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SI INTERNATIONAL *Reston, Virginia*

Another Day, Another Potential Buyout For Provider Of IT Services

BY MARILYN MUCH
INVESTOR'S BUSINESS DAILY

SI International just finished integrating its latest buyout, and President Brad Antle is already on the prowl for more.

His company provides information technology and network solutions mainly to the federal government. Services include software development, information security, systems engineering and outsourcing.

Since 1999, SI International[SINT] has made seven acquisitions. The most recent came in February, when it paid $75 million for Shenandoah Electronic Intelligence, or SEI.

SEI provides business outsourcing services, such as data and records management, mainly for the Department of Homeland Security. It also produces personalized identification cards at a secure optical card processing facility.

Integration of the SEI buy was finished in June. Now SI International is ready to do another deal, says Antle, who will replace Ray Oleson as chief executive on Sept. 24. Antle will retain his post as president and join the board. Oleson will remain executive chairman.

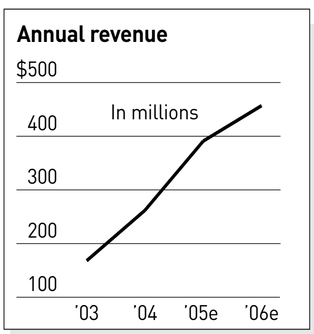
"We see a lot of opportunities for acquisition targets out there and we're actively evaluating them," he said.

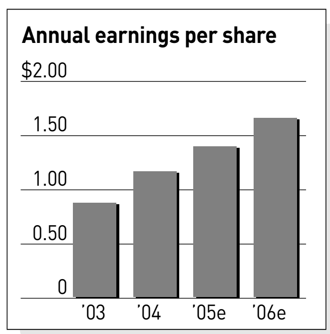
Gaining Muscle

SI International has been growing partly because of acquisitions. It's made two since December and is set to do more

Acquisitions

Company	Year	Price, in millions
Statistica	1999	$5.0
WordPro	1999	3.1
Noblestar Federal Systems	1999	11.0
System Technology Assoc.	2000	37.8
Matcom International	2004	65.8
Bridge Technology	2004	30.0
Shenandoah Electronic Intelligence	2005	75.0





Sources: Company reports, Stanford Washington Research Group, First Call

The next buyout could come by the end of the year, says analyst Erik Olbeter of Stanford Washington Research Group.

Antle has plenty of experience assessing buyout candidates. Since coming to SI in 1999, he's played a key role in the acquisition and integration of businesses.

SI seeks companies that post between $30 million and $75 million in annual revenue. That range is where you'll find the largest number of targets, Antle says. SI also targets companies that add new capabilities or improve its ability to deliver services.

One advantage of buyouts is that they bring more staffers on board, Olbeter says. The more staffers SI has to serve customers, the better it can compete for major contracts.

"This is a firm that typically doesn't win (contracts) for more than $100 million," he said. "If you want to start winning $100 million (plus) awards, you have to have a mass of people you can deploy quickly to do the task."

SI International
si-intl.com

Ticker	SINT
Share price	Near 30
12-month sales	$322 mil
5-year profit growth rate	n.a.

IBD SmartSelect Corporate Ratings

Earnings Per Share	43
Relative Price Strength	77
Industry Group Relative Strength	C
Sales+Profit Margins+ROE	B
Accumulation/Distribution	B-

See investors.com for more details

SI Chief Financial Officer Ted Dunn sees the situation differently.

"We buy companies to create value for our shareholders, and we create value in many ways," he said. "We do not buy them to gain critical mass (because) we're already there."

A company doesn't have to be huge to win a major contract, Dunn says. He cites that fact that last year SI landed a nine-and-a-half year, $800 million contract, called the C412TSR, with the Air Force Space Command Center.

In the second quarter, work under that contract generated $15.9 million in revenue for SI. The company posted overall revenue of $96 million, up 50% from the prior year. Earnings gained 17% to 35 cents a share.

Analysts polled by First Call expect full-year earnings to rise 20% to $1.39 a share.

(Continued)

The SEI buy should provide a boost to future growth, Antle says.

"(It) significantly expanded our footprint within the Department of Homeland Security, where IT spending is forecast to grow faster than any other civilian agency," he said.

SEI also offers expertise in large-scale records and case management assignments, he says. This is an area where demand is growing within the federal government as it turns to outside contractors to manage the proliferation of paper and electronic records.

The SEI deal was preceded by SI International's December buyout of Bridge Technology for $30 million.

Bridge provides solutions for defense intelligence agencies in areas such as program management, software engineering and systems engineering. It gives SI access to customers in the intelligence community it didn't have before, analyst Olbeter says.

"SI can take its services and solutions and try to sell them (to the new customer base)," he said. "This is a tried and true method of increasing market share."

Antle confirms that SI has been cross-selling its capabilities to Bridge's customers. He also says the acquired firm expanded SI's capabilities in program management and enhanced its position within the defense intelligence agencies, an area where there's strong demand.

As of June 25, SI's backlog of contracts was valued at $894 million. That includes $150 million in backlog that's already been funded and $744 million in unfunded backlog.

Among this year's major wins: In June, SI was chosen to provide a new call center and support services to the Thrift Savings Plan for federal employees. The contract calls for one base year, with four one-year options that are renewable. If all options are exercised, the potential value of the contract is about $18 million.

"Generally speaking, the climate is very good for all firms in the federal IT sector," said Olbeter. "The good news is the military is expanding its IT budget for fiscal 2006 (starting Oct. 1) and fiscal 2007."

SI INTERNATIONAL

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