DIAMOND HILL INVESTMENT GROUP INC
Form 10-K
March 14, 2008

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United States Securities and Exchange Commission
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
Commission file number 000-24498
DIAMOND HILL INVESTMENT GROUP, INC
(Exact name of registrant as specified in its charter)

Ohio	65-0190407
(State or incorporation)	(I.R.S. Employer Identification No.)
325 John H. McConnell Blvd., Suite 200, Columbus, Ohio 43215	614-255-3333
(Address of principal executive offices) (Zip Code)	(Registrant s telephone number)

Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: Common Shares, no par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes o No þ
Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of $90.66 on June 30, 2007 (end of the 2nd fiscal quarter) on the NASDAQ was $124,143,093. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that executive officers, directors, and persons holding five percent or more of the registrant s voting and non-voting common shares are affiliates.
2,364,110 Common Shares outstanding as of March 9, 2008 (the latest practical date).

Documents incorporated by reference: In Part III, the Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

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PART I

Item 1. Business

Throughout this Form 10-K, the Company may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to such matters as anticipated operating results, prospects for achieving the critical threshold of assets under management, technological developments, economic trends (including interest rates and market volatility), expected transactions and acquisitions and similar matters. The words believe, expect, anticipate, estimate, should, seek, plan and similar express identify forward-looking statements that speak only as of the date thereof. While the Company believes that the assumptions underlying its forward-looking statements are reasonable, investors are cautioned that any of the assumptions could prove to be inaccurate and accordingly, the actual results and experiences of the Company could differ materially from the anticipated results or other expectations expressed by the Company in its forward-looking statements. Factors that could cause such actual results or experiences to differ from results discussed in the forward-looking statements include, but are not limited to: the adverse effect from a decline in the securities markets; a decline in the performance of the Company s products; changes in interest rates; a general downturn in the economy; changes in government policy and regulation, including monetary policy; changes in the Company s ability to attract or retain key employees; unforeseen costs and other effects related to legal proceedings or investigations of governmental and self-regulatory organizations; and other risks identified from time-to-time in the Company s other public documents on file with the SEC.

General

Diamond Hill Investment Group, Inc. (the Company), an Ohio corporation organized in 1990, derives its consolidated revenue and net income from investment advisory services provided by its subsidiary Diamond Hill Capital Management, Inc. (DHCM). DHCM is a registered investment adviser under the Investment Advisers Act of 1940 providing investment advisory services to individuals and institutional investors through mutual funds, separate accounts, and private investment funds (generally known as hedge funds). The Company was first incorporated in April 1990.

Assets Under Management

As of December 31, 2007, assets under management totaled $4.4 billion, a 19% increase from December 31, 2006. The following tables show assets under management by product and investment objective for the dates indicated:

	Assets Under Management by Product As of December 31,		
(in millions)	**2007**	**2006**	**2005**
Mutual funds (including sub-advised)	$2,910	$2,518	$ 907
Separate accounts	998	875	513
Private investment funds	495	315	111
Total	$4,403	$3,708	$1,531

	Assets Under Management by Objective As of December 31,		
(in millions)	**2007**	**2006**	**2005**
Small and Small-Mid Cap	$ 597	$ 807	$ 406
Large Cap and Select	1,031	919	437
Long-Short	2,500	1,720	474
Strategic and Fixed Income	275	262	214
Total	$4,403	$3,708	$1,531

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Investment Advisory Activities

DHCM executes its investment strategies through fundamental research and valuation disciplines. Analysts evaluate a company s prospects based upon its current business and financial position, future growth opportunities, and management capability and strategy. The intended result is an estimate of intrinsic value . Intrinsic value is the present value of future cash flows, which the Company estimates the investment will generate, discounted at a rate that reflects the required return for the investment given the estimated level of risk. In other words, it is the estimated price a minority shareholder should pay in order to achieve a satisfactory or fair return on the investment. The estimate of intrinsic value is then compared to the current market price to evaluate whether, in the opinion of DHCM, an attractive investment opportunity exists. A proprietary valuation model, which takes into account projected cash flows for five years including a terminal value (the expected stock price in five years), assists in many of these intrinsic value estimations. DHCM applies an intrinsic value philosophy to the analysis of fixed income securities.

DHCM believes that although securities markets are competitive, pricing inefficiencies often exist allowing for attractive investment opportunities. Furthermore, DHCM believes that investing in securities whose market prices are significantly below DHCM s estimate of intrinsic value (or selling short securities whose market prices are above intrinsic value) is a reliable method to achieve above average returns as well as mitigate risk.

Current portfolio strategies managed include Small Cap, Small-Mid Cap, Large Cap, Select, Long-Short, Financial Long-Short, and Strategic Income. These strategies are available on a separately managed basis and/or through a mutual fund. The Small Cap strategy was closed to new investors as of December 31, 2005 and re-opened on September 1, 2007.

The Company also manages three private investment funds that utilize the Long-Short strategy. These funds are offered on a private placement basis to accredited and qualified investors in the United States and around the world.

Marketing

The Company primarily generates business for all three of its product lines (mutual funds, managed accounts, and private investment funds) through financial intermediaries including independent registered investment advisors, brokers, financial planners, investment consultants and third party marketing firms.

Diamond Hill Funds

The Company s mutual fund portfolios have, the Company believes, strong investment performance track records and are highly rated by third party services like Morningstar, Inc. (Morningstar). As a result, the Company has had success in raising assets by focusing on independent registered investment advisors and independent broker/dealers who conduct their own investment research. During 2006 and 2007, the Company added resources to market the Company s mutual funds through wirehouse broker/dealers and 401k platforms. Below is a summary of the assets by distribution channel as of December 31, 2007, 2006 and 2005:

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	Diamond Hill Funds Assets by Distribution Channel As of December 31,		
(in millions)	2007	2006	2005
Independent registered investment advisors and broker/dealers	$1,405	$1,161	$421
Wirehouse and regional broker/dealers	1,020	917	392
Defined contribution (401k)	229	157	33
Institutions	105	132	41
Other	35	40	20
Total	$2,794	$2,407	$907

Separate Accounts and Private Investment Funds

The Company continues to develop institutional relationships for separate account management primarily through consultant relationships, database research screens, and direct marketing. In June 2006, the Company launched two new private investment funds. Both are managed in a similar fashion to the Company s existing private investment partnership. Diamond Hill Offshore Ltd. is domiciled in the Cayman Islands for use by foreign entities and qualified U.S. entities. Diamond Hill Investment Partners II, L.P. is an Ohio limited partnership, similar to the Company s existing partnership; however, it is designed for institutions and super-accredited investors. The Company has also engaged a third party placement firm to assist in raising assets in the private investment funds. To date, efforts by the third party placement firm have been successful. The third party firm earns 20% of all revenue earned each year from clients it introduced to the Company.

Growth Prospects

As mentioned, the Company s mutual funds, separately managed accounts, and private investment funds have strong five year investment returns that the Company believes compare very favorably to competitors. Investment returns have been a key driver in the success the Company has achieved in growing assets under management (AUM) at a rate of 19%, 142%, and 192% in 2007, 2006, and 2005, respectively.

As a result, the Company invested in marketing throughout 2007 and expects to continue to invest into 2008 in an effort to expand distribution. Such expenditures are expected to include:

adding additional marketing and support staff,

attending and sponsoring at key industry conferences, and

creating additional marketing material for the funds and separately managed accounts.

The cost of these efforts could be significant, but the Company believes it will be proportional to the increase in revenue during 2008 and future years. There can be no assurance that these efforts will prove successful; however, given the investment results of the Diamond Hill Funds (the Funds) and separately managed accounts, the Company believes the additional resources devoted to marketing are warranted.

Also recognizing that the Company s primary responsibility is to investors in its Funds and its separate account clients, the Company will continue to invest in its investment team and close investment strategies to new investors when appropriate. In 2006 and 2007, the Company substantially increased its equity investment team adding two portfolio managers, six equity research analysts and trading and technology support. A full year cost for those additions will be reflected in 2008.

The Company believes that one of the most important characteristics exhibited by the best investment firms is excellent investment returns for their clients over a long period of time. The Company is pleased that in its history as an investment advisory firm it has delivered what it believes are excellent investment returns for its clients. However, the Company is mindful that if it fails to do so in the future, its business growth will be negatively impacted. There are certain additional business risks that may prevent the Company from achieving the above growth prospects. These

risks are detailed in Item 1A.

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New Business Subsidiary

During 2008, the Company plans to create a new operating broker-dealer subsidiary to serve as the statutory underwriter for Diamond Hill Funds. The subsidiary also plans to market these underwriting services, along with other administrative services to other small to mid-size mutual fund complexes. During the past two years there has been a continuing consolidation in the mutual fund servicing industry, whereby large financial services firms purchased independent mutual fund service providers. These larger financial services firms have made the decision not to offer statutory underwriting services to mutual funds, due to regulatory and other business conflicts and are seeking independent service providers to fill the void. As a result, the Company believes there is an opportunity in the market place to establish a business that can serve as a mutual fund distributor and provide treasury and compliance services to small to mid-size mutual fund companies. The Company plans to capitalize this subsidiary with $1 million. The subsidiary s efforts in 2008 will be focused on building out the infrastructure and business development activities. The Company hopes the subsidiary will achieve break even within two years.

Competition

Competition in the area of investment management services and mutual funds is intense, and the Company s competitors include investment management firms, broker-dealers, banks and insurance companies, some of whom offer various investment alternatives. Many competitors are better known than the Company, are better capitalized, offer a broader range of investment products and have more offices, employees and sales representatives. The Company competes primarily on the basis of investment philosophy, performance and customer service.

Corporate Investment Portfolio

The Company holds investment positions in Diamond Hill Funds, its private investment funds, and other equity securities.

Regulation

DHCM is registered with the Securities and Exchange Commission (the SEC) under the Investment Advisers Act of 1940 (the Advisers Act) and operates in a highly regulated environment. The Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. All Diamond Hill Funds are registered with the SEC under the Investment Company Act of 1940. Each fund is also required to make notice filings with all states where it is offered for sale. Virtually all aspects of the Company s investment management business are subject to various federal and state laws and regulations. Generally, these laws and regulations are primarily intended to benefit shareholders of the funds and separate account investment clients and generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the Company from carrying on its investment management business in the event that it fails to comply with such laws and regulations. In such event, possible sanctions which may be imposed include the suspension of individual employees, business limitations on DHCM engaging in the investment management business for specified periods of time, the revocation of DHCM s registration as an investment adviser, and other censures or fines.

Contractual Relationships with the Diamond Hill Funds

The Company is very dependent on its contractual relationships with the Funds. In the event the advisory or administration agreements with Funds are canceled or not renewed pursuant to the terms thereof, the Company would be materially and adversely affected. The Company considers its relationship with the Funds and their Board of Trustees to be good, and it has no reason to believe that these advisory or administration contracts will not be renewed in the future; however, there is no assurance that the Funds will choose to continue their relationships with the Company. The Company generated approximately 69% and 54% of its 2007 and 2006 revenues, respectively, from its advisory and administrative contracts with Diamond Hill Funds.

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Employees

As of December 31, 2007, the Company employed 38 full-time employees and four part-time employees. The Company generally believes that its relationship with its employees is good and does not anticipate any material change in the number of employees.

SEC Filings

This Form 10-K includes financial statements for the years ended December 31, 2007, 2006, and 2005. The Company files Form 10-Ks annually with the SEC and files Form 10-Qs after each of the first three fiscal quarters. Prior to 2006, the Company was a small business issuer making its annual filing on Form 10-KSB and its quarterly filings on Form 10-QSB. A copy of the Form 10-K, as filed with the SEC, will be furnished without charge to any shareholder who contacts the Company s Secretary at 325 John H. McConnell Blvd., Suite 200, Columbus, OH 43215 or 614.255.3333. The Company also makes its SEC filings available, free of charge, on its web site at www.diamond-hill.com.

ITEM 1A: Risk Factors

An investment in the Company s common shares involves various risks, including those mentioned below and those that are discussed from time-to-time in its other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding the Company s common shares. There may be additional risks of which the Company is currently unaware, or which it currently considers immaterial. All of these risks could have a material adverse effect on its financial condition, results of operations, and value of its common stock.

Investment Performance.

If the Company fails to deliver excellent performance for its clients, both in the short and long term, it will likely experience diminished investor interest and potentially a diminished level of AUM.

The Company s assets under management, which impact revenue, are subject to significant fluctuations.

Substantially all revenue for the Company is calculated as percentages of assets under management or is based on the general performance of the equity securities market. A decline in securities prices or in the sale of investment products or an increase in fund redemptions generally would reduce fee income. Financial market declines or adverse changes in interest rates would generally negatively impact the level of the Company s assets under management and consequently its revenue and net income. A recession or other economic or political events could also adversely impact the Company s revenue if it led to a decreased demand for products, a higher redemption rate, or a decline in securities prices.

The Company s success depends on its key personnel, and its financial performance could be negatively affected by the loss of their services.

The Company s success depends on highly skilled personnel, including portfolio managers, research analysts, and management, many of whom have specialized expertise and extensive experience in the industry. Financial services professionals are in high demand, and the Company faces significant competition for qualified employees. With the exception of the Chief Executive Officer, key employees do not have employment contracts, and generally can terminate their employment at any time. The Company cannot assure that it will be able to retain or replace key personnel. In order to retain or replace its key personnel, the Company may be required to increase compensation, which would decrease net income. The loss of key personnel could damage the Company s reputation and make it more difficult to retain and attract new employees and investors. Losses of assets from its client investors would decrease its revenues and net income, possibly materially.

The Company is subject to substantial competition in all aspects of its business.

The Company s investment products compete against an ever-increasing number of investment products and services from:

asset management firms,

mutual fund companies,

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commercial banks and thrift institutions,

insurance companies,

hedge funds, and

brokerage and investment banking firms.

Many of these financial institutions have substantially greater resources than the Company and may offer a broader range of products or operate in more markets. Some operate in a different regulatory environment which may give them certain competitive advantages in the investment products and portfolio structures that they offer. The Company competes with other providers of investment advisory services primarily based upon its investment performance. Some institutions have proprietary products and distribution channels that make it more difficult for the Company to compete with them. If current or potential customers decide to use one of the Company s competitors, the Company could face a significant decline in market share, assets under management, revenues, and net income. If the Company is required to lower its fees in order to remain competitive, its net income could be significantly reduced because some of its expenses are fixed, especially over shorter periods of time, and others may not decrease in proportion to the decrease in revenues.

A significant portion of the Company s revenues are based on contracts with the Diamond Hill Funds that are subject to termination without cause and on short notice.

The Company provides investment advisory and administrative services to the Diamond Hill Funds under various agreements. The board of each Diamond Hill Fund must annually approve the terms of the investment management and administration agreements and can terminate the agreement upon 60-day notice. If a Diamond Hill Fund seeks to lower the fees that the Company receives or terminate its contract with the Company, the Company would experience a decline in fees earned from the Diamond Hill Funds, which could have a material adverse effect on the Company s revenues and net income. The Company derived 69% and 54% of its 2007 and 2006 revenue, respectively from investment advisory and administration agreements with Diamond Hill Funds.

The Company s business is subject to substantial governmental regulation.

The Company s business is subject to variety of federal securities laws including the Investment Advisors Act of 1940, the Investment Company Act of 1940, the Securities Exchange Act of 1934, Sarbanes-Oxley Act of 2002, and the U.S. Patriot Act of 2001. In addition, the Company is subject to significant regulation and oversight by the SEC and FINRA. Changes in legal, regulatory, accounting, tax and compliance requirements could have a significant effect on the Company s operations and results, including but not limited to increased expenses and reduced investor interest in certain funds and other investment products offered by the Company. The Company continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact its business.

The Company will continue to seek to understand, evaluate and when possible, manage and control these and other business risks.

ITEM 1B: Unresolved Staff Comments - None

ITEM 2: Description of Property

The Company leases approximately 14,187 square feet of office space at 325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215 under an operating lease agreement which terminates on July 31, 2013.

The Company s current policy is not to invest in real estate or interests in real estate primarily for possible capital gain or primarily for income. The Company does not invest in real estate mortgages or securities of entities primarily engaged in real estate activities.

ITEM 3: Legal Proceedings

The Company is currently not engaged in any material litigation or other legal proceedings.

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ITEM 4: Submission of Matters to a Vote of Security Holders

There were no matters submitted during the most recent quarter to a vote of security holders.

PART II

ITEM 5: Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following performance graph compares the total shareholder return of an investment in Diamond Hill s Common Stock to that of the Russell Microcap™ Index, and to a peer group index of publicly traded asset management firms for the five-year period ending on December 31, 2007. The graph assumes that the value of the investment in Diamond Hill s Common Stock and each index was $100 on December 31, 2002. Total return includes reinvestment of all dividends. According to Russell, the Microcap™ Index makes up less than 3% of the U.S. equity market and is a market-value-weighted index of the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities. Peer Group returns are weighted by the market capitalization of each firm at the beginning of each measurement period. The historical information set forth below is not necessarily indicative of future performance. Diamond Hill does not make or endorse any predictions as to future stock performance.

