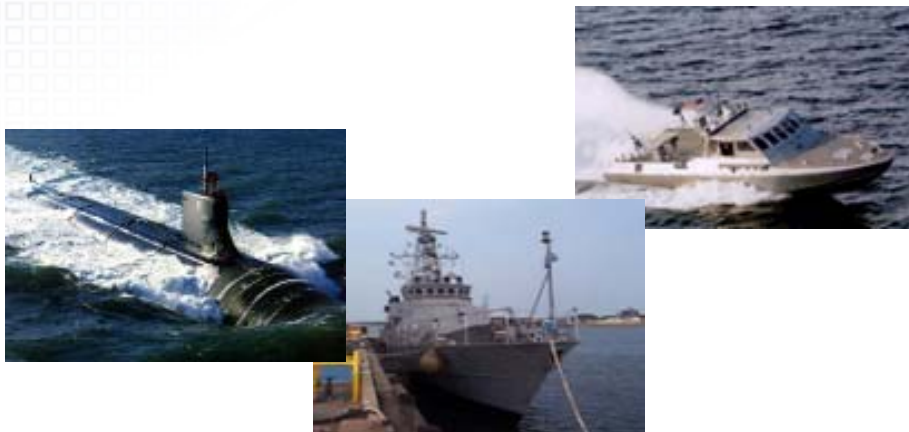
- Key supplier to US and UK Navy submarine fleets
- BLQ-10 RESM/CESM systems-sub to LM
- Periscope antenna supplier-Argon ST is prime/sub
- Special Systems supplier-Argon ST is prime
- Prototype UUV integrated sensors
- Most work is sole source and classified





# ESM / ELINT Systems

- ES, ELINT, and Threat Warning Intercept Receiver Systems
- Permanent install on every VA, Seawolf, and LA Class SSN
- ESM on Manta UUV
- Over 160 systems installed with USN
- Completing development of next generation solutions



Periscope Antennas



Manta UUV



High Probability of Intercept (HPI) System



WBR-3000 System



Bobcat /WBR2000



NBS-2500 System



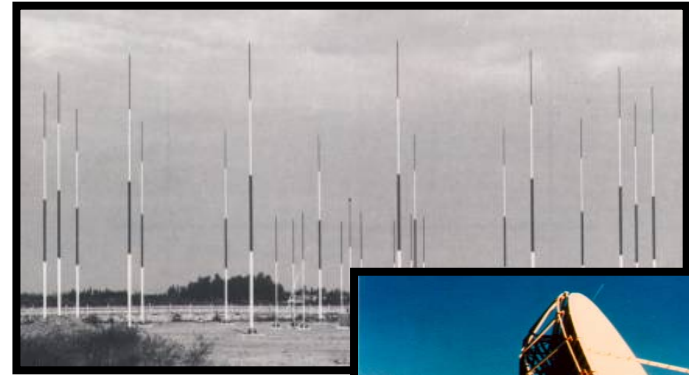
BLQ-10 Radar Wide Band Subsystem



# Land Surveillance and Collection Systems

## ■ Fixed Site Systems

- Large systems for communications exploitation
  - Deployed operational systems with excellent results
  - Combined multiple legacy systems in single architecture
- Special products for specific targets
  - Long term supplier of key products to US and allied governments
  - Started delivery this year of new generation of products which should lead to increased sales
- IR and integrated products for base and border protection and surveillance



## ■ Mobile vehicle systems

- Soothsayer - UK Army/Marines-sub to LM
  - Communications ESM and countermeasures
  - Future expansion
- Enhanced Trackwolf
  - US Army land mobile systems upgrade
  - Large increase in capability with low risk and rapid delivery to customer





# Airborne Reconnaissance Systems



- **Provider of a variety of products and systems for airborne applications**

- Information Operations, CISM, COMINT, RESM, ELINT, Hyperspectral cameras, EO/IR, and special products
- Pods and simulators for both operations and testing

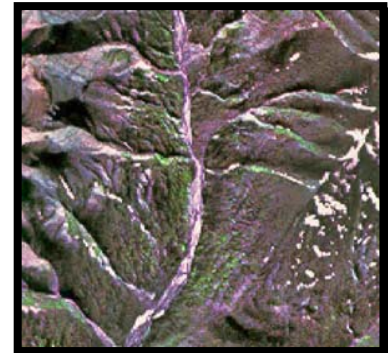
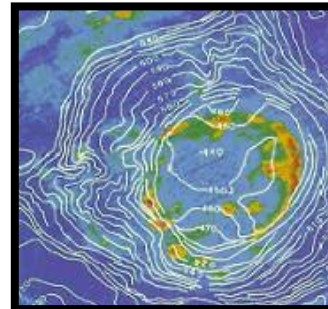
- **We have unique capability in some very key areas**

- Ability to operate in dense environments
- Ability to provide integrated solutions
- Ability to process multiple targets

- **We supply to a variety of customers including all three services and various agencies**

- Growth in 2006 even with ACS being stopped
- Successful field operations and trials

- **Most programs and capabilities provided are classified**





# OT- Tactical Engagement System

- **OT-TES System**

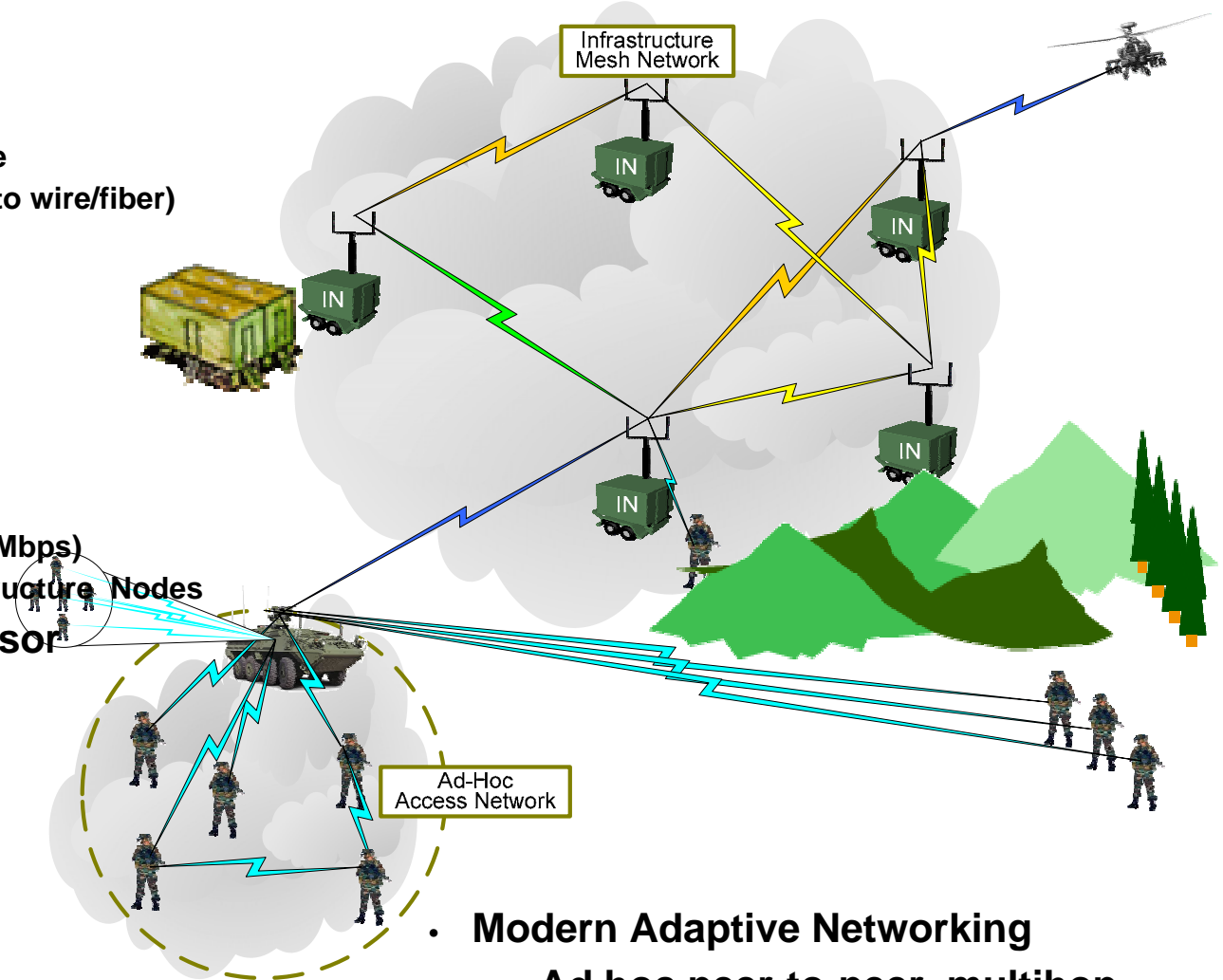
- Secure Highly Flexible, Reconfigurable
- Transportable, Wireless (can connect to wire/fiber)
- Spectrum (and Spectrally) Efficient
- Integrated Spectrum Management
- Network