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Diamond Hill Investment Group, Inc.	100	177	427	798	2,136	1,865
Russell Microcap™ Index	100	166	190	195	227	209
Peer Group*	100	124	144	157	184	240

* The following companies are included in the Peer Group: Westwood Holdings Group, Inc.; U.S. Global Investors, Inc.; GAMCO Investors, Inc.; Waddell & Reed Financial, Inc.; Affiliated Managers Group, Inc.; Federated Investors, Inc.; Janus Capital Group, Inc.; Eaton Vance Corp.

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The Company s common shares trade on the NASDAQ Capital Market under the symbol DHIL. The following table sets forth the high and low sale and closing prices each quarter since during 2007 and 2006:

	2007			2006		
	High Price	Low Price	Close Price	High Price	Low Price	Close Price
Quarter ended:						
March 31	$113.85	$80.82	$97.51	$46.33	$29.75	$41.22
June 30	$109.99	$82.01	$90.66	$52.00	$36.38	$47.03
September 30	$ 92.85	$69.02	$81.00	$67.44	$44.00	$63.25
December 31	$ 87.40	$69.50	$73.10	$89.30	$56.25	$83.73

Due to the relatively low volume of traded shares, quoted prices cannot be considered indicative of any viable market for such shares. During the years ended December 31, 2007, and 2006, approximately 1,079,000 and 1,080,000, respectively, of the Company s Common Shares were traded.

The approximate number of registered holders of record of the Company s common shares at December 31, 2007 was 250. Many of the shares are held in street nominee name and management believes the number of beneficial holders of the Company s common shares as of December 31, 2007 were approximately 2,100. The Company has not paid any dividends during the last two fiscal years and has no present intention of doing so in the future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth information regarding the Company s purchases of its common stock during the fourth quarter of fiscal 2007:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2007 through October 31, 2007			1,398	348,602
November 1, 2007 through November 30, 2007	874	$ 74.30	2,272	347,728
December 1, 2007 through December 31, 2007	2,670	$ 72.23	4,942	345,058

(1) - The Company s current share repurchase program was announced on August 9, 2007. The board of directors authorized management to

repurchase up to 350,000 shares of its common stock in the open market and in private transactions in accordance with applicable securities laws. The Company s stock repurchase program is not subject to an expiration date.

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ITEM 6: Selected Financial Data

The following selected financial data should be read in conjunction with the Company s Consolidated Financial Statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K.

	For the Years Ended December 31,				
	2007	2006	2005	2004	2003
Income Statement Data (in thousands):					
Total revenues	$ 41,308	$ 31,905	$ 10,246	$ 2,774	$ 1,161
Net operating income (loss)	14,078	9,769	1,394	(664)	(1,394)
Net income (loss)	9,932	8,065	3,651	(177)	(994)
Earnings Per Share:					
Basic	$ 4.61	$ 4.51	$ 2.21	$ (0.11)	$ (0.68)
Diluted	4.39	3.63	1.83	(0.11)	(0.68)
Weighted Average Shares Outstanding					
Basic	2,155,829	1,787,390	1,654,935	1,566,385	1,458,264
Diluted	2,264,234	2,219,580	1,996,176	1,566,385	1,458,264

	At December 31,				
	2007	2006	2005	2004	2003
Balance Sheet Data (in thousands):					
Total assets	$53,284	$37,236	$12,748	$3,968	$3,314
Long-term debt					
Shareholders equity	39,308	20,483	10,861	3,566	3,175
Assets Under Management (in millions):	$ 4,403	$ 3,708	$ 1,531	$ 524	$ 250

ITEM 7: Management s Discussion and Analysis of Financial Condition and Results of Operation

In this section the Company discusses and analyzes the consolidated results of operations for the past three fiscal years and other factors that may affect future financial performance. This discussion should be read in conjunction with the consolidated Financial Statements, Notes to the Consolidated Financial Statements, and Selected Financial Data.

The Company s revenue is derived primarily from investment advisory and administration fees received from Diamond Hill Funds and investment advisory and performance incentive fees received from separate accounts and private investment funds. Investment advisory and administration fees paid to the Company are based on the value of the investment portfolios managed by the Company and fluctuate with changes in the total value of the assets under management. Such fees are recognized in the period that the Company manages these assets. Performance incentive fees are earned in the amount of 20% on the amount of client annual investment performance in excess of a 5% annual return hurdle. Because performance incentive fees are based primarily on the performance of client accounts, they can be volatile from period to period. The Company s major expense is employee compensation and benefits.

Revenues are highly dependant on both the value and composition of assets under management (AUM). The following is a summary of the firm s AUM for each of the prior three years and a roll-forward of this three year growth:

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	Assets Under Management by Product As of December 31,		
(in millions)	**2007**	**2006**	**2005**
Mutual funds	$ 2,910	$ 2,518	$ 907
Separate accounts	998	875	513
Private investment funds	495	315	111
Total AUM	$ 4,403	$ 3,708	$ 1,531

(in millions)	**2007**	**2006**	**2005**
AUM at beginning of year	$ 3,708	$ 1,531	$ 524
Net cash inflows			
mutual funds	362	1,333	617
separate accounts	70	441	212
private investment funds	170	164	67
	602	1,938	896
Net market appreciation and income	93	239	111
Increase during the year	695	2,177	1,007
AUM at end of year	$ 4,403	$ 3,708	$ 1,531

Consolidated Results of Operations

The following is a discussion of the consolidated results of operations of the Company and a detailed discussion of the Company s revenues and expenses.

	2007	2006	% Change	2006	2005	% Change
Net income (in thousands)	$9,932	$8,065	23%	$8,065	$3,651	121%
Net income per share						
Basic	$ 4.61	$ 4.51	2%	$ 4.51	$ 2.21	104%
Diluted	$ 4.39	$ 3.63	21%	$ 3.63	$ 1.83	98%
Weighted average shares outstanding (in thousands)						
Basic	2,156	1,787		1,787	1,655	
Diluted	2,264	2,220		2,220	1,996	

Year Ended December 31, 2007 compared with Year Ended December 31, 2006

The Company posted net income of $9,932,315 ($4.39 per diluted share) for the year ended December 31, 2007, compared with net income of $8,065,133 ($3.63 per diluted share) for the year ended December 31, 2006. The increase in profitability is directly attributable to an increase in investment advisory and mutual fund administration fees which are correlated to an increase in AUM of $695 million during 2007. The increase in profitability was achieved despite a 98% decrease in performance incentive fees due to investment performance in client portfolios not

exceeding the hurdle rate.

Operating expenses increased by 23% in 2007 primarily driven by the following:

- Employee compensation expense increased by 10%, or $1,859,016 primarily due to an increase in overall staff from 31 to 42.

- Consistent with continued growth in mutual fund assets under management, mutual fund administration expense increased by 44%, or $734,716.

- Consistent with higher investment advisory incentive fees, third party distribution expenses increased by 94%, or $730,839. A large portion of this increase was related to an increase in assets of the Company s private investment funds.

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Year Ended December 31, 2006 compared with Year Ended December 31, 2005

The Company posted net income of $8,065,133 ($3.63 per diluted share) for the year ended December 31, 2006, compared with net income of $3,650,766 ($1.83 per diluted share) for the year ended December 31, 2005. The increase in profitability is primarily attributable to the following factors:

- The Company s investment advisory fee and mutual fund administration fee increase is substantially due to an increase in AUM of $2.2 billion during 2006.
- Performance incentive fees increased by 172% due to increased AUM and strong investment performance.
- Investment income grew by $1.9 million due to a larger investment in the private investment funds and strong investment performance.

Operating expenses increased by 150% in 2006 primarily driven by the following:

- Employee compensation expense increased by 163%, or $11.3 million primarily due to higher incentive compensation and an overall staff increase of 52%, primarily on the investment team.
- Consistent with continued growth in mutual fund assets under management, mutual fund administration expense increased by 104%, or $860,496.
- Consistent with higher investment advisory and performance incentive fees, third party distribution expenses increased by 252%, or $559,385. A large portion of this increase was related to the new third party placement firm hired during 2006 to focus on distribution of the private investment funds.

Revenue

(in Thousands)	2007	2006	% Change	2006	2005	% Change
Investment advisory	$ 35,165	$ 20,247	74%	$ 20,247	$ 6,489	212%
Performance incentive	174	7,947	-98%	7,947	2,916	173%
Mutual fund administration, net	5,969	3,710	61%	3,710	841	341%
Total	41,308	31,904	29%	31,904	10,246	211%

Revenue for the Year Ended December 31, 2007 compared with Year Ended December 31, 2006

As a percent of total 2007 revenues, investment advisory fees account for 85%, performance incentive fees account for less than 1%, and mutual fund administration makes up the remaining 14%. This compares to 63%, 25%, and 12%, respectively for 2006.

Investment Advisory Fees. Investment advisory fees are generally calculated as a percent of average net assets under management at various levels depending on the investment product. The Company s average advisory fee rate for the year ended December 31, 2007 was 0.83% compared to 0.76% for the year ended December 31, 2006. This increase was mainly due to the increase in assets under management in the long-short products, which have a higher advisory fee. The overall increase in investment advisory fees year over year was primarily due to an increase in AUM of $695 million in 2007.

Performance Incentive Fees. Performance incentive fees are equal to 20% of the performance increase in client accounts after a 5% annual hurdle is achieved. The fees are dependent on both assets under management and absolute investment performance in client accounts and can be very volatile from period to period. Incentive fee AUM totaled $581 million at December 31, 2007 compared to $374 million at the end of 2006. Despite the 55% increase in incentive fee AUM, absolute investment performance in client accounts during 2007 generally did not exceed the required 5% annual hurdle and therefore performance incentive fees were down 98% compared to 2006.

Mutual Fund Administration Fees. Mutual fund administration fees are calculated as a percent of average net assets under administration in the Diamond Hill Funds. The Company earns 0.32% on Class A and Class C shares and 0.18% on Class I shares. As assets in the Funds have grown the Company has realized certain economies of scale; and

as a result, the Company has lowered its administration fees by approximately 10% in each of the last three years to pass on those economies of scale to fund shareholders. The Company expects to lower its administration fees again effective April 30, 2008. Despite lowering fees by 11% during 2007, fund administration revenues increased by $2.3 million over 2006 due to the increase in assets under administration.

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Revenue for the Year Ended December 31, 2006 compared with Year Ended December 31, 2005

As a percent of total 2006 revenues, investment advisory fees accounted for 63%, performance incentive fees accounted for 25%, and mutual fund administration made up the remaining 12%. This compares to 63%, 28%, and 9%, respectively for 2005.

Investment Advisory Fees. Investment advisory fees are calculated as a percent of average net assets under management at various levels depending on the investment product. The Company s average advisory fee rate for the year ended December 31, 2006 was 0.76% compared to 0.72% for the year ended December 31, 2005. This increase was mainly due to the increase in assets under management in the long-short products, which have a higher advisory fee. The overall increase in investment advisory fees was primarily due to an increase in AUM of $2.2 billion in 2006. The largest increase in 2006 came from the Diamond Hill Long-Short fund which increased $924 million, or 300% from 2005 to 2006.

Performance Incentive Fees. Performance incentive fees are equal to 20% of the performance increase in client accounts after a 5% annual hurdle is achieved. The fees are dependent on both assets under management and absolute investment performance in client accounts and can be volatile from period to period. Incentive fee AUM totaled $374 million at December 31, 2006 compared to $117 million at the end of 2005. Strong investment performance coupled with a 220% increase in incentive fee AUM contributed to the $5 million increase in fees for 2006 compared to 2005. In June 2006, the Company launched two new private investment funds, which provided for additional incentive fees. In conjunction with the launch of these two funds, a third party placement firm was hired to market the new funds as well as the Company s existing private investment fund. To date, efforts by the third party placement firm have been successful.

Mutual Fund Administration Fees. Mutual fund administration fees are calculated as a percent of average net assets under administration in the Diamond Hill Funds. The Company earns 0.36% on Class A and Class C shares and 0.18% on Class I shares. As assets in the Funds have grown the Company has realized certain economies of scale; and as a result, the Company has lowered its administration fees by approximately 10% in each of the last two years to pass on those economies of scale to fund shareholders. The Company lowered its administration fees again effective April 30, 2007. Despite lowering fees by 10% during 2006, fund administration revenues increased by $2.9 million from 2005 to 2006.

Expenses

(in Thousands)	2007	2006	% Change	2006	2005	% Change
Compensation and related costs	$20,007	$18,148	10%	$18,148	$6,878	164%
General and administrative	2,659	1,137	134%	1,137	679	67%
Sales and marketing	632	384	65%	384	248	55%
Third party distribution	1,512	781	94%	781	222	252%
Mutual fund administration	2,420	1,686	44%	1,686	825	104%
Total	27,230	22,136	23%	22,136	8,852	150%

Expenses for the Year Ended December 31, 2007 compared with Year Ended December 31, 2006

Compensation and Related Costs. Employee compensation and benefits increased by $1.9 million, or 10%, in 2007, primarily due to a 31% increase in the number of staff.

General and Administrative. The increase in general and administrative expenses of $1.5 million, or 134%, resulted from general increases associated with the overall growth of the Company, and an increase in expenditures for investment research and portfolio accounting systems. Additionally, during the third quarter of 2007 the Company incurred a $452,000 loss related to a trading error in a client account.

Sales and Marketing. Sales and marketing expenses increased by $248 thousand, or 65% during 2007. This increase is commensurate with the increase in investment advisory revenue and was primarily due to

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increased expense related to marketing materials and additional travel related expense incurred related to new business attained during the year.

Third Party Distribution. Third party distribution expense represents payments made to third party intermediaries directly related to sales made by those parties of the Company s investment products. Substantially all of this expense in 2007 and 2006 is related to new client investments in the Company s private investment funds. The year over year increases directly correspond to the increase in investment advisory fees earned by the Company.

Mutual Fund Administration. Mutual fund administration expenses increased by $734 thousand during 2007. A large portion of mutual fund administration expense is calculated based on a percent of assets under administration in the Diamond Hill Funds. The year over year increases are consistent with the continued growth in assets under administration.

Expenses for the Year Ended December 31, 2006 compared with Year Ended December 31, 2005

Compensation and Related Costs. Employee compensation and benefits increased by $11.3 million, or 164%, in 2006, primarily due to incentive bonuses associated with strong long-term investment performance and a 52% increase in the number of staff, primarily on the investment team.

General and Administrative. The increase in general and administrative expenses of $458 thousand, or 67%, resulted from increased legal and audit fees related to Sarbanes-Oxley, additional investment research costs, and additional rent expense associated with the larger office space the Company moved into during 2006.

Sales and Marketing. Sales and marketing expenses increased by $136 thousand, or 55% during 2006. This increase was primarily due to increased expense related to marketing materials and additional travel expense incurred related to new business attained during the year. Meals and entertainment were flat year over year.

Third Party Distribution. Third party distribution expense represents payments made to third party intermediaries directly related to sales made by those parties of the Company s investment products. Substantially all of this expense in 2006 and 2005 was related to new client investments in the Company s private investment funds. The year over year increases directly correspond to the increase in investment advisory and performance incentive fees earned by the Company.

Mutual Fund Administration. Mutual fund administration expense increased by $860 thousand in 2006. A large portion of mutual fund administration expense is calculated based on a percent of assets under administration in the Diamond Hill Funds. The year over year increases are consistent with the continued growth in assets under administration.

Liquidity and Capital Resources

The Company s entire investment portfolio is in readily marketable securities, which provide for cash liquidity, if needed. Investments in mutual funds are valued at their quoted current net asset value. Investments in private investment funds and equity securities are valued independently based on readily available market quotations. Inflation is expected to have no material impact on the Company s performance.

As of December 31, 2007, the Company had working capital of approximately $37.5 million compared to $19.1 million at December 31, 2006. Working capital includes cash, securities owned and accounts receivable, net of all liabilities. The Company has no debt and its available working capital is expected to be sufficient to cover current expenses. The Company does not expect any material capital expenditures during 2008; however, capital levels are expected to be impacted by future stock-based option and warrant exercises.

Operating activities during 2007 provided cash flows of $10 million, down $8.1 million from 2006, including increased net income of $1.9 million and non-cash stock-based compensation expense of $1.4 million. Net cash used in investing activities totaled $15 million, up just over $4 million from 2006. The Company s

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investments in mutual funds and equity securities made from its larger available cash balances were $15.3 million in 2007, up $4.1 million from 2006. Decreased capital spending for property and equipment was $304 thousand in 2007, a decline of $151 thousand from 2006. Net cash provided by financing activities was $7.5 million in 2007, up $6.7 million from 2006. Substantially all of this increase was due to common stock issued during 2007 relating to the exercise of options and warrants.

Operating activities during 2006 provided cash flows of $18.1 million, up $15.3 million from 2005, including increased net income of $4.4 million and increased accrued liabilities of $11.5 million. Net cash used in investing activities totaled $11.6 million, up $8.3 million from 2005. The Company s investments in mutual funds and private investment funds made from its larger available cash balances were $7.9 million more in 2006 than in 2005. Capital spending for property and equipment was $455 thousand in 2006, an increase of $426 thousand from 2005. Net cash used in financing activities was $760 thousand in 2006, a decline of $2.1 million from 2005.

Property and equipment expenditures in 2008, including those for the build-out of the Company s expanded operating facilities, are anticipated to be approximately $180 thousand and are expected to be funded from cash balances.