- **Multi-Tier Network**

- Access Network (Custom Protocol)
  - Peer-to-Peer
- Infrastructure Network (IP Based)
  - High capacity backbone (10's of Mbps)
  - Multiple Access Points at Infrastructure Nodes

- **Secure Communications Processor**

- Quad-Band Common Transceiver
- Very High Dynamic Range
- Excellent Selectivity
- Agile in Frequency, Time and Rate
- Rates from ~100kbps to ~1Mbps
- Strong Multipath Resistance
- High Bandwidth Efficiency
- High Power Efficiency
- Security – Non-secure, AES and Type 1 Encryption



- **Modern Adaptive Networking**

- Ad hoc peer-to-peer, multihop
- Dynamic Resource Assignment
- Exploits full time-frequency plane



# Some of FY07 Key Targets for Growth

**STST**



# Airborne Systems

- **Major upgrade programs planned by Army/Navy for FY07-FY10 for sensors and airframes**
  - **EP-3 upgrade**
    - Argon ST in strong position because of compatibility with ships/subs
    - L3 likely for platform integration
  - **Guardrail/ARL upgrade**
    - Northrop/Grumman in strong position as incumbent
    - Argon ST has unique technology and ACS heritage
- **Aerial Common Sensor (ACS) not likely to restart until at least 2008**
  - Joint study just completed and being briefed
  - US still needs capability planned and Argon ST has the best answer
- **Multiple other programs**
  - UAV's with integrated sensors
  - Allies
- **Goal is to leverage ACS work, current sensors and demonstrated capabilities with Radix technology to provide complete system solutions**



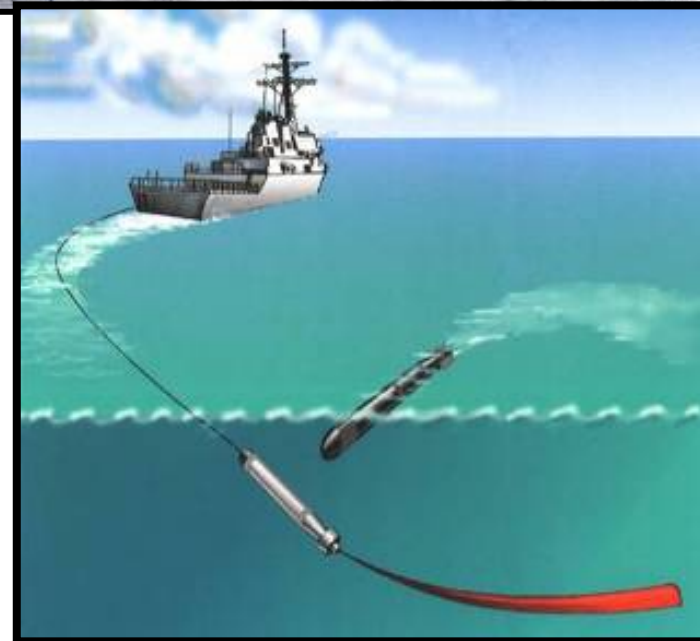
# RESM/ELINT Systems

- **Multiple opportunities for growth in RESM/ELINT systems**
  - **Submarines**
    - Continued production of BLQ-10 systems
    - Antenna for various masts
  - **Surface Ships**
    - Execute next phase of Fast Missile Craft (FMC) system (sub to LM)
    - Competition for DDG1000 RESM/ELINT capability
    - Potential augmentation to SSEE Inc E/F
  
- **Completion of next generation technology by Argon should allow us to be extremely competitive in the market and also allow upgrades to existing base of systems**



# Ship Systems

- **Award of SSEE Inc E and SSEE Inc F recognizes Argon ST as dominant provider**
  - We won both contracts
  - Inc E provides 3 more years of production, technology insertion and backfit to previously delivered systems
  - Inc F provides 3 years of development and 5 years of production of new generation technology
  - Award of SSEE Inc E FY07 production will contribute to growth in FY07
  
- **Surface Ships Torpedo Defense (AN/SLR-25A)**
  - System has been undergoing major upgrades
  - Successful sea trials will lead to baseline approval
  - Awards for production increases and foreign upgrades are likely but timing in FY07 is expected to be late in the year





## Other Key Opportunities

- **We expect all parts of the company to grow in FY07 except for submarine CESSM systems**
  
- **More opportunities identified at various agencies**
  - Recent system testing and results offer significant follow-on growth potential
  - We are bidding as sub and as prime on several initiatives for which we do not currently have a position
  