Selected Quarterly Information

Unaudited quarterly results of operations for the years ended December 31, 2007 and 2006 is summarized below:

	At or For the Quarter Ended							
	2007				2006			
(in thousands)	12/31	09/30	06/30	03/31	12/31	09/30	06/30	03/31
Assets Under Management (in millions)	$ 4,403	$ 4,380	$ 4,479	$ 4,169	$ 3,708	$ 3,117	$ 2,734	$ 2,181
Total revenue	10,883	10,701	10,369	9,355	13,420	6,655	6,249	5,580
Total operating expenses	6,847	7,168	6,947	6,268	8,973	4,634	4,443	4,086
Operating income	4,036	3,533	3,422	3,087	4,447	2,021	1,806	1,494
Net income	$ 2,876	$ 2,648	$ 2,414	$ 1,994	$ 4,082	$ 1,362	$ 1,368	$ 1,253
Diluted EPS	$ 1.23	$ 1.14	$ 1.05	$ 0.91	$ 1.72	$ 0.61	$ 0.62	$ 0.58
Diluted shares outstanding	2,335	2,322	2,302	2,196	2,281	2,239	2,200	2,172

Contractual Obligations

The following table presents (in thousands) a summary of the Company s future obligations under the terms of an operating lease and other contractual purchase obligations at December 31, 2007. Other purchase obligations include contractual amounts that will be due for the purchase of services to be used in the Company s operations such as mutual fund sub-administration and portfolio accounting software. These obligations may be cancelable at earlier times than those indicated under certain conditions that may involve termination fees. Because these obligations are of a normal recurring nature, the Company expects that it will fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2008 and future years:

	Total	2008	2009-2010	2011-2012	Later
Operating lease obligations	$1,329,000	$ 231,000	$469,000	$499,000	$130,000
Purchase obligations	$1,800,000	$1,700,000	$100,000	$	$

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements with any obligation under a guarantee contract, or a retained or contingent interest in assets or similar arrangement that serves as credit, liquidity or market risk support for such assets, or any other obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument or arising out of a variable interest.

Critical Accounting Policies and Estimates

Provisions for Income Tax Taxes. The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 Accounting for the Uncertainty in Income Taxes (FIN 48), an interpretation of SFAS 109. As a result of the implementation of FIN 48, the Company recognized no adjustment in the net tax liability.

Revenue Recognition on Incentive-Based Advisory Contracts. The Company has certain investment advisory contracts in which a portion of the fees are based on investment performance achieved in the respective client portfolio in excess of five percent. EITF Abstract Topic No. D-96, Accounting for Management Fees Based on a Formula, identifies two methods by which incentive revenue may be recorded. Under Method 1, incentive fees are recorded at the end of the contract year. Under Method 2, incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen the more conservative method (Method 1), in which performance fees are recorded at the end of the contract period provided for by the contract terms.

Newly Issued But Not Yet Adopted Accounting Standards

Each reporting period the Company considers all newly issued but not yet adopted standards applicable to its operations and the preparation of the Company s consolidated statements. One such standard, SFAS No. 157, Fair Value Measurements , may add additional note disclosures to the Company s 2008 financial statements about the valuation of its corporate investments. Adoption of SFAS No. 157 should not have a material effect on the Company s financial position or results of operations.

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ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company s revenues and net income are based primarily on the value of assets under its management. Accordingly, declines in financial market values directly and negatively impact its investment advisory revenues and net income.

The Company invests in Diamond Hill Funds, its private investment funds, and other equity securities, which are market risk sensitive financial instruments. These investments have inherent market risk in the form of equity price risk; that is, the potential future loss of value that would result from a decline in the fair value. Each equity fund and its underlying net assets are also subject to market risk, which may arise from changes in equity prices. The bond fund is also subject to market risk which may arise from changes in equity prices, credit ratings and interest rates. Market prices fluctuate and the amount realized upon subsequent sale may differ significantly from the reported market value. The table below summarizes the Company s market risks as of December 31, 2007, and shows the effects of a hypothetical 10% increase and decrease in equity and bond investments.

	Fair Value as of December 31, 2007	Fair Value Assuming a Hypothetical 10% Increase	Fair Value Assuming a Hypothetical 10% Decrease
Equity investments	$ 30,270,597	$ 33,297,657	$ 27,243,537
Bond fund investments	3,765,566	4,142,123	3,389,009
Total	$ 34,036,163	$ 37,439,780	$ 30,632,546

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ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public
Accounting Firm on Consolidated Financial Statements

The Shareholders and Board of Directors of
Diamond Hill Investment Group, Inc.:

We have audited the accompanying balance sheets of Diamond Hill Investment Group, Inc. and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying financial statements. Our responsibility is to express an opinion on these financial statements and an opinion on the company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diamond Hill Investment Group, Inc. and its subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Diamond Hill Investment Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Plante & Moran, PLLC
Columbus, Ohio
March 7, 2008

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Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	December 31, 2007	2006
ASSETS		
Cash and cash equivalents	$ 11,783,278	$ 9,836,989
Investment portfolio	34,036,163	19,108,682
Accounts receivable	5,694,274	6,924,008
Prepaid expenses	1,115,728	869,501
Fixed assets, net of depreciation, and other assets	654,500	497,297
Total assets	$ 53,283,943	$ 37,236,477
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 979,467	$ 1,217,114
Accrued incentive compensation	12,450,000	13,637,000
Deferred taxes	546,944	1,899,106
Total liabilities	13,976,411	16,753,220
Commitments and contingencies		
Shareholders Equity		
Common stock, no par value		
7,000,000 shares authorized;		
2,243,653 issued and outstanding at December 31, 2007		
1,848,472 issued 1,838,435 outstanding at December 31, 2006	27,719,024	16,515,256
Preferred stock, undesignated, 1,000,000 shares authorized and unissued		
Treasury stock, at cost		
0 shares at December 31, 2007		
10,037 shares at December 31, 2006		(95,736)
Deferred compensation	(4,056,015)	(2,355,499)
Retained earnings	15,644,523	6,419,236
Total shareholders equity	39,307,532	20,483,257
Total liabilities and shareholders equity	$ 53,283,943	$ 37,236,477

The accompanying notes are an integral part of these financial statements.

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Income

	Year Ended December 31,		
	2007	2006	2005
REVENUES:			
Investment advisory	$ 35,165,043	$ 20,246,624	$ 6,488,767
Performance incentive	174,292	7,947,434	2,915,771
Mutual fund administration, net	5,968,603	3,710,141	841,527
Total revenue	41,307,938	31,904,199	10,246,065
OPERATING EXPENSES:			
Compensation and related costs	20,006,542	18,147,526	6,877,929
General and administrative	2,658,649	1,137,319	678,939
Sales and marketing	631,911	383,994	247,972
Third party distribution	1,512,095	781,256	221,871
Mutual fund administration	2,420,252	1,685,536	825,040
Total operating expenses	27,229,449	22,135,631	8,851,751
NET OPERATING INCOME	14,078,489	9,768,568	1,394,314
Investment Return	909,134	2,526,620	594,777
INCOME BEFORE TAXES	14,987,623	12,295,188	1,989,091
Income tax (provision) / benefit	(5,055,308)	(4,230,055)	1,661,675
NET INCOME	$ 9,932,315	$ 8,065,133	$ 3,650,766
Earnings per share			
Basic	$ 4.61	$ 4.51	$ 2.21
Diluted	$ 4.39	$ 3.63	$ 1.83
Weighted average shares outstanding			
Basic	2,155,829	1,787,390	1,654,935
Diluted	2,264,234	2,219,580	1,996,176

The accompanying notes are an integral part of these financial statements.

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Shareholders Equity

	Shares Outstanding	Common Stock	Treasury Stock	Deferred Compensation	Retained Earnings (Deficit)	Total
Balance at January 1, 2005	1,613,060	$ 10,204,714	$ (1,229,378)	$ (124,550)	$ (5,284,447)	$ 3,566,339
Deferred compensation	15,000	143,700	85,800	(229,500)		
Recognition of current year deferred compensation				61,669		61,669
FAS 123R compensation expense		634,712				634,712
Tax benefit from options and warrants exercised		108,457				108,457
Sale of treasury stock	127,839	2,107,861	731,208			2,839,069
Net income					3,650,766	3,650,766
Balance at December 31, 2005	1,755,899	$ 13,199,444	$ (412,370)	$ (292,381)	$ (1,633,681)	$ 10,861,012
Deferred compensation	44,482	2,246,503	160,101	(2,406,604)		
Recognition of current year deferred compensation				343,486		343,486
FAS 123R compensation expense		27,597				27,597
Tax benefit from options and warrants exercised		426,419				426,419
Sale of treasury stock	34,054	525,293	156,533		(12,216)	669,610
Exercise of 4,000 warrants for common stock	4,000	90,000				90,000
Net income					8,065,133	8,065,133
Balance at December 31, 2006	1,838,435	$ 16,515,256	$ (95,736)	$ (2,355,499)	$ 6,419,236	$ 20,483,257
Deferred compensation	36,000	3,089,280		(3,089,280)		
Recognition of current year deferred				1,388,764		1,388,764

compensation						
Issuance of stock grants	57,254	5,628,641				5,628,641
Issuance of stock related to 401k plan match	2,582	202,019				202,019
FAS 123R compensation expense		8,152				8,152
Tax benefit from options and warrants exercised		6,015,186				6,015,186
Payment of taxes withheld related to option exercises	(85,518)	(8,020,273)				(8,020,273)
Purchase of treasury stock related to option exercises	(15,797)		(1,344,958)			(1,344,958)
Sale of treasury stock for issuance of stock grant	614	25,874	38,903			64,777
Sale of treasury stock for 401k plan match	2,423	57,061	177,435			234,496
Sale of treasury stock related to option exercises	22,585	57,084	1,224,356		(707,028)	574,412
Exercise of options/warrants for common stock	390,017	4,500,478				4,500,478
Repurchase of common stock	(4,942)	(359,734)				(359,734)
Net income					9,932,315	9,932,315
Balance at December 31, 2007	2,243,653	$ 27,719,024	$	$ (4,056,015)	$ 15,644,523	$ 39,307,532

The accompanying notes are an integral part of these consolidated financial statements.

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Cash Flow

	Year Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 9,932,315	$ 8,065,133	$ 3,650,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on property and equipment	147,059	69,165	39,950
Amortization of deferred compensation	1,388,764	343,486	61,669
(Increase) decrease in accounts receivable	1,229,734	(5,026,307)	(532,201)
Increase (decrease) in deferred income taxes	(1,352,162)	4,071,965	(1,661,675)
Stock option expense	8,152	27,597	634,712
(Increase) decrease in unrealized gains	389,771	(2,110,524)	(487,300)
Increase (decrease) in accrued liabilities	(1,424,647)	12,991,309	1,485,277
Other changes in assets and liabilities	(246,227)	(289,392)	(330,237)
Net cash provided by operating activities	10,072,759	18,142,432	2,860,961
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(304,262)	(454,599)	(28,322)
Investment portfolio activity	(15,317,252)	(11,142,788)	(3,241,940)
Net cash used in investing activities	(15,621,514)	(11,597,387)	(3,270,262)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment for repurchase of common shares	(359,734)		
Payment of taxes withheld on option/warrant exercises	(8,020,273)		
Proceeds from common stock issuance	16,346,324	90,000	
Purchase of treasury stock	(1,344,958)		
Sale of treasury stock	873,685	669,610	2,839,069
Net cash provided by financing activities	7,495,044	759,610	2,839,069
CASH AND CASH EQUIVALENTS			
Net change during the period	1,946,289	7,304,655	2,429,768
At beginning of period	9,836,989	2,532,334	102,566
At end of period	$ 11,783,278	$ 9,836,989	$ 2,532,334
Cash paid during the period for:			
Interest	$	$	$
Income taxes	435,682	91,000	

The accompanying notes are an integral part of these consolidated financial statements.

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Diamond Hill Investment Group, Inc.
Notes to Consolidated Financial Statements

Note 1 Organization

Diamond Hill Investment Group, Inc. (the Company) was incorporated as a Florida corporation in April 1990 and in May 2002 merged into an Ohio corporation formed for the purpose of reincorporating in Ohio, where the Company s principal place of business is located. The Company has two operating subsidiaries.

Diamond Hill Capital Management, Inc. (DHCM), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment advisor. DHCM is the investment adviser to the Diamond Hill Funds (the Funds), a series of open-end mutual funds, private investment funds (Private Funds), and also offers advisory services to institutional and individual investors.

Diamond Hill GP (Cayman) Ltd. (DHGP) was incorporated in the Cayman Islands as an exempted company on May 18, 2006 for the purpose of acting as the general partner of a Cayman Islands exempted limited partnership, which partnership acts as a master fund for Diamond Hill Offshore Ltd., a Cayman Islands exempted company; and Diamond Hill Investment Partners II, L.P., an Ohio limited partnership. Diamond Hill GP (Cayman) Ltd. has no operating activity.

Note 2 Significant Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods. Actual results could differ from those estimates. The following is a summary of the Company s significant accounting policies:

Principles of Consolidation

The accompanying consolidated financial statements include the operations of the Company and DHCM. All material inter-company transactions and balances have been eliminated in consolidation.

Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Management has determined that the Company operates in one business segment, namely as an investment adviser managing mutual funds, separate accounts, and private investment funds.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market funds.

Accounts Receivable

Accounts receivable are recorded when they are due and are presented in the balance sheet, net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance for doubtful accounts is estimated based on the Company s historical losses, existing conditions in the industry, and the financial stability of those individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2007 and 2006.

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Note 2 Significant Accounting Policies (Continued)

Valuation of Investment Portfolio

Investments in mutual funds are valued at their quoted closing current net asset values, or NAVs, per share of each mutual fund. Investments in Private Funds and other equity securities are independently valued based on readily available market quotations. The changes in market values on the investments are recorded in the Consolidated Statement of Income as investment returns.

Limited Partnership Interests

DHCM is the managing member of Diamond Hill General Partner, LLC, the General Partner of Diamond Hill Investment Partners, LP (DHIP) and Diamond Hill Investment Partners II, LP (DHIP II), each a limited partnership whose underlying assets consist of marketable securities. DHCM in its role as the managing member of the General Partner exerts significant influence over the financial and operating policies of DHIP and DHIP II but does not exercise control. Therefore, DHCM s investment in DHIP and DHIP II is accounted for using the equity method, under which DHCM s share of the net earnings or losses from the partnership is reflected in income as earned, and distributions received are reflected as reductions from the investment. Several board members, officers and employees of the Company invest in DHIP and DHIP II through Diamond Hill General Partner, LLC. These individuals receive no remuneration as a result of their personal investment in DHIP or DHIP II. The capital of Diamond Hill General Partner, LLC is not subject to a management fee or an incentive fee.

Property and Equipment

Property and equipment, consisting of computer equipment, furniture, and fixtures, is carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over estimated lives of three to seven years.

Treasury Stock

Treasury stock purchases are accounted for under the cost method. The subsequent issuances of these shares are accounted for based on their weighted-average cost basis.

Revenue Recognition General

The Company earns substantially all of its revenue from investment advisory and fund administration services. Mutual fund investment advisory and administration fees, calculated as a percentage of assets under management, are recorded as revenue as services are performed. Managed account and private investment fund clients provide for monthly or quarterly management fees, in addition to quarterly or annual performance fees.

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Note 2 Significant Accounting Policies (Continued)

Revenue Recognition Performance Incentive Revenue

The Company s private investment funds and certain managed accounts provide for performance incentive fees. EITF Abstract Topic No. D-96, Accounting for Management Fees Based on a Formula , identifies two methods by which incentive revenue may be recorded. Under Method 1 , incentive fees are recorded at the end of the contract period; under Method 2 , the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen the more conservative method (Method 1), in which incentive fees are recorded at the end of the contract period for the specific client in which the incentive fee applies. The table below shows assets under management (AUM) subject to performance incentive fees and the performance incentive fees as calculated under each of the above methods:

	As Of December 31,		
	2007	2006	2005
AUM Contractual Period Ends Quarterly	$ 193,342,530	$ 240,725,253	$ 117,327,715
AUM Contractual Period Ends Annually	387,466,713	133,128,473	
Total AUM Subject to Performance Incentive	$ 580,809,243	$ 373,853,726	$ 117,327,715

	For The Period Ending December 31,		
	2007	2006	2005
Performance Incentive Fees Method 1	$174,292	$7,947,434	$2,915,771
Performance Incentive Fees Method 2	174,292	7,947,434	2,915,771

Amounts under Method 1 and Method 2 may differ throughout the year, but will generally be the same at fiscal year end because all client account contract period s end on December 31.

Revenue Recognition Mutual Fund Administration

DHCM has an administrative, fund accounting and transfer agency services agreement with the Diamond Hill Funds (Funds), under which DHCM performs certain services for each fund. These services include mutual fund administration, accounting, transfer agency and other related functions. For performing these services, each fund compensates DHCM a fee at an annual rate of 0.32% for Class A and Class C shares and 0.18% for Class I shares times each series average daily net assets. Effective April 30, 2007, the fee for administrative services was reduced from 0.36% to 0.32% for Class A and Class C shares. The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required fund shareholder mailings, registration fees, legal and audit fees. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that the Funds pay to DHCM is reviewed annually by the Funds board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Consistent with EITF 99-19, revenue has been recorded net of these Fund expenses. In addition, DHCM finances the up-front commissions which are paid by the Fund s principal underwriter to brokers who sell C shares of the Funds. As financer, DHCM advances to the underwriter the commission amount to be paid to the selling broker at the time of sale. This advancement is capitalized and amortized over 12 months to correspond with the re-payments DHCM receives from the principal underwriter to recoup this commission advancement. Mutual fund administration (admin) gross and net revenue are summarized below:

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Note 2 Significant Accounting Policies (Continued)

	Year Ended December 31,		
	2007	2006	2005
Mutual fund admin revenue, gross	$ 8,226,438	$ 5,795,110	$ 1,736,346
Mutual fund admin, fund related expense	2,393,732	2,183,599	927,043
Mutual fund admin revenue, net of fund related expenses	5,832,706	3,611,511	809,303
C-Share advance repayments	1,970,006	1,210,697	579,285
C-Share amortization of advances	1,834,109	1,112,067	547,061
C-Share financing activity, net	135,897	98,630	32,224
Mutual fund administration revenue, net	$ 5,968,603	$ 3,710,141	$ 841,527

Third Party Distribution Expense

Third party distribution expenses are earned by various third party financial services firms based on sales and/or assets of the Company s investment products generated by the respective firm. Expenses recognized represent actual payments made to the third party firms and are recorded in the period earned based on the terms of the various contracts.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No.

109 Accounting for Income Taxes (SFAS 109). A net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 Accounting for the Uncertainty in Income Taxes (FIN 48), an interpretation of SFAS 109. As a result of the implementation of FIN 48, the Company recognized no adjustment in the net liability.

Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of EPS that could occur if options, warrants, and restricted stock units to issue common stock were exercised.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial presentation.

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Note 3 Investment Portfolio

As of December 31, 2007, the Company held investments worth $34.0 million and a cost basis of $31.3 million. The following table summarizes the market value of these investments over the last two fiscal years:

	Year Ended December 31,	
	2007	2006
Diamond Hill Small Cap Fund	$ 1,039,517	$ 65,371
Diamond Hill Small-Mid Cap Fund	1,016,243	330,546
Diamond Hill Large Cap Fund	1,017,340	292,369
Diamond Hill Select Fund	1,015,803	342,121
Diamond Hill Long-Short Fund	1,027,615	295,953
Diamond Hill Financial Long-Short Fund	1,025,356	300,000
Diamond Hill Strategic Income Fund	3,765,566	2,916,069
Diamond Hill Investment Partners, L.P.	10,070,021	9,744,285
Diamond Hill Investment Partners II, L.P.	5,058,702	4,821,968
Other marketable equity securities	9,000,000	
Total Investment Portfolio	$ 34,036,163	$ 19,108,682

DHCM is the managing member of the Diamond Hill General Partner LLC, which is the General Partner of DHIP and DHIP II. The underlying assets of DHIP and DHIP II of cash and marketable equity securities whose values are determined based on independent readily available market quotations. The Company, as the parent entity to DHCM, is not contingently liable for the partnership s liabilities but rather is only liable for its proportionate share, based on its membership interest. DHCM, as the managing member of the General Partner, is also not contingently liable for the partnership s liabilities. Summary financial information, including the Company s carrying value and income from these partnerships is as follows:

	December 31,		
	2007	2006	2005
Total partnership assets	$360,372,685	$357,375,152	$176,442,538
Total partnership liabilities	80,007,267	146,918,057	69,122,518
Net partnership assets	280,365,418	210,457,095	107,320,020
Net partnership income	6,581,829	35,961,019	20,215,378
DHCM s portion of net assets	15,128,723	14,566,253	4,051,059
DHCM s portion of net income	562,469	6,515,194	2,972,757

DHCM s income from these partnerships includes its pro-rata capital allocation and its share of an incentive allocation from the limited partners.

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Note 4 Capital Stock

Common Shares

The Company has only one class of securities, Common Shares.

Authorization of Preferred Shares

The Company s Articles of Incorporation authorize the issuance of 1,000,000 shares of blank check preferred shares with such designations, rights and preferences, as may be determined from time to time by the Company s Board of Directors. The Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights, which could adversely affect the voting or other rights of the holders of the Common Shares. There were no shares of preferred stock issued or outstanding at December 31, 2007.

Note 5 Stock-Based Compensation

Equity Incentive Plans

2005 Employee and Director Equity Incentive Plan

At the Company s annual shareholder meeting on May 12, 2005, shareholders approved the 2005 Employee and Director Equity Incentive Plan (2005 Plan). The 2005 Plan is intended to facilitate the Company s ability to attract and retain staff, provide additional incentive to employees, directors and consultants, and to promote the success of the Company s business. The Plan authorizes the issuance of Common Shares of the Company in various forms of stock or option grants. As of December 31, 2007 shares available for issuance under the Plan are 425,250. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant awards and otherwise administer the Plan.

1993 Non-qualified and Incentive Stock Option Plan

The Company adopted a Non-Qualified and Incentive Stock Option Plan in 1993 that authorized the grant of options to purchase an aggregate of 500,000 shares of the Company s Common Stock. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant options and otherwise administer the Option Plan. This Plan expired by its terms in November 2003. Options outstanding under this Plan are not affected by the Plan s expiration.

Equity Compensation Grants

On May 13, 2004 the Company s shareholders approved terms and conditions of certain equity compensation grants to three key employees. Under the approved terms a total of 75,000 shares of restricted stock and restricted stock units were issued to the key employees on May 31, 2004. The restricted stock and restricted stock units are restricted from sale and do not vest until May 31, 2009.

These grants, along with other restricted stock grants which vest over time, are recorded as deferred compensation on grant date and then recognized as compensation expense over the vesting period of the respective grant.

401(k) Plan

The Company sponsors a 401(k) plan whereby all employees participate in the plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions of Common Shares of the Company with a value equal to 200 percent of the first six percent of an employee s compensation contributed to the plan. Employees become fully vested in the matching contributions after six plan years of employment. For the years ended December 31, 2007, 2006, and 2005, expenses attributable to the plan were $437,413, $327,090 and $238,073, respectively.

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Note 5 Stock-Based Compensation (Continued)

Effective October 1, 2005, the Company adopted SFAS No. 123(R), Accounting for Stock-Based Compensation (SFAS 123R). SFAS 123R requires all share-based payments to employees and directors, including grants of stock options, to be recognized as expense in the income statement based on their fair values. The amount of compensation is measured at the fair value of the options when granted, and this cost is expensed over the required service period, which is normally the vesting period of the options. SFAS 123R applies to the Company for options granted or modified after October 1, 2005. SFAS 123R also requires compensation cost to be recorded for prior option grants that vest after the date of adoption.

Stock option and warrant transactions under the various plans for the past three fiscal years are summarized below:

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Oustanding December 31, 2004	260,202	$ 10.58	280,400	$ 12.90
Exercisable December 31, 2004	154,202	$ 14.52	280,400	$ 12.90
Granted	71,800	28.10		
Expired / Forfeited			6,000	14.38
Exercised	29,000	13.21	15,000	14.38
Oustanding December 31, 2005	303,002	14.48	259,400	12.78
Exercisable December 31, 2005	231,002	17.53	259,400	12.78
Granted				
Expired / Forfeited				
Exercised	19,900	12.79	10,000	17.88
Oustanding December 31, 2006	283,102	14.60	249,400	12.57
Exercisable December 31, 2006	243,102	16.26	249,400	12.57
Granted				
Expired / Forfeited			2,000	
Exercised	190,602	16.64	222,000	8.65
Oustanding December 31, 2007	92,500	$ 10.40	25,400	$ 47.00
Exercisable December 31, 2007	72,500	$ 12.03	25,400	$ 47.00

The Company withheld from issuing 85,518 shares of the 412,602 warrants and options exercised in 2007 to fulfill tax withholding requirements related to employee compensation earned on the exercises.

Options and warrants outstanding and exercisable at December 31, 2007 are as follows:

Options				Warrants			
Number Outstanding	Remaining Life In Years	Number Exercisable	Exercise Price	Number Outstanding	Remaining Life In Years	Number Exercisable	Exercise Price
10,000	2.61	10,000	$ 7.95	14,000	0.36	14,000	$ 73.75

8,000	2.97	8,000	8.44	400	1.00	400	22.20
19,500	2.97	19,500	28.10	3,000	1.37	3,000	22.50
5,000	3.25	5,000	8.45	6,000	2.16	6,000	11.25
50,000	5.43	30,000	4.50	2,000	2.36	2,000	8.75
92,500	4.28	72,500		25,400	1.08	25,400	

The aggregate intrinsic value of options/warrants outstanding and exercisable as of December 31, 2007 are:

Outstanding	$6,471,510
Exercisable	$5,099,510

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Note 6 Operating Leases

The Company leases approximately 14,187 square feet of office space at 325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215 under an operating lease agreement which terminates on July 31, 2013. Total lease and operating expenses for year ended December 31, 2007, 2006, and 2005 were $306,337, $206,917, and $139,250, respectively. The approximate future minimum lease payments under the operating lease are as follows:

2008	2009	2010	2011	2012	2013
$224,000	$231,000	$238,000	$245,000	$254,000	$130,000

In addition to the above rent, the Company will also be responsible for normal operating expenses of the property. Such operating expenses were approximately $9.04 per square foot in 2007, and are expected to be $9.63 in 2008.

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Note 7 INCOME TAXES

The Company files a consolidated Federal income tax return. It is the policy of the Company to allocate the consolidated tax provision to subsidiaries as if each subsidiary s tax liability or benefit were determined on a separate company basis. As part of the consolidated group, subsidiaries transfer to the Company their current Federal tax liability or assets.

	2007	2006	2005
Current city income tax provision (benefit)	$ 197,760	$ 158,090	$
Deferred federal income tax provision (benefit)	4,857,548	4,071,965	(1,661,675)
Provision (benefit) for income taxes	$ 5,055,308	$ 4,230,055	$ (1,661,675)

A reconciliation of income tax expense at the statutory federal rate to the Company s income tax expense is as follows:

	2007	2006	2005
Income tax computed at statutory rate	$ 5,095,792	$ 4,180,364	$ 676,291
City income taxes, net of federal benefit	197,760	104,339	
Other	(238,244)	(54,648)	104,594
Valuation allowance			(2,442,560)
Income tax expense (benefit)	$ 5,055,308	$ 4,230,055	$ (1,661,675)

Deferred tax assets and liabilities consist of the following at December 31, 2007 and 2006:

	2007	2006
Deferred tax benefit of NOL Carryforward	$	$ 248,686
Stock-based compensation	700,723	111,207
Unrealized (gains) losses	(1,332,895)	(2,264,114)
Other assets and liabilities	85,228	5,115
Net deferred tax assets (liabilities)	$ (546,944)	$ (1,899,106)

The Company s deferred tax accounts at December 31, 2005 included a deferred tax asset of $1,661,675 with no offsetting valuation allowance to recognize net operating loss (NOL) carryforwards from previous years. Due to the Company s significant growth during 2005 it was considered more likely than not that the Company would be able to fully realize the benefit of these net operating loss carryforwards.

For the years ended December 31, 2007 and 2006, the Company received federal tax benefits from the exercise of stock-based compensation of $5,764,233 and $402,727 respectively, which resulted in an increase to equity.

As of December 31, 2007, the Company and its subsidiaries had a net operating loss (NOL) carry forward for tax purposes of approximately $5,800,000. The NOL relates to the exercise of stock options and warrants. The tax benefit of the NOL will be recognized in equity when realized. The NOL will expire in 2027. Any future changes in control may limit the availability of NOL carryforwards.

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Note 8 Earnings Per Share

The following table sets for the computation for basic and diluted earnings per share (EPS):

	Year ended December 31,		
	2007	2006	2005
Basic and Diluted net income	$ 9,932,315	$ 8,065,133	$ 3,650,766
Weighted average number of outstanding shares			
Basic	2,155,829	1,787,390	1,654,935
Diluted	2,264,234	2,219,580	1,996,176
Earnings per share			
Basic	$ 4.61	$ 4.51	$ 2.21
Diluted	$ 4.39	$ 3.63	$ 1.83

The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price for the period. For the year ended December 31, 2006 and 2005, stock options and warrants for 30,202 shares were excluded from diluted EPS. For the year ended December 31, 2007, no stock options or warrants were excluded from diluted EPS.

Note 9 Commitments and Contingencies

The Company indemnifies its directors and certain of its officers and employees for certain liabilities that might arise from their performance of their duties to the Company. Additionally, in the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and which provide general indemnifications. Certain agreements do not contain any limits on the Company s liability and would involve future claims that may be made against the Company that have not yet occurred, therefore, it is not possible to estimate the Company s potential liability under these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

Note 10 Subsequent Event

In January and February 2008 the Company started up two new subsidiaries to serve as the statutory underwriter and provide certain fund administration services to small to mid size mutual funds.

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ITEM 9: Changes In and Disagreements With Accountants or Accounting and Financial Disclosures - None

ITEM 9A: Controls and Procedures

Management, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this annual report (the Evaluation Date). Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company s management, including the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There have not been any changes in the Company s internal control over financial reporting that have materially affected or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Management s report on the Company s internal control over financial reporting follows.

Management s Annual Report on Internal Control Over Financial Reporting

Management of Diamond Hill Investment Group, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2007.

/s/ R. H. Dillon	/s/ James F. Laird
R. H. Dillon Chief Executive Officer and President	James F. Laird Chief Financial Officer
March 7, 2008	March 7, 2008

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ITEM 9B: Other Information None

PART III

ITEM 10: Directors, Executive Officers and Corporate Governance

Information regarding this Item 10 is incorporated by reference to the Company s proxy statement for its 2008 annual meeting of shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act (the 2008 Proxy Statement), under the Captions: Proposal 1 Election of Directors , Executive Officers and Compensation Information , Corporate Governance , and Section 16(a) Beneficial Ownership Reporting Compliance .

ITEM 11: Executive Compensation

Information regarding this Item 11 is incorporated by reference to the Company s 2008 Proxy Statement under the Captions: Executive Officers and Compensation Information and Corporate Governance .

ITEM 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding this Item 12 is incorporated by reference to the Company s 2008 Proxy Statement under the Captions: Security Ownership of Certain Beneficial Owners and Management and Executive Officers and Compensation Information .

ITEM 13: Certain Relationships and Related Transactions, and Director Independence

Information regarding this Item 13 is incorporated by reference to the Company s 2008 Proxy Statement under the Caption: Corporate Governance .

ITEM 14: Principal Accounting Fees and Services

Information regarding this Item 14 is incorporated by reference to the Company s 2008 Proxy Statement under the Caption: Independent Registered Public Accounting Firm .

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PART IV:

ITEM 15: Exhibits, Financial Statement Schedules

(1) Financial Statements: See Part II. Item 8, Financial Statements and Supplementary Data .

(2) Financial Statement Schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(3) Exhibits

3.1 Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference from Form 8-K Current Report for the event on May 2, 2002 filed with the SEC on May 7, 2002; File No. 000-24498.)

3.2 Code of Regulations of the Company. (Incorporated by reference from Form 8-K Current Report for the event on May, 2002 filed with the SEC on May 7, 2002; File No. 000-24498.)

10.1 Representative Investment Management Agreement between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds. (Incorporated by reference from Form N1-A filed with the SEC on December 30, 2005; File No. 811-08061.)

10.2 Fifth Amended and Restated Administrative, Fund Accounting, and Transfer Agency Services Agreement between Diamond Hill Capital Management, Inc. and the Diamond Hill Funds. (Incorporated by reference from Form N1-A filed with the SEC on April 30, 2007; File No. 811-08061.)

10.3 1993 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference from Form DEF 14A filed with the SEC on July 21, 1998; File No. 000-24498.)

10.4 Amendment to Award Agreement under the 1993 non-Qualified and Incentive Stock Option Plan dated November 9, 2006. (Incorporated by reference from Form 10-K Annual Report filed with the SEC on March 16, 2007; File No.
000-24498.)

10.5 Amendment to Warrant Agreement between the Company and Roderick H. Dillon dated November 9, 2006. (Incorporated by reference from Form 10-K Annual Report filed with the SEC on March 16, 2007; File No. 000-24498.)

10.6 2005 Employee and Director Equity Incentive Plan, as amended January 1, 2008.

10.7 2006 Performance-Based Compensation Plan, as amended January 1, 2008.

10.8 Employment Agreement between the Company and Roderick H. Dillon, Jr. dated August 10, 2006, as amended February 28, 2008.

14.1 Code of Business Conduct and Ethics. (Incorporated by reference from Form DEF 14A filed with the SEC on April 9, 2004; File No. 000-24498.)

21.1 Subsidiaries of the Company.

23.1 Consent of Independent Registered Public Accounting Firm, Plante & Moran, PLLC.

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).

32.1 Section 1350 Certifications.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

DIAMOND HILL INVESTMENT GROUP, INC.