- **Successful delivery of Soothsayer and Enhanced Trackwolf should position Argon ST for FY08 contracts**
  
- **Communication networks will grow rapidly as a result of the acquisition of SDRC**





# Financials

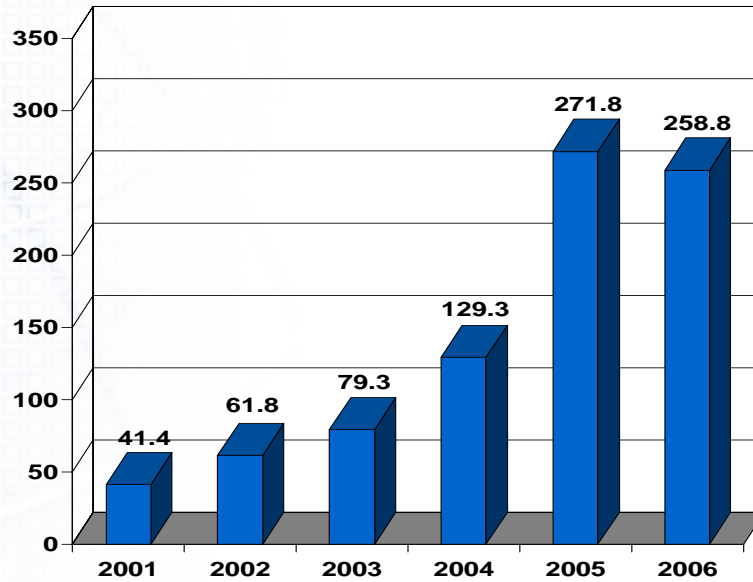
**STST**



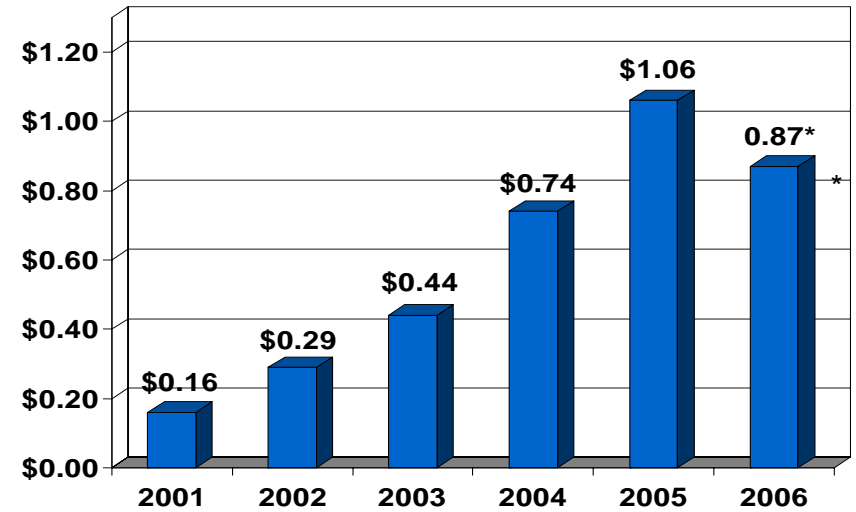
# Financial History

## Revenue

( \$MMs)