By: /S/ R. H. Dillon

March 14, 2008

R. H. Dillon, President, Chief Executive Officer and a Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ R. H. Dillon R. H. Dillon	President, Chief Executive Officer, and a Director	March 14, 2008
/S/ James F. Laird James F. Laird	Chief Financial Officer, Treasurer, and Secretary	March 14, 2008
/S/ David P. Lauer David P. Lauer	Director	March 14, 2008
/S/ James G. Mathias James G. Mathias	Director	March 14, 2008
/S/ David R. Meuse David R. Meuse	Director	March 14, 2008
/S/ Diane D. Reynolds Diane D. Reynolds	Director	March 14, 2008
/S/ Donald B. Shackelford Donald B. Shackelford	Director	March 14, 2008

will join us as a Director and as our Chief Executive Officer and will become the Chairman of each of VTC and Vortech effective when we close the acquisition of TSS/Vortech. Mr. Rosato has over 25 years of experience in mission-critical service businesses. Since 2002, he has served as the co-founder and chairman of TSS and the co-founder and chairman of Vortech. From 1998 to 2001, Mr. Rostato served as the President Group Maintenance of America/Encompass Services Corporation, National Accounts Division. From 1995 to 1998, he served as the founder and President of Commercial Air, Power & Cable, Inc. From 1980 to 1995, he served in various capacities at

Com-Site Enterprises, most recently as Chief Financial Officer and Chief Operating Officer. Mr. Rosato started his career in 1973 as a certified public accountant at Coopers & Lybrand. Mr. Rosato received a Bachelor of Science in Accounting from Temple University.

Gerard J. Gallagher will join us as a Director and as our President and Chief Operating Officer and will become the Chief Executive Officer and President of each of VTC and Vortech effective when we close the acquisition of TSS/Vortech. Mr. Gallagher has more than 25 years of experience in mission critical fields. Since 2002, he has served as the co-founder and President of TSS and the co-founder and President of Vortech. From 1998

to 2001, Mr. Gallagher served as the President of the Total Site Solutions division of Encompass Services Corp. From 1997 to 1998, he served as the President of the Total Site Solutions division of Commercial Air, Power & Cable, Inc. From 1991 to 1997, he served as the Chief Facilities Operations and Security Officer of the International Monetary Fund. From 1980 to 1991, Mr. Gallagher served in various capacities at Com Site International, most recently as Senior Vice President of Engineering and Sales. Mr. Gallagher received a Bachelor of Science in Fire Science from the University of Maryland and a Bachelor of Science in Organizational Management (Summa Cum Laude) from Columbia Union College.

Board of Directors and Committees of the Board

Our board of directors is divided into three classes, which are required to be as nearly equal in number as possible, with each director serving a three-year term and one class being elected at each year s annual meeting of stockholders. At each annual meeting of our stockholders, successors to the class of directors whose term expires at such meeting will be elected to serve for three-year terms or until their respective successors are elected and qualified. At the effective time of the acquisition and provided the nomination are approved by our stockholders, our directors in each class will be:

Class	Name
Term expiring at the 2009 annual meeting of our stockholders	David J. Mitchell Gerard J. Gallagher
Term expiring at the 2007 annual meeting of our stockholders	Harvey L. Weiss Donald L. Nickles
Term expiring at the 2008 annual meeting of our stockholders	C. Thomas McMillen Thomas P. Rosato

In anticipation of being listed on NASDAQ, we will adhere to the rules of NASDAQ in determining whether a director is independent. Our board of directors will consult with counsel to ensure that the board of directors determinations are consistent with those rules and all relevant securities laws and regulations regarding the independence of directors. The NASDAQ listing standards define an independent director generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director s exercise of independent judgment. Consistent with these standards, the board of directors has determined that David J. Mitchell and Donald L. Nickles are independent.

Compensation and Audit Committees

Upon closing of the acquisition, we will establish compensation and audit committees composed entirely of independent directors. The compensation committee s purpose will be to review and approve compensation paid to our officers and directors and to administer the incentive compensation plan, if approved by our stockholders.

The Audit Committee will have oversight responsibility relating to our financial statements and the financial reporting process, our systems of internal accounting and financial controls, the internal audit function, the annual independent audit of our financial statements and report on internal control over financial reporting, and the legal compliance and ethics programs as established by management and our board of directors.

Code of Ethics

Our board of directors has adopted a code of ethics for our officers and directors. A copy of our code of ethics was filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2005.

Board and Committee Meetings

During the fiscal year ended December 31, 2005, our board of directors held six meetings. During the fiscal quarter ended September 30, 2006, our board of directors did not hold a meeting. Although we do not have any formal policy regarding director attendance at our annual meetings, we will attempt to schedule our annual meetings so that all of our directors can attend. During the fiscal year ended December 31, 2005, all of our directors attended at least 75% of the meetings of the board of directors and committees on which they served.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who beneficially own more than ten percent of our common stock to file reports of ownership and changes in ownership with the SEC. These reporting persons are also required to furnish us with copies of all Section 16(a) forms they file. All of these reports were filed in a timely manner.

Compensation of Directors

It is anticipated that at or prior to the closing of the acquisition, the compensation to be paid to members of our board of directors will be established and such compensation will be reasonable and customary for the industry.

Executive Compensation

No executive officer or director has received any cash or non-cash compensation for services rendered. We will not pay any finders or consulting fees to our founders, or any of their respective affiliates, for services rendered to or in connection with the consummation of the acquisition. However, our founders will receive reimbursement for any out-of-pocket expenses incurred by them in connection with activities on our behalf such as identifying potential target businesses and performing due diligence on suitable business combinations. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of the expenses or fees by anyone other than our board of directors, which includes persons who may be entitled to reimbursement or a court of competent jurisdiction if such expenses are challenged. If all of our directors are not deemed independent, we will not have the benefit of independent directors examining the propriety of expenses incurred on our behalf and subject to reimbursement or monitoring our compliance with the terms of our initial public offering. We have agreed to pay Washington Capital Advisors, LLC, an affiliate of Mr. McMillen, a monthly fee of $7,500 for general and administrative services including office space, utilities and secretarial support. These arrangements will be modified following the closing of the acquisition as described under Employment Agreements below.

Employment Agreements

Employment Agreement with Thomas P. Rosato

Effective as of the date of closing date, FAAC will enter an Employment Agreement with Thomas P. Rosato whereby Mr. Rosato will be engaged to serve as FAAC s chief executive officer for a period of three years. Under the terms of the Employment Agreement, Mr. Rosato s base compensation will be $425,000 per year (subject to a minimum annual increase of 5% per year), Mr. Rosato will be eligible to receive an annual bonus of up to 50% of his then applicable base compensation (the amount of the bonus and the criteria for the bonus to be determined by the Board of Directors) with the bonus for 2006 to be prorated for the number of months remaining in 2006 following the closing date, and Mr. Rosato will be eligible for the share performance bonus described below. In addition to base compensation and bonus eligibility, (i) FAAC will pay the premiums on the life insurance policies currently paid by VTC and Vortech, (ii) Mr. Rosato will be entitled to an office allowance of $3,000 and (iii) Mr. Rosato will otherwise be entitled to receive vacation, health insurance and other benefits as generally made available to other FAAC executives. Pursuant to the terms of the Employment Agreement, if FAAC terminates Mr. Rosato s employment for reasons other than Cause or Mr. Rosato terminates his employment for Good Reason (as those terms are defined in the Employment Agreement), Mr. Rosato is entitled to receive his base compensation as and when it would otherwise be payable if his employment had not been terminated (provided, however that if termination occurs during the last twelve months of Mr. Rosato s employment, then Mr. Rosato shall be entitled to receive amounts equal to base compensation (as and on the terms otherwise payable) for twelve months from the date of termination). Under the terms of the Employment Agreement, Mr. Rosato is subject to covenants not to solicit customers or employees of FAAC or its subsidiaries and to not otherwise compete against FAAC or its subsidiaries. In connection with signing the Employment Agreement (and as a condition of his employment), Mr. Rosato is required to sign an Invention Assignment, Non-Compete and

Confidentiality Agreement.

Share performance bonus. Up to $5.0 million in additional shares of our common stock will be issuable to Mr. Rosato if during the period from the closing of the acquisition through July 13, 2008, certain share performance thresholds (alternative and not cumulative) set forth below are satisfied:

- if the highest average share price of FAAC s common stock during any 60 consecutive trading day period between the closing of the acquisition and July 13, 2008 exceeds $9.00 per share but is no more than $10.00 per share, he will be entitled to $0.5 million worth of additional shares; or

- if the highest average share price of FAAC s common stock during any 60 consecutive trading day period between the closing of the acquisition and July 13, 2008 exceeds $10.00 per share but is no more than $12.00 per share, he will be entitled to $1.5 million worth of additional shares; or

- if the highest average share price of FAAC s common stock during any 60 consecutive trading day period between the closing of the acquisition and July 13, 2008 exceeds $12.00 per share but is no more than $14.00 per share, he will be entitled to $3.0 million worth of additional shares; or

- if the highest average share price of FAAC s common stock during any 60 consecutive trading day period between the closing of the acquisition and July 13, 2008 exceeds $14.00 per share, he will be entitled to $5.0 million worth of additional shares.

Employment Agreement with Gerard J. Gallagher

Effective as of the date of closing date, FAAC will enter an Employment Agreement with Gerard J. Gallagher whereby Mr. Gallagher will be engaged to serve as FAAC s president and chief operating officer for a period of three years. Under the terms of the Employment Agreement, Mr. Gallagher s base compensation will be $425,000 per year (subject to a minimum annual increase of 5% per year), Mr. Gallagher will be eligible to receive an annual bonus of up to 50% of his then applicable base compensation (the amount of the bonus and the criteria for the bonus to be determined by the Board of Directors) with the bonus for 2006 to be prorated for the number of months remaining in 2006 following the closing date, and Mr. Gallagher will be eligible to receive a share performance bonus on terms identical to those described above under Employment Agreement with Thomas P. Rosato . In addition to base compensation and eligibility for a bonus, (i) FAAC will pay the premiums on the life insurance policies currently paid by VTC and Vortech, and (ii) Mr. Gallagher will otherwise be entitled to receive vacation, health insurance and other benefits as generally made available to other FAAC executives. Pursuant to the terms of the Employment Agreement, if FAAC terminates Mr. Gallagher s employment for reasons other than Cause or Mr. Gallagher terminates his employment for Good Reason (as those terms are defined in the Employment Agreement), Mr. Gallagher is entitled to receive his base compensation as and when it would otherwise be payable if his employment had not been terminated (provided, however that if termination occurs during the last twelve months of Mr. Gallagher s employment, then Mr. Gallagher shall be entitled to receive amounts equal to base compensation (as and on the terms otherwise payable) for twelve months from the date of termination). Under the terms of the Employment Agreement, Mr. Gallagher is subject to covenants not to solicit customers or employees of FAAC or its subsidiaries and to not otherwise compete against FAAC or its subsidiaries. In connection with signing the Employment Agreement (and as a condition of his employment), Mr. Gallagher is required to sign an Invention Assignment, Non-Compete and Confidentiality Agreement.

Employment Agreement with Harvey L. Weiss

Effective as of the date of closing date, FAAC will enter an Employment Agreement with Harvey L. Weiss whereby Mr. Weiss shall be engaged to serve as FAAC s chairman for a period of three years. Under the terms of the Employment Agreement, Mr. Weiss base compensation is $200,000 per year (subject to a minimum annual increase of 5% per year) and Mr. Weiss is eligible to receive an annual bonus of up to 50% of his then applicable base compensation (the amount of the bonus and the criteria for the bonus to be determined by the Board of Directors) with the bonus for 2006 to be prorated for the number of months remaining in 2006 following the closing date. In addition to base compensation and eligibility for a bonus, (i) Mr. Weiss will be entitled to a referral fee equal to 5% of the Gross Profits (as defined in the Employment Agreement) attributable to any client or customer (other than the federal government, or any agency or subdivision thereof) identified by Mr. Weiss to FAAC or its subsidiaries, (ii) Mr. Weiss will be entitled to an office allowance of $3,000 per month and (iii) Mr. Weiss will otherwise be entitled to receive vacation, health insurance and other benefits as generally made available to other FAAC executives. Pursuant to the terms of the Employment Agreement, if FAAC terminates Mr. Weiss employment for reasons other than Cause or Mr. Weiss terminates his employment for Good Reason (as those terms are defined in the Employment Agreement), Mr. Weiss is entitled to receive his base compensation as and when it would otherwise be payable if his employment had not been terminated (provided, however that if termination occurs during the last twelve months of Mr. Weiss employment, then Mr. Weiss shall be entitled to receive amounts equal to base compensation (as and on the terms otherwise payable) for twelve months from the

date of termination). Under the terms of the Employment Agreement, Mr. Weiss is subject to covenants not to solicit customers or employees of FAAC or its subsidiaries and to not otherwise compete against FAAC or its subsidiaries. In connection with signing the Employment Agreement (and as a condition of his employment), Mr. Weiss is required to sign an Invention Assignment, Non-Compete and Confidentiality Agreement.

Consulting Agreement with Washington Capital Advisors, LLC

Effective as of the date of closing date, FAAC will enter a Consulting Agreement with Washington Capital Advisors, LLC (Washington Capital Advisors) whereby Washington Capital Advisors will be engaged to serve as a consultant to FAAC for a period of three years. Under the terms of the Consulting Agreement, Washington Capital Advisors will provide advisory services relating to strategic, financial, marketing and business development matters and will also provide mergers and acquisitions assistance. Under the terms of the Consulting Agreement, Washington Capital Advisors base compensation is $200,000 per year (subject to a minimum annual increase of 5% per year) and Washington Capital Advisors is eligible to receive an annual bonus of up to 50% of its then applicable base compensation (the amount of the bonus and the criteria for the bonus to be determined by the Board of Directors) with the bonus for 2006 to be prorated for the number of months remaining in 2006 following the closing date. In addition to base compensation and eligibility for a bonus Washington Capital Advisors will be entitled to a referral fee equal to 5% of the Gross Profits (as defined in the Consulting Agreement) attributable to any client or customer (other than the federal government, or any agency or subdivision thereof) identified by Washington Capital Advisors to FAAC or its subsidiaries. Pursuant to the terms of the Consulting Agreement, if FAAC terminates the Consulting Agreement for reasons other than Cause or Washington Capital Advisors terminates the Consulting Agreement for Good Reason (as those terms are defined in the Consulting Agreement), Washington Capital Advisors is entitled to receive its base compensation as and when it would otherwise be payable if the Consulting Agreement had not been terminated (provided, however that if termination occurs during the last twelve months of the Consulting Agreement, then Washington Capital Advisors shall be entitled to receive amounts equal to base compensation (as and on the terms otherwise payable) for twelve months from the date of termination). Under the terms of the Consulting Agreement, Washington Capital Advisors is subject to covenants not to solicit customers or employees of FAAC or its subsidiaries and to not otherwise compete against FAAC or its subsidiaries. In connection with signing the Consulting Agreement (and as a condition of its engagement), Washington Capital Advisors is required to sign an Invention Assignment, Non-Compete and Confidentiality Agreement. Washington Capital Advisors is not affiliated with us, TSS/Vortech or any of their respective officers, directors or material equity holders, except that Washington Capital Advisors principal equity owner and officer is Mr. McMillen, our Chairman.

Independent Registered Public Accounting Firm

Goldstein Golub Kessler LLP, or GGK, is currently our independent registered public accounting firm. Representatives of GGK will not be present at the special meeting.

Fees of the Independent Registered Public Accounting Firm

The firm of GGK acts as our principal accountant. Through September 30, 2005, GGK had a continuing relationship with American Express Tax and Business Services Inc., or TBS, from which it leased auditing staff who were full time, permanent employees of TBS and through which its partners provide non-audit services. Subsequent to September 30, 2005, this relationship ceased and the firm established a similar relationship with RSM McGladrey, Inc., or RSM. GGK has no full time employees and therefore, none of the audit services performed were provided by permanent full-time employees of GGK. GGK manages and supervises the audit and audit staff, and is exclusively responsible for the opinion rendered in connection with its examination. The following is a summary of fees paid or to be paid to GGK and RSM for services rendered.

Audit Fees

Fees incurred in connection with our initial public offering, the review of our quarterly financial statements, and services provided in connection with the our statutory and regulatory filings in respect of year ended December 31, 2005 were in the amount of $69,153.

Pre-Approval of Fees

All the services and fees described above were approved by our full board of directors which considered whether the provision of non-audit related services was compatible with maintaining the independence of GGK. The Audit Committee of the Board of Directors, when formed, will be granted the authority to pre-approve all auditing services and all non-audit services (including the fees and terms thereof) to be performed by the independent auditors.

Stockholder Communications with the Board of Directors

Stockholders may send communications to our board of directors by mail or courier delivery addressed as follows: Fortress America Acquisition Corporation, c/o Corporate Secretary, 4100 North Fairfax Drive, Suite 1150, Arlington, Virginia 22203. In general, the Corporate Secretary will forward all such communications to the board of directors. However, for communications addressed to a particular member of the board of directors or the Chairman of a particular committee, the Corporate Secretary forwards those communications directly to the board member so addressed.

Promoters

Messrs. McMillen, Weiss, Mitchell and Nickles may be our promoters, as that term is defined under Federal securities laws.

HISTORICAL COMPENSATION OF TSS/VORTECH OFFICERS

The following table sets forth the aggregate cash compensation paid for services rendered during each of the last three fiscal years to TSS/Vortech s Chief Executive Officer and its President and Chief Operating Officer. Other than the Chief Executive Officer and our President and Chief Operating Officer, no executive officer earned total annual salary and bonus in excess of $100,000 during any of the last three completed fiscal years.

Name and Principal Position(s)	**Year**	**Annual Compensation**			**All Other Compensation**
		Salary	**Bonus**	**Other Annual Compensation(1)**	
Thomas P. Rosato					
Chief Executive Officer	2005	$ 2,145,814	$ 20,000	$ 145,000	$1,185
	2004	313,610		707,726	
	2003	336,805			$
Gerard J. Gallagher					
President and Chief Operating Officer	2005	2,209,974		179,609	646
	2004	552,507		718,956	6,661
	2003	380,348			6,464

1.

The amounts disclosed in the Other Annual Compensation column consist of (i) tax reimbursement payments to Mr.

Rosato and Mr. Gallagher of $707,726 each in 2004 and $145,000 each in 2005, and (ii) with respect to Mr. Gallagher, club dues and a car allowance in each of 2004 and 2005.

2.

The amount reported for Mr. Rosato in 2005 consists of premiums on executive life insurance. Amounts for Mr. Gallagher consist of $1,630 in premiums on executive life insurance in each of 2004 and 2005, and employer 401(k) Plan matching contributions of $646, $5,031 and $4,834 in 2003, 2004 and 2005, respectively.

BENEFICIAL OWNERSHIP OF SECURITIES

The following table sets forth information regarding the beneficial ownership of our common stock as of November 30, 2006, by each of our officers and directors, all of our officers and directors as a group and each person known by us, as a result of such person s public filings with the SEC and the information contained therein, to be the beneficial owner of more than 5% of our outstanding shares of common stock.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. The address of each of the below, unless otherwise indicated, is 4100 North Fairfax Dr., Suite 1150, Arlington, Virginia 22203-1664.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Common Stock
C. Thomas McMillen	575,000 (1)	6.0 %
Harvey L. Weiss	575,000 (2)	6.0 %
David J. Mitchell	150,000	1.6 %
Donald L. Nickles	200,000	2.1 %
All directors and executive officers as a group (four individuals)	1,500,000	15.7 %
Satellite Advisors, L.L.C. Satellite Asset Management, L.P.*	740,947 (3)	7.8 %
Hummingbird Management, LLC**	894,000 (4)	9.4 %

*

623 Fifth Avenue, 19th Floor, New York, New York 10022

**

460 Park Avenue, 12th Floor, New York, New York 10022

(1)

Includes 575,000 shares held by Washington Capital Advisors, LLC, of which Mr. McMillen is the Chief Executive Officer.

(2)

Does not includes warrants to purchase 452,000 shares of our common stock, which are exercisable upon the later of July 13, 2006 or the completion of a business combination.

(3)

As reported in a Schedule 13G dated September 12, 2005, and filed with the SEC on September 12, 2005.

(4)

As reported in a Schedule 13D dated August 17, 2006, and filed with the SEC on August 30, 2006.

All of the shares of our outstanding common stock owned by our initial stockholders prior to our initial public offering have been placed in escrow with Continental Stock Transfer & Trust Company, as escrow agent, pursuant to an escrow agreement described in Certain Relationships and Related Party Transactions on page __.

As a result of the acquisition and assuming that no FAAC stockholder exercises such stockholder s conversion rights and assuming that FAAC does not assume any debt of TSS/Vortech, immediately after the consummation of the acquisition, the selling members will own approximately 20.1% of the outstanding FAAC common stock and the present stockholders of FAAC (or their transferees) will own approximately 74.9% of the outstanding FAAC common stock. The percentage ownership of the selling members will be increased and that of FAAC s stockholders will be decreased upon issuances of the contingent shares to be issued pursuant to the purchase agreement or upon the issuances of shares upon conversion of the convertible promissory notes to be delivered to the selling members at the consummation of the acquisition.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relating to FAAC

Escrow. All of the shares of our common stock outstanding prior to our initial public offering (initial shares) and held by the above stockholders (initial stockholders) have been placed in escrow with Continental Transfer & Trust Company, as escrow agent, until the earliest of:

•

July 13, 2008;

•

our dissolution and liquidation; or

•

the consummation of a liquidation, merger, stock exchange or other similar transaction which results in all of our stockholders having the right to exchange their shares of common stock for cash, securities or other property subsequent to our consummating a business combination with a target business.

During the escrow period, the initial stockholders will not be able to sell or transfer their securities except to their spouses and children or trusts established for their benefit or otherwise as provided in the stock escrow agreement, but will retain all other rights as our stockholders, including, without limitation, the right to vote their shares of common stock and the right to receive cash dividends, if declared. If dividends are declared and payable in shares of common stock, such dividends will also be placed in escrow. If we are unable to effect a business combination and liquidate, none of our existing stockholders will receive any portion of the liquidation proceeds with respect to common stock owned by them prior to our initial public offering.

Purchase of Warrants. Pursuant to an agreement with the underwriters of our initial public offering, C. Thomas McMillen, our Chairman, and Harvey Weiss, our Chief Executive Officer, President, Secretary and a member of our Board of Directors, or certain of their affiliates or designees, have collectively purchased 600,000 warrants in the public marketplace at prices not exceeding $0.70 per warrant. Messrs. McMillen and Weiss further agreed that any warrants purchased by them or their affiliates or designees will not be sold or transferred until the completion of a business combination.

Registration Rights. The holders of the majority of the initial shares are entitled to make up to two demands that we register the initial shares. The holders of the majority of the initial shares may elect to exercise these registration rights at any time after the date on which the initial shares are released from escrow, which, except in limited circumstances, is not before July 13, 2008. In addition, the initial stockholders have certain piggyback registration rights on registration statements filed subsequent to the date on which these shares of common stock are released from escrow. We will bear the expenses incurred in connection with the filing of any such registration statements.

Washington Capital Advisors, LLC. We are paying Washington Capital Advisors, LLC, an affiliate of Mr. McMillen, $7,500 per month for office space and general administrative services. This arrangement was agreed to by Washington Capital Advisors, LLC, the successor-in-interest to Global Defense Corporation, also an affiliate of Mr. McMillen, for our benefit and is not intended to provide Mr. McMillen compensation in lieu of salary. We believe, based on rents and fees for similar services in the Washington, D.C. metropolitan area, that the fee charged by Washington Capital Advisors, LLC is at least as favorable as we could have obtained from an unaffiliated person. However, as our directors may not be deemed independent, we did not have the benefit of disinterested directors approving this

transaction. Upon completion of a business combination or our liquidation, we will no longer be required to pay this monthly fee.

Advancement of Certain Costs. Washington Capital Advisors, Mr. Weiss and Mr. Mitchell advanced a total of $70,000 to us to cover costs related to our initial public offering. These loans were repaid from the proceeds of our initial public offering not placed in trust.

Goldman Advisors. Goldman Advisors, a division of Sunrise Securities Corp., the lead underwriter in our initial public offering, has provided financial advisory services to us in connection with the proposed acquisition of TSS/Vortech. Goldman will receive reimbursement of its reasonable expenses and a fee of approximately $750,000 upon the consummation of the acquisition.

Certain Reimbursements. We have agreed to reimburse the initial stockholders, officers and directors for any reasonable out-of-pocket business expenses incurred by them in connection with certain activities on our behalf, such as identifying and investigating possible target businesses and business combinations. There is no limit on the

amount of out-of-pocket expenses reimbursable by us, which will be reviewed only by our board or a court of competent jurisdiction if such reimbursement is challenged.

General. Other than the $7,500 per month administrative fee and reimbursable out-of-pocket expenses payable to our officers and directors, no compensation or fees of any kind, including finders and consulting fees, will be paid to any of our initial stockholders or to any of their respective affiliates for services rendered to us prior to or with respect to the business combination.

Relating to TSS/Vortech

CSI Engineering, Inc. CSI Engineering, Inc. (CSI), which is 9% owned by Mr. Gallagher, acts as an engineering services subcontractor to TSS/Vortech, and TSS/Vortech acts as an electrical subcontractor to CSI. Amounts paid by TSS/Vortech to CSI for the years ended December 31, 2003, 2004 and 2005 were $1,549,493, $1,824,017, and $380,586, respectively. Amounts paid by CSI to TSS/Vortech for the years ended December 31, 2003, 2004 and 2005 were $1,574, $68,166 and $3,627,743, respectively.

TPR Group LLC. As of January 1, 2006, TPR Group LLC (TPR Group), which is wholly-owned by Mr. Rosato, has provided human resources, administrative support and insurance and employee benefit plan administration services to TSS/Vortech. As of September 30, 2006, TSS/Vortech has paid TPR Group $627,300. This arrangement will be terminated effective upon the closing of the acquisition.

S3 Integration LLC. S3 Integration LLC (S3 Integration), which is owned 15% by Mr. Rosato and 15% by Mr. Gallagher, provides commercial and government security systems design and installation services as a subcontractor to TSS. In addition, S3 Integration utilizes Vortech as subcontractor. There is an oral agreement between S3 Integration and Vortech that provides for labor sharing of one or two field employees who bill at approximately $40 per hour. In addition, S3 Integration reimburses TSS/Vortech for services provided by certain TSS/Vortech employees. As of June 16, 2006, S3 Integration had been charged approximately $9,284 under this arrangement, which will be terminated at the closing. All engagements between S3 and TSS/Vortech have been on a project-by-project basis. Amounts paid by TSS/Vortech to S3 Integration under the arrangement for the years ended December 31, 2003, 2004 and 2005 were $0, $1,333 and $6,628, respectively. Amounts paid by S3 Integration to TSS/Vortech under the arrangement for the years ended December 31, 2003, 2004 and 2005 were $3,480, $0 and $18,204, respectively.

There is also a promissory note, dated September 5, 2005, owed by S3 Integration to TSS in the principal amount of $350,000, evidencing amounts loaned to S3 as start-up capital. This note will be distributed to the members of TSS effective upon the closing of the acquisition.

GR Partners. GR Partners, which is owned 50% by Mr. Rosato and 50% by Mr. Gallagher, leases office equipment to TSS/Vortech and also leases field equipment to Vortech under the terms of an equipment lease by and between TSS and GR Partners. Lease expenses of TSS/Vortech under the lease for the years ended December 31, 2003, 2004 and 2005 were $19,158, $29,619 and $33,066, respectively. Effective upon the closing of the acquisition, the lease will be terminated and TSS/Vortech will purchase its leased equipment from GR Partners for approximately $106,000. During 2005, TSS/Vortech paid GR Partners $508,234 for services, which is included in cost of sales; no such costs were incurred in 2003 or 2004. In addition, GR Partners has provided certain management services to TSS/Vortech. Management fees paid by TSS/Vortech for management services (which is included in general and administrative expenses) for the years ended December 31, 2003, 2004 and 2005 were $0, $0 and $275,000, respectively.

Equipment Reseller and Subcontractor. Chesapeake Tower Systems, Inc. (Chesapeake), which is 60% owned by Mr. Rosato, is a manufacturer s representative of APC equipment and other mechanical and electrical products, which Chesapeake sells to TSS. In addition, Vortech is a reseller of APC equipment, which it obtains directly from APC and on which APC pays Chesapeake a commission. Vortech is also a reseller of Chesapeake equipment and acts as a

subcontractor to Chesapeake for APC equipment installation on project-by-project basis. Amounts paid by TSS/Vortech for equipment purchases for the years ended December 31, 2003, 2004 and 2005 were $71,158, $652,630 and $7,387,225, respectively. Amounts paid by Chesapeake to TSS/Vortech under the reseller and installation arrangement for the years ended December 31, 2003, 2004 and 2005 were $189, $187,083 and $7,729, respectively.

Real Property Leases. There is a Sublease Agreement, dated October 1, 2003, by and between Chesapeake, as sublandlord, and Vortech and TSS, as subtenants, for office and warehouse space located at 11850 Baltimore Avenue, Beltsville, Maryland - Unit H. The sublease expires in October 2008. Rent expense of Vortech under the sublease for the years ended December 31, 2003, 2004 and 2005 were $108,121, $152,425 and $190,727, respectively.

TPR Group Re Three, LLC, which is 50% owned by Mr. Rosato and 50% by Mr. Gallagher, is a real estate partnership which intends, as landlord, to lease to TSS/Vortech the space located at 7226 Lee DeForest Drive, Columbia, Maryland, Units 104, 105 and 209 under the terms of a lease agreement, subject to the prior written consent of FAAC in accordance with the terms of the purchase agreement.

CTS Services LLC. CTS Services LLC (CTS), which is 55% owned by Mr. Rosato, is a mechanical contractor and acts as subcontractor to TSS for certain projects in the Washington, DC area on a project-by-project basis. In addition, CTS and Vortech utilize each other as subcontractors on a project-by-project basis. Amounts paid by TSS/Vortech under the arrangement for the years ended December 31, 2003, 2004 and 2005 were $232,875, $2,213,227 and $3,425,784, respectively. Amounts paid by CTS to TSS/Vortech under the arrangement for the years ended December 31, 2003, 2004 and 2005 were $1,517,850, $201,178 and $189,743, respectively. CTS also provided human resources, administrative support and insurance and employee benefit plan administration services to TSS /Vortech through December 31, 2005. Amounts paid by TSS/Vortech to CTS for such services for the years ended December 31, 2003, 2004 and 2005 were $71,650, $400,400 and $534,700, respectively.

L.H. Cranston Acquisition Group, Inc. L.H. Cranston Acquisition Group, Inc., 25% of which was acquired by Mr. Rosato in July 2005, is a mechanical, electrical and plumbing contractor that acts, directly or through its subsidiary L.H. Cranston and Sons, Inc., as subcontractor to TSS on a project-by-project basis in the Baltimore area. Amounts paid by TSS/Vortech under the subcontracting arrangement for the year ended December 31, 2005 was $2,001,354.

Telco P&C, LLC. Telco P&C, LLC (Telco), which is 55% owned by Mr. Rosato, is a three person specialty electrical installation company that acts as a subcontractor to TSS by purchase order. There are no current ongoing contracts. Amounts paid by TSS/Vortech under the subcontracting arrangement for the years ended December 31, 2003, 2004 and 2005 were $6,606, $77,521 and $0, respectively. Telco paid Vortech $6,606 for the year ended December 31, 2003 for work performed during a single engagement as a subcontractor to Telco.

Automotive Technologies, Inc. Automotive Technologies, Inc., which is 60% owned by Mr. Rosato, services vehicles used by Vortech on a project-by-project basis using standard purchase orders. Amounts paid by TSS/Vortech for these services for the years ended December 31, 2003, 2004 and 2005 were $6,113, $12,895 and $26,165, respectively. There are no current ongoing contracts.

Homeland Security Capital Corporation

C. Thomas McMillen, our Chairman, is also President, Chief Executive Officer and Chairman of the Board of Homeland Security Capital Corporation (HSCC), a consolidator of small and mid-sized homeland security companies that provides capital and management advice for developing companies.

Mr. McMillen first learned of HSCC in mid-May, 2005, when he discussed telephonically with a principal of Cornell Capital Partners, LP (Cornell) the possibility of combining HSCC, which then had no business operations but was a reporting company under the Securities Exchange Act of 1934, with Global Defense Corporation (GDC), of which Mr. McMillen was then Chairman. At that time, HSCC was named Celerity Systems, Inc. and was a business development company. Cornell had made significant investments and was a significant equity holder in HSCC and had also made an investment in GDC. On May 23, 2005, Mr. McMillen met with principals of Cornell to begin exploratory discussions regarding a potential combination. Mr. McMillen and representatives of Cornell continued preliminary discussions relating to a potential combination and Mr. McMillen s role as chief executive officer of the

new venture through August, 2005. Cornell engaged counsel in July 2005 to investigate regulatory and other issues relating to Celerity s status as a business development company and the impact of that status on a proposed transaction. In late July, 2005, it was determined that the proposed combination with GDC was not viable. On August 9, 2005, Cornell and Mr. McMillen determined, based upon counsel s recommendation, that the business development company status of HSCC would not be practical as part of a proposed transaction and, further, that any contemplated transaction would need to eliminate the business development company status based upon procedures outlined by counsel. Mr. McMillen and a representative of Cornell began discussing the possibility of Mr. McMillen

becoming chief executive officer of HSCC without GDC s participation. Mr. McMillen and Cornell negotiated the potential terms of such an arrangement through August 29, 2005, on which date HSCC and Mr. McMillen executed an employment agreement. The employment agreement requires Mr. McMillen to devote at least 25 hours per week to HSCC. On August 30, 2005, HSCC filed a report on Form 8-K announcing the employment agreement with Mr. McMillen, the purchase by Mr. McMillen of 1.25 billion shares of HSCC, HSCC s intention to change its name from Celerity Systems, Inc. to Homeland Security Capital Corporation and HSCC s intention to pursue a new strategic direction in which it would focus on owning and operating small and mid-sized growth businesses that provide homeland security solutions.