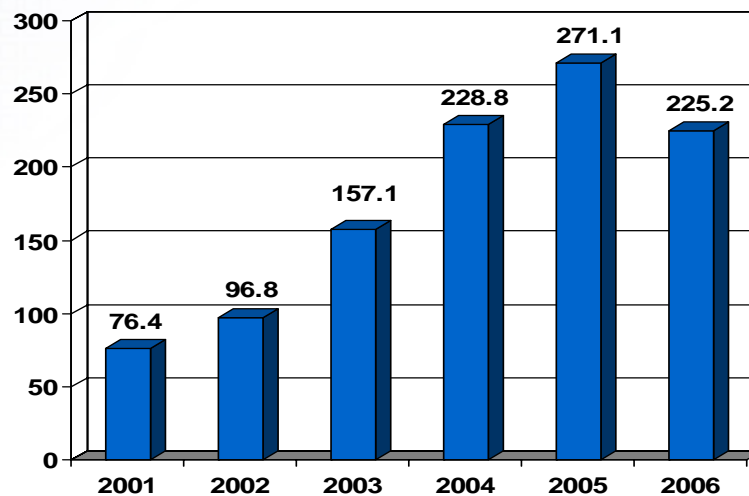


## EPS

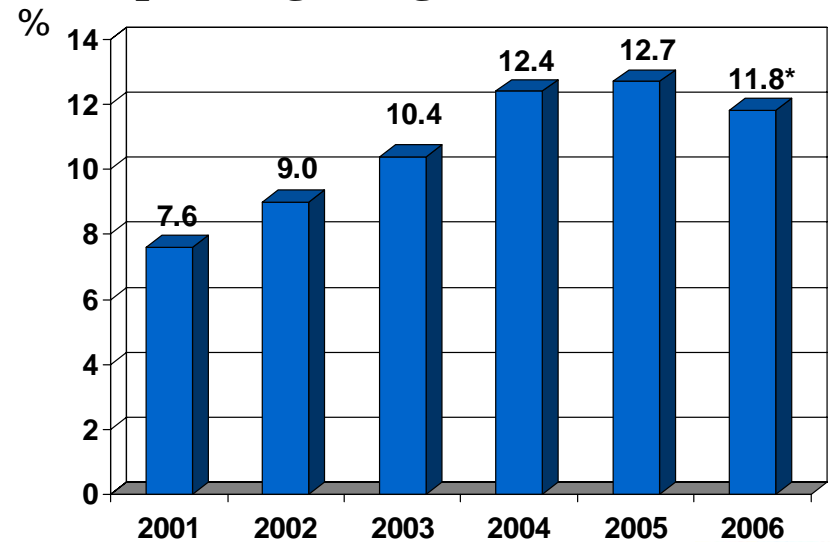


## Backlog

( \$MMs)



## Operating Margin



\*includes 123R expense





## Strong operational strengths

- **Higher margins than typical in this sector**
  - **Unique capabilities and products**
  - **Clearances**
  - **Contract mix**
  
- **High revenue/profit per employee**
  - **Leverages difficult to find employee growth**
  - **Designs allow productive work by employees prior to obtaining full clearances**
  
- **Excellent return on tangible assets**
  
- **Prime contractor on approximately 74% of revenue**



## FY06/07 results (millions except EPS)

	<u>30 Sept 06</u>	<u>Q1 31 Dec 06</u>	<u>Q1 31 Dec 05</u>
■ Contract revenue	\$ 258.8	\$ 60.4	\$ 68.1
■ Income from operations	\$ 30.6	\$ 7.7	\$ 9.2
■ Net Income	\$ 19.4	\$ 5.2	\$ 5.6
■ Diluted shares	22.3	22.7	21.1
■ EPS	\$ .87	\$ .23	\$ .27
■ Backlog	\$ 225.2	\$ 238.7	\$ 231.1*

\*Includes \$61 million of ACS unfunded backlog



## Argon ST Balance Sheet (\$millions)

<u>ASSETS</u>	<u>30 Sep 2006</u>	<u>31 Dec 06</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 33.5	\$ 30.5
Accounts receivable	\$ 86.8	\$ 85.2
Other current	\$ 13.2	\$ 7.9
Property, equipment and software, net	\$ 16.7	\$ 16.6
Goodwill	\$ 148.7	\$ 148.8
Other assets	\$ 14.6	\$ 14.1
<b>TOTAL ASSETS</b>	<b>\$ 313.5</b>	<b>\$ 303.1</b>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 29.8	\$ 20.1
Deferred revenue	\$ 13.0	\$ 4.1
Other current	\$ .4	\$ 2.0
Other liabilities	\$ 4.6	\$ 5.0
<b>TOTAL EQUITY</b>	<b>\$ 265.7</b>	<b>\$ 271.9</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 313.5</b>	<b>\$ 303.1</b>



# Fiscal Year 2007 Guidance

- **Revenues** **\$305 – \$325 million**
- **Operating Income** **\$36 – \$39 million**



# Key factors in future growth

- **Maintain and grow relationships with Navy**
  - Currently have contracts with NAVSEA, SPAWAR, NAVAIR, NIOC, and multiple labs
  - Most of our programs are supported through intelligence budgets
  
- **Diversification of customer base**
  - Focus on growing business base with Army
  - More growth from intelligence agencies
  
- **Development of innovative solutions**
  - Communications, imaging, multi-int sensing
  - Navigation, LADAR, networking
  - Integrated solutions
  
- **Continue ability to attract and retain good people and to be able to move R&D into production**



## Summary

- **Argon ST's strategic goal is to be the preeminent supplier in selected C4ISR market segments**
- **Our focus is to improve book to bill ratio while generating strong margin performance**
- **Accretive acquisitions that compliment our technology and customer base will supplement organic growth**