We believe that Mr. McMillen s role and interests in HSCC enhance Mr. McMillen s understanding of the homeland security industry without conflicting with his role as our Chairman. Further, the transaction with HSCC was initially contemplated as part of GDC and was not deemed probable until the issues surrounding HSCC s status as a business development company could be resolved based upon advice of counsel which occurred after our initial public offering. In addition, we understand from Mr. McMillen and from HSCC s filings with the SEC that HSCC s focus for acquisition candidates is primarily on companies with market values less than $20 million, which is significantly below the fair market value of the acquisition we must satisfy under our certificate of incorporation. HSCC s announced acquisitions to date have involved investments, and companies with market values, that are each below $10 million. None of those announced acquisitions involve companies with businesses similar to those of TSS/Vortech. In addition, Washington Capital Advisors, LLC, of which Mr. McMillen is the principal equity owner and officer, has entered into a consulting agreement with us and a separate non-compete agreement that include covenants not to solicit customers or employees of FAAC or its subsidiaries and to not otherwise compete against FAAC or its subsidiaries.

Ongoing and Future Transactions

All ongoing and future transactions between us and any of our officers and directors or their respective affiliates, will be on terms believed by us to be no less favorable than are available from unaffiliated third parties and will require prior approval in each instance by a majority of the members of our board of directors who do not have an interest in the transaction.

PRICE RANGE OF SECURITIES AND DIVIDENDS

Fortress America Acquisition Corporation

The shares of our common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board under the symbols FAAC, FAACW and FAACU, respectively. On June 5, 2006, the last day for which information was available prior to the date of the public announcement of the proposed acquisition, the last quoted sale prices of FAAC, FAACW and FAACU were $5.39, $0.58 and $6.665, respectively.

Each of our units sold in our initial public offering consists of one share of our common stock and two redeemable common stock purchase warrants. Our warrants became separable from our common stock on September 26, 2005. Each warrant entitles the holder to purchase from us one share of common stock at an exercise price of $5.00 commencing the later of the completion of the acquisition or July 13, 2006. Our warrants will expire at 5:00 p.m., New York City time, on July 13, 2009, or earlier upon redemption. Prior to July 20, 2005, there was no established public trading market for our common stock.

We do not currently have any authorized or outstanding equity compensation plans.

The following table sets forth, for the calendar quarter indicated, the quarterly high and low bid information of our common stock, warrants and units as reported on the OTC Bulletin Board. The quotations listed below reflect interdealer prices, without retail markup, markdown or commission, and may not necessarily represent actual transactions:

	Common Stock (FAAC)		Warrants (FAACW)		Units (FAACU)	
Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
December 31, 2005	$ 5.24	$ 5.02	$ 0.52	$ 0.38	$ 6.10	$ 5.76
March 31, 2006	$ 5.60	$ 5.22	$ 0.78	$ 0.36	$ 7.15	$ 5.95
June 30, 2006	$ 5.57	$ 5.37	$ 0.83	$ 0.49	$ 7.20	$ 6.25
September 30, 2006	$ 5.48	$ 5.35	$ 0.55	$ 0.41	$ 6.50	$ 6.12

Holders of our common stock, warrants and units should obtain current market quotations for their securities. The market price of our common stock, warrants and units could vary at any time before the acquisition.

Holders of Common Stock

As of December __, 2006, the record date for the special meeting, there were _____ holders of record of our common stock.

Dividends

We have not paid any dividends on our common stock to date and do not intend to pay dividends prior to the completion of the acquisition.

Upon completion of the acquisition of TSS/Vortech, we do not intend to pay dividends. We currently intend to retain all future earnings, if any, for use in the operations and expansion of our business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors our board of directors deems

relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities and other financing arrangements.

There is no established public trading market for the membership interests of VTC or Vortech because it is a private company. There are currently two holders of the membership interests of each of VTC and Vortech.

DESCRIPTION OF OUR SECURITIES

General

We are authorized to issue 50.0 million shares of common stock, par value $0.0001, and 1.0 million shares of preferred stock, par value $0.0001. As of December __, 2006, the record date for the special meeting, 9,550,000 shares of common stock were outstanding. No shares of preferred stock are currently outstanding. We also have outstanding warrants to purchase 15,600,000 shares of common stock, and 700,000 shares and warrants to purchase 1,400,000 shares of common stock may be issued upon exercise of the unit purchase option issued to Sunrise Securities Corp., the representative of the underwriters in our initial public offering.

Units

Each unit sold in our initial public offering consists of one share of common stock and two warrants. Each warrant entitles the holder to purchase one share of common stock.

Common Stock

Our stockholders are entitled to one vote for each share held of record on all matters to be voted on by stockholders. In connection with the vote required for any business combination, all of our initial stockholders have agreed to vote their respective shares of common stock owned by them immediately prior to our initial public offering in accordance with the public stockholders. This voting arrangement does not apply to shares included in units purchased in the initial public offering or purchased following the initial public offering in the open market by any of our initial stockholders. Additionally, our initial stockholders may vote all of their shares in any manner they determine, in their sole discretion, with respect to any other items that come before a vote of our stockholders.

We will proceed with the business combination only if a majority of the shares of common stock voted by the public stockholders are voted in favor of the business combination and public stockholders owning less than 20% of the shares sold in our initial public offering (less than 1,560,000 of such shares) exercise their conversion rights.

Our board of directors is divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. There is no cumulative voting with respect to the election of directors, with the result that a plurality of the vote entitled to be cast in the election of directors shall be sufficient to elect directors. Article Eighth of our amended and restated certificate of incorporation provides for the classified board of directors. These provisions could prevent or delay a holder of shares representing a majority of the voting power from obtaining control of the board of directors because the holder would not be able to replace a majority of the directors prior to at least the second annual meeting of stockholders after it acquired a majority position.

If we are forced to dissolve and liquidate prior to a business combination, our public stockholders are entitled to share ratably in the trust fund, inclusive of any interest, and any net assets remaining available for distribution to them after payment of liabilities. Our existing stockholders have agreed to waive their rights to share in any distribution with respect to common stock owned by them prior to the offering if we are forced to dissolve and liquidate.

Our stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock, except that public stockholders have the right to have their shares of common stock converted to cash equal to their pro rata share of the trust fund if they vote against the business combination and the business combination is approved and completed. Public stockholders who convert their stock into their share of the trust fund still have the right to exercise the warrants that they received as part of the units.

Preferred Stock

Our amended and restated certificate of incorporation authorizes the issuance of 1.0 million shares of blank check preferred stock with such designation, rights and preferences as may be determined from time to time by our board of directors. No shares of preferred stock have been issued. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of common stock, although the underwriting agreement prohibits us, prior to a business combination, from issuing preferred stock which

participates in any manner in the proceeds of the trust fund, or which votes as a class with the common stock on a business combination. We may issue some or all of the preferred stock to effect a business combination. In addition, the preferred stock could be utilized as a method of discouraging, delaying or preventing a change in control of us. Although we do not currently intend to issue any shares of preferred stock, we cannot assure you that we will not do so in the future.

Warrants

There are outstanding warrants to purchase an aggregate of 15,600,000 shares of common stock at a price of $5.00 per share, subject to adjustment as discussed below. In addition, Sunrise Securities Corp., the representative of the underwriters in our initial public offering, holds an option to purchase up to a total of 700,000 units, each comprised of one share of our common stock and two warrants. Each warrant covered by the unit purchase option granted to Sunrise Securities Corp. entitles the holder to purchase one share of our common stock at a price of $6.25 per share, subject to adjustment as discussed below.

Each warrant may be exercised at any time commencing on the later of:

-

the completion of a business combination; or

-

July 13, 2006.

The warrants will expire at 5:00 p.m., New York City time on the earlier of:

-

July 11, 2009; or

-

if the Company elects to redeem all of the warrants, the date fixed for redemption.

We may call the warrants for redemption:

-

in whole and not in part;

-

with the prior consent of Sunrise Securities Corp.;

-

at a price of $0.01 per warrant at any time after the warrants become exercisable and prior to their expiration;

-

upon not less than 30 days prior written notice of redemption to each warrant holder;

-

if, and only if, the last sale price of the common stock equals or exceeds $8.50 per share, on each of 20 trading days within any 30 trading day period ending on the third business day before we send notice of redemption to warrant holders; and

-

if, and only if, the weekly trading volume for the common stock has been at least 200,000 shares for each of the two calendar weeks before the notice of redemption is given.

The right to exercise the warrants will be forfeited unless they are exercised before the date specified in the notice of redemption. On and after the redemption date, the record holder of a warrant will have no further rights except to receive, upon surrender of the warrants, the redemption price.

The warrants are issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us.

The exercise price and number of shares of common stock issuable on exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock dividend, or our recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuances of common stock at a price below their respective exercise prices.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price by cash, certified check or bank draft payable to us, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of common stock or any voting rights until they exercise their warrants and receive shares of common stock. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

No warrants will be exercisable unless at the time of exercise a prospectus relating to common stock issuable upon exercise of the warrants is current and the common stock has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Under the terms of the warrant agreement, we have agreed to meet these conditions and use our best efforts to maintain a current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure warrant holders that we will be able to do so. The warrants may be deprived of any value, and the market for the warrants may be limited if the prospectus relating to the common stock issuable upon the exercise of the warrants is not current or if the common stock is not qualified or exempt from qualifications in the jurisdictions in which the holders of the warrants reside. Accordingly, the warrants may expire unexercised and unredeemed if there is no effective registration statement. In addition, there are no circumstances under which we will be required to net cash settle the warrants.

As described under Risk Factors Risks Related to Our Capital Structure and Our Experience as a Public Company :

•

If we are unable to maintain a current prospectus relating to the common stock underlying our warrants, our warrants may be worthless.

•

The warrant agreement governing our warrants permits us to redeem the warrants after they become exercisable, and it is possible that we could redeem the warrants at a time when a prospectus is not current, resulting in the warrant holder receiving less than fair value of the warrant or the underlying common stock.

No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round up to the nearest whole number the number of shares of common stock to be issued to the warrant holder.

Purchase Option

We have sold to Sunrise Securities Corp., as the representative of the underwriters in our initial public offering, an option to purchase up to a total of 700,000 units at a per unit price of $7.50. The units issuable upon exercise of this option are identical to those offered by us in our initial public offering except that the warrants included in the option have an exercise price of $6.25 (125% of the exercise price of the warrants included in the units sold in the offering). Under the terms of the purchase option, we are obligated, upon the request of the holders, to file a registration statement covering the securities issuable upon exercise of the purchase option and to use our best efforts to have it declared effective. However, we cannot give any assurances that we will be able to do so. The holders of the option will not be entitled to exercise it or the warrants underlying the option unless a registration statement covering the securities issuable upon exercise of the option is effective or an exemption from registration is available. Accordingly, the purchase option may expire unexercised and unredeemed if there is no effective registration statement. In addition, there are no circumstances under which we will be required to net cash settle the purchase option.

Dividends

We have not paid any dividends on our common stock to date and do not intend to pay dividends prior to the completion of a business combination. The payment of dividends in the future will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition subsequent to completion of a business combination. The payment of any dividends subsequent to a business combination will be within the discretion of our then board of directors. It is the present intention of our board of directors to retain all earnings, if any, for use in our business operations and, accordingly, our board of directors does not anticipate declaring any dividends in the

foreseeable future.

Restrictive Provisions of our Amended and Restated Certificate of Incorporation and By-Laws

Our Amended and Restated Certificate of Incorporation, and, if approved, our Second Amended and Restated Certificate of Incorporation, and by-laws contain certain provisions that may make it more difficult, expensive or otherwise discourage, a tender offer or a change in control or takeover attempt by a third-party, even if such a transaction would be beneficial to our stockholders. The existence of these provisions may have a negative impact

on the price of our common stock by discouraging third-party investors from purchasing our common stock. In particular, our Amended and Restated Certificate of Incorporation and by-laws include provisions that:

- classify our board of directors into three groups, each of which serve for staggered three-year terms;
- permit our directors to fill vacancies on our board of directors;
- require stockholders to give us advance notice to nominate candidates for election to our board of directors or to make stockholder proposals at a stockholders meeting;
- permit a special meeting of our stockholders be called only by the board of directors and not by any other person or persons;
- permit our board of directors to issue, without approval of our stockholders, preferred stock with such terms as our board of directors may determine;
- permit the authorized number of directors to be changed only by the board of directors or at a meeting of the stockholders called for the purpose of electing directors at which a quorum is present, by the affirmative vote of 66 2/3% of the shares represented at the meeting and entitled to vote generally in the election of directors; and
- require the vote of the holders of 66 2/3% of the shares of our common stock for amendments by the stockholders of certain provisions of our by-laws, including some of the provisions described above.

Our by-laws require that, subject to certain exceptions, any stockholder desiring to propose business or nominate a person to the board of directors at a stockholders meeting must give notice of any proposals or nominations within a specified time frame. These provisions may have the effect of precluding a nomination for the election of directors or the conduct of business at a particular annual meeting if the proper procedures are not followed or may discourage or deter a third-party from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of us, even if the conduct of such solicitation or such attempt might be beneficial to us and our stockholders. For us to include a proposal in our annual proxy statement, the proponent and the proposal must comply with the proxy proposal submission rules of the SEC.

Our Amended and Restated Certificate of Incorporation has established that we will have a classified board of directors. A classified board of directors is one in which a group or class of directors is elected on a rotating basis each year. This method of electing directors makes changes in the composition of the board of directors lengthier, which consequently would make a change in control of a corporation a lengthier and more difficult process.

STOCKHOLDER PROPOSALS

If you are a stockholder and you want to include a proposal in the proxy statement for the year 2007 annual meeting, presently scheduled for June 2007, under our by-laws you must give timely notice of the proposal, in writing, along with any supporting materials to our secretary at our principal office in Arlington, Virginia. Under normal circumstances, to be timely (a) under our bylaws, a stockholder proposal must be delivered to or mailed and received at our principal executive offices not less than 60 days nor more than 90 days prior to the meeting and (b) under applicable rules of the Securities and Exchange Commission, a stockholder proposal must be received not less than 120 days before the date of our proxy statement released in connection with the previous year s annual meeting. However, since less than 75 days notice or prior public disclosure of the date of the meeting was given to stockholders, to be timely under our bylaws, a stockholder proposal must be received not later than the close of business on the 15th day following the day on which notice of the date of the meeting or public disclosure thereof is given or made.

MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS

In accordance with Rule 14a-3(e)(1) under the Exchange Act, one proxy statement will be delivered to two or more stockholders who share an address, unless we have received contrary instructions from one or more of the shareholders. We will deliver promptly upon written or oral request a separate copy of the proxy statement to a stockholder at a shared address to which a single copy of the proxy statement was delivered. Requests for additional copies of the proxy statement, and requests that in the future separate proxy statements be sent to stockholders who share an address, should be directed to Fortress America Acquisition Corporation, 4100 North Fairfax Drive, Suite

1150, Arlington, Virginia 22203, Attn: Secretary, telephone: (703) 528-7073. In addition, stockholders who share a single address but receive multiple copies of the proxy statement may request that in the future they receive a single copy by contacting us at the address and phone number set forth in the prior sentence.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of TSS/Vortech as of and for the years ended December 31, 2003, 2004 and 2005 included in this proxy statement have been audited by McGladrey & Pullen, LLP, independent registered public accounting firm.

The financial statements of FAAC as of December 31, 2005 and for the periods ended December 31, 2004 and 2005 included in this proxy statement have been audited by Goldstein Golub Kessler LLP, independent registered public accounting firm. Goldstein Golub Kessler LLP has acted as the independent auditor for FAAC since its inception.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC as required by the Exchange Act. You may access this information at the SEC website at http://www.sec.gov.

You may read and copy reports, proxy statements and other information filed by us with the SEC at their public reference room located at Headquarters Office, 100 F Street, N.E., Room 1580, Washington, D.C. 20549.

You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. You may also obtain copies of the materials described above at prescribed rates by writing to the Securities and Exchange Commission, Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549.

INDEX TO FINANCIAL STATEMENTS

VORTECH, LLC AND VTC, LLC

COMBINED FINANCIAL REPORT
December 31, 2005, 2004 and 2003

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITOR S REPORT

To the Members
Vortech, LLC and VTC, LLC
Beltsville, Maryland

We have audited the accompanying combined balance sheets of Vortech, LLC and VTC, LLC (the Company) as described in Note 1 to the financial statements, as of December 31, 2005, 2004 and 2003, and the related combined statements of income, changes in members equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Vortech, LLC and VTC, LLC as of December 31, 2005, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, the 2005 and 2004 financial statements have been restated to include the assets, liabilities and gain (loss) of a discontinued operation.

/s/ McGladrey & Pullen, LLP

Bethesda, Maryland
May 12, 2006, except for Note 13, as to which the date is October 27, 2006.

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

VORTECH, LLC AND VTC, LLC

COMBINED BALANCE SHEET
December 31, 2005, 2004 and 2003

	2005 (restated)	2004 (restated)	2003
ASSETS			
Current Assets			
Cash and cash equivalents	$ 1,737,075	$ 1,503,338	$ 1,071,940
Contract and other receivables, net including $869,131, $162,342 and $395,640 from related parties in 2005, 2004 and 2003	11,136,833	2,669,370	3,592,924
Costs and estimated earnings in excess of billings on uncompleted contracts	528,494	963,089	202,017
Prepaid expenses	6,197	3,961	
Due from affiliated entities	51,773	21,317	17,177
Assets of discontinued operation		258,734	
Total current assets	13,460,372	5,419,809	4,884,058
Property and Equipment, net	532,452	554,967	557,375
Deposits and Other Assets	106,486	27,177	7,041
	$ 14,099,310	$ 6,001,953	$ 5,448,474
LIABILITIES AND MEMBERS EQUITY			
Current Liabilities			
Notes payable, current portion	$ 72,808	$ 116,654	$ 48,726
Accounts payable, including $1,388,347, $605,458 and $1,075,630 to related parties in 2005, 2004 and 2003	6,360,959	2,011,561	1,710,333
Accrued bonuses	745,247	461,000	344,348
Other accrued expenses	1,140,244	707,589	167,183
Billings in excess of costs and estimated earnings on uncompleted contracts	2,899,728	1,538,462	1,734,432
Liabilities of discontinued operations		416,425	
Total current liabilities	11,218,986	5,251,691	4,005,022
Long-Term Liabilities			
Notes payable, less current portion	160,652	369,579	167,015
Deferred compensation payable	128,038	24,566	
	288,690	394,145	167,015
Commitments and Contingencies (Notes 5, 6, 7, 8, 9, and 12)			

Members Equity	2,941,634	356,117	1,276,437
Note receivable from affiliate	(350,000)		
	2,591,634	356,117	1,276,437
	$ 14,099,310	$ 6,001,953	$ 5,448,474

See Notes To Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF INCOME
Years Ended December 31, 2005, 2004 and 2003

	2005 (restated)	2004 (restated)	2003
Earned Revenues, including $3,852,227, $1,324,188 and $1,842,081 with related parties in 2005, 2004 and 2003	$ 58,632,293	$ 21,302,997	$ 12,330,785
Cost of earned revenues, including $13,709,811, $4,814,302 and $342,670 with related parties in 2005, 2004 and 2003	50,056,924	15,769,341	8,392,786
Gross profit	8,575,369	5,533,656	3,937,999
General and administrative expenses, including $1,033,493, $582,444, and $342,670 with related parties in 2005, 2004 and 2003	5,647,897	4,514,475	2,131,908
Operating income	2,927,472	1,019,181	1,806,091
Interest expense	(35,184)	(29,139)	(3,957)
Income from continuing operations	2,892,288	990,042	1,802,134
Gain (loss) from discontinued operations (Note 13)	252,845	(252,845)	
Net income	$ 3,145,133	$ 737,197	$ 1,802,134

See Notes To Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF CHANGES IN MEMBERS EQUITY
Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(restated)	(restated)	
Balance, Beginning of year	$ 356,117	1,276,437	29,303
Capital Contributions			45,000
Distributions	(559,616)	(1,657,517)	(600,000)
Net income	3,145,133	737,197	1,802,134
Balance, End of year	$ 2,941,634	$ $ 356,117	$ 1,276,437

See Notes To Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF CASH FLOWS
Years Ended December 31, 2005, 2004 and 2003

	2005 (restated)	2004 (restated)	2003
Cash Flows From Operating Activities			
Net income	$ 3,145,133	$ 737,197	$ 1,802,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	228,279	136,203	48,019
Allowance for doubtful accounts	(26,876)	(1,544)	35,500
(Gain) loss from discontinued operations	(252,845)	252,845	
Changes in assets and liabilities:			
(Increase) decrease in:			
Contract and other receivables	(8,440,587)	925,098	(3,628,424)
Costs and estimated earnings in excess of billings on uncompleted contracts	475,857	(625,777)	(202,017)
Prepaid expenses	(2,236)	(3,961)	(7,041)
Due from affiliated entities	(285,303)	(95,153)	
Deposits and other assets	(146,809)	(20,136)	
Increase (decrease) in:			
Accounts payable and accrued expenses	5,066,299	958,286	2,221,864
Billings in excess of costs and estimated earnings on uncompleted contracts	1,320,004	(331,265)	1,734,432
Deferred compensation payable	103,472	24,566	
Net cash provided by operating activities	1,184,388	1,956,359	2,004,467
Cash Flows From Investing Activities			
Purchases of property and equipment	(59,521)	(133,796)	(605,394)
Increase in due from affiliated entities		(4,140)	(17,177)
Net cash used in investing activities	(59,521)	(137,936)	(622,571)
Cash Flows From Financing Activities			
Proceeds from notes payable		320,794	247,864
Principal payments on notes payable	(331,514)	(50,302)	(32,123)
Capital contributions			45,000
Member distributions	(559,616)	(1,657,517)	(600,000)
Net cash used in financing activities	(891,130)	(1,387,025)	(339,259)
Net increase in cash and cash equivalents	233,737	431,398	1,042,637

Cash and Cash Equivalents			
Beginning	1,503,338	1,071,940	29,303
Ending	$ 1,737,075	$ 1,503,338	$ 1,071,940
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 35,184	$ 29,139	$ 3,957

See Notes To Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

The Companies and nature of businesses: Vortech Consulting, LLC was organized in the State of Maryland on May 31, 2002 and previously operated under three separate divisions, Vortech, Total Site Solutions (TSS) and S3 Integration.

Effective August 15, 2005, Vortech Consulting, LLC changed its name to VTC, LLC and the Vortech division began operating as a separate LLC named Vortech, LLC. The 2005 financial statements include the combined financial position and results of operations of both VTC, LLC and Vortech, LLC and S3 Integration (collectively, the Company).

S3 Integration was in operation from July 1, 2004 to August 31, 2005 as a division of Vortech Consulting, LLC. S3 Integration is a provider of turnkey electronic security integration services. The operations of S3 Integration have been included in the 2005 Statement of Income as a discontinued operation (see Note 13).

Vortech provides cable and electrical plan design, installation and service. TSS provides a variety of services to the mission critical and high-tech industry, including planning and programming, engineering and design, project and construction manager, field installation, and facilities management. Operations of both divisions commenced effective January 1, 2003.

A summary of the Company s significant accounting policies follows:

Principles of combination: The combined financial statements include Vortech, LLC and VTC, LLC for December 31, 2005, and Vortech Consulting, LLC for December 31, 2004 and 2003. All intercompany accounts and transactions have been eliminated in combination.

Personal assets and liabilities and member salaries: In accordance with the generally accepted method of presenting financial statements for a limited liability company, the financial statements do not include the personal assets and liabilities of the members, including their obligation for income taxes on their distributive shares of the Company s net income or their rights to refunds on the Company s net loss, nor any provision for income tax expense or an income tax refund. The expenses shown on the statement of income include salaries paid to members.

Revenue recognition: Revenue from contracts is recognized on the percentage-of-completion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. This method is used because management considers cost incurred and costs to complete to be the best available measure of progress in the contracts.

Contract costs include all direct materials, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, payroll taxes, and supplies. General and administrative expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which losses are determined.

The asset, Costs and estimated earnings in excess of billings on uncompleted contracts, represents revenue recognized in excess of amounts billed. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenue recognized.

As these long-term contracts extend over one or more years, revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts which require the revisions are determined.

Cash and cash equivalents: For purposes of reporting cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (continued)

Contract receivables: Contract receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer s financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not recorded on any past due balances.

Property and equipment: Property and equipment are recorded at cost and depreciated using the straight-line method of depreciation over their estimated useful lives, ranging from 3 to 7 years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining lease term. Normal repairs and maintenance are charged against income.

Valuation of long-lived assets: The Company accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Advertising costs: The Company expenses all advertising costs as incurred. Advertising expense was $384,409, $14,082 and $24,311 for the years ended December 31, 2005, 2004 and 2003 respectively.

Income taxes: The Company is treated as a partnership for Federal income tax purposes, and members are taxed individually on their pro-rata share of the Company s earnings. The Company s net income or loss is allocated among the members in accordance with the Company s operating agreement. The Company intends to make distributions to its members subsequent to year-end sufficient to pay personal income taxes on taxable income, if any, from the Company.

Credit risk: The Company may from time to time, have cash in banking institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Company grants credit to its customers in the normal course of business on an unsecured basis. The Company s accounts receivable are derived from customers throughout the metropolitan Washington, D.C. and Baltimore, Maryland areas, and are made on an unsecured basis.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for estimated costs to complete long-term contracts in progress, allowance for doubtful accounts, and depreciation, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are

determined to be necessary.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2. Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Costs incurred on uncompleted contracts	$ 52,493,306	$ 14,350,725	$ 3,096,016
Estimated earnings	8,274,479	3,423,709	1,072,013
	60,767,785	17,774,434	4,168,029
Less billings to date	63,139,019	18,347,807	5,700,444
	$ (2,371,234)	$ (573,373)	$ (1,532,415)

The foregoing balances are included in the accompanying balance sheets under the following captions:

	2005	2004	2003
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 528,494	$ 963,089	$ 202,017
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,899,728)	(1,538,462)	(1,734,432)
	$ (2,371,234)	$ (575,373)	$ (1,532,415)

Note 3. Contract and Other Receivables

	2005	2004	2003
Completed contracts, including retentions	$ 620,403	$ 645,416	$ 755,144
Contracts in progress			
Current	10,309,204	1,991,753	2,835,871
Retention	198,391	7,659	15,018
Other miscellaneous receivables	33,835	56,720	22,391
	11,161,833	2,701,548	3,628,424
Less allowance for doubtful accounts	(25,000)	(32,178)	(35,500)
	$ 11,136,833	$ 2,669,370	$ 3,592,924

Note 4. Property and Equipment

Property and equipment as of December 31, 2005, 2004 and 2003 consists of the following:

	2005	2004	2003

Vehicles	$ 395,006	$ 313,760	$ 261,199
Leasehold improvements	375,638	366,334	329,937
Furniture and fixtures	14,732	5,130	
Office equipment	92,076	53,965	14,258
	877,452	739,189	605,394
Less accumulated depreciation	345,000	184,222	48,019
	$ 532,452	$ 554,967	$ 557,375

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 5. Notes Payable

The Company has entered into multiple notes payable arrangements, certain of which were secured by vehicles, that require monthly payments ranging from $273 to $789, including interest at the rate of 0% to 5.92% through October 2010. Future principal payments on these notes payable are as follows:

Years Ending December 31,	
2006	$ 72,808
2007	76,934
2008	50,525
2009	22,990
2010	10,203
	$ 233,460

Note 6. Line of Credit

VTC, LLC has a revolving demand line of credit agreement with a bank that allows for maximum borrowings of up to $1,000,000. Interest accrues daily on the outstanding balance at the one month LIBOR rate plus 225 basis points. The line is personally guaranteed by a 50% member of the Company, and is collateralized by substantially all Company assets. There were no borrowings under the line of credit as of December 31, 2005.

As of December 31, 2004 and 2003 the Vortech Consulting, LLC had a revolving line of credit with a bank that allowed for maximum borrowings for the lesser of $500,000 or 80% of eligible receivables. Interest accrues daily on the outstanding balance at the bank s prime rate, plus 1% (effective rate of 6% at December 31, 2004). The line is personally guaranteed by certain members of the Company, and is collateralized by substantially all Division assets. The agreement requires the Company to maintain certain tangible net worth. There were no borrowings by the Company as of December 31, 2004, and 2003 however, the S3 Integration division had borrowings under this line of credit of $140,000 as of December 31, 2004, which is included in liabilities from discontinued operations.

Note 7. Leasing Arrangements

Chesapeake Tower Systems, Inc. (Chesapeake) and affiliated entity, entered into a six-year lease for office and warehouse space expiring in October 2008. The Company is subleasing a portion of the space under a similar arrangement, however Chesapeake remains ultimately obligated. The Company is also leasing office equipment under operating lease arrangements. Rent expense under the above arrangements was $190,727, $152,425 and $108,121 for the years ended December 31, 2005, 2004 and 2003, respectively.

Future minimum payments under leasing arrangements as of December 31, 2005, are as follows:

Years Ending December 31,	
2006	$ 198,597
2007	179,300

2008	146,101
2009	107
	$ 524,105

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 8. Profit Sharing Plan

The Company provides retirement benefits to its employees through its participation in the Chesapeake Tower Systems and Affiliates 401(k) Plan in which it is an adopting employer. Substantially all employees who meet certain eligibility requirements are eligible to participate. Participants may elect to defer a percentage of their annual compensation, subject to certain limitations, in accordance with Section 401(k) of the Internal Revenue Code. The Company makes matching contributions of 40% (35% for 2003) of the first 6% of compensation deferred by each participant. Employer matching contributions were $70,709, $54,036 and $16,985 for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 9. Phantom Unit Plan

The Company signed agreements with certain key employees to provide incentive compensation for enhancement of Company and shareholder value and to share in the future economic success of the Company. Under these agreements, the Company had issued 30,250 phantom units as of December 31, 2005 and 2004. The phantom units vest over a three-year period from the grant date and realize value based on a formula provided in the agreements. The deferred compensation is to be paid to the individuals or their beneficiaries over a period of five years commencing with the termination of employment, death or date of closing if the Company is sold or merged. The Company records periodic accruals for the cost of providing such benefits by charges to income. Compensation expense recorded under these agreements was $103,472 and $24,566 for the years ended December 31, 2005 and 2004 respectively. As of December 31, 2005, 20,167 units were vested.

Note 10. Related Party Transactions

The Company participates in transactions with the following entities affiliated through common ownership and management.

CSI Engineering, Inc. CSI Engineering, Inc. (CSI), which is 9% owned by a 50% partner in the Company, acts as an engineering services subcontractor to the Company, and the Company acts as an electrical subcontractor to CSI.

TPR Group LLC. As of January 1, 2006, TPR Group LLC (TPR Group), which is wholly-owned by a 50% partner in the Company, has provided human resources, administrative support and insurance and employee benefit plan administration services to TSS/Vortech.

S3 Integration LLC. S3 Integration LLC (S3 Integration), which is owned 15% by each of the partners, provides commercial and government security systems design and installation services as a subcontractor to the Company. In addition, S3 Integration utilizes the Company as subcontractor.

GR Partners. GR Partners, which is owned 50% by each of the partners, leases office and field equipment to the Company under the terms of an equipment lease. In addition the Company has paid fees for management services (which is included in general and administrative expenses) for the years ended December 31, 2003, 2004 and 2005.

Chesapeake Tower Systems, Inc. Chesapeake Tower Systems, Inc. (Chesapeake), which is 60% owned by one of the partners, is a manufacturer s representative and distributor of mechanical and electrical equipment, which Chesapeake sells to the Company. In addition, the Company acts as a subcontractor to Chesapeake for certain equipment installation on project-by-project basis.

CTS Services, LLC. CTS Services, LLC (CTS), which is 55% owned by a partner, is a mechanical contractor and acts as subcontractor to the Company for certain projects. In addition, CTS utilizes the Company as a subcontractor on projects as needed.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 10. Related Party Transactions (continued)

L.H. Cranston Acquisition Group, Inc. L.H. Cranston Acquisition Group, Inc., 25% of which was acquired by a partner in July 2005, is a mechanical, electrical and plumbing contractor that acts, directly or through its subsidiary L.H. Cranston and Sons, Inc., as subcontractor to the Company on a project-by-project basis.

Telco P&C, LLC. Telco P&C, LLC, which is 55% owned by a partner, is a specialty electrical installation company that acts as a subcontractor to the Company. The Company has also acted as a subcontractor to Telco as needed.

Automotive Technologies, Inc. Automotive Technologies, Inc., which is 60% owned by a partner, provides vehicle maintenance and repair services to the Company.

Jet Facilities Group, Inc. Jet Facilities Group, Inc. (Jet) which was 50% owned by a partner provides facilities management services to commercial customers. As of January 1, 2005 the partner has divested himself of his ownership interest in Jet.

A summary of such transactions for the years ended December 31, 2005, 2004 and 2003 and the amounts due from and to these related parties as of December 31, 2005, 2004 and 2003 are listed below:

	2005	2004	2003
Sales/Contract Revenue:			
CTS Services, LLC	$ 189,743	$ 201,178	$ 1,517,850
CSI Engineering, Inc.	3,627,743	68,166	1,574
S3 Integration, LLC	18,204		
Chesapeake Tower Systems, Inc.	7,729	187,083	189
TPR Group, LLC	8,808		
Jet Facilities Group, Inc.		867,761	315,862
Telco P&C, LLC			6,606
Purchases/Contract Costs:			
Chesapeake Tower Systems, Inc.	7,387,225	652,630	76,558
CTS Services, LLC	3,425,784	2,213,227	232,875
S3 Integration, LLC	6,628		
CSI Engineering, Inc.	380,586	1,824,017	1,549,493
GR Partners	508,234	46,907	19,158
LH Cranston & Sons, Inc.	2,001,354		
Telco P&C, LLC		77,521	
Management/Consulting Fees:			

CTS Services, LLC	534,700	400,400	71,650
GR Partners	275,000		
Office rent paid to Chesapeake Tower Systems, Inc.	190,727	152,425	108,121
Equipment rent paid to GR Partners	33,066	29,619	19,158

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 10. Related Party Transactions (continued)

	2005	2004	2003
Accounts receivable/(payable):			
CTS Services, LLC	4,669	108,409	197,606
CSI Engineering, Inc.	854,455	38,964	
S3 Integration, LLC	9,381	614	
TPR Group	532		
Chesapeake Tower Systems, Inc.	94	14,805	214
CTS Services, LLC	(275,553)	(322,626)	(80,115)
Chesapeake Tower Systems, Inc.	(469,418)	(31,570)	(845)
Telco P&C, LLC	(4,174)	(52,834)	
GR Partners	(14,785)	(3,299)	(3,019)
CSI Engineering, Inc.	(8,795)	(195,129)	(913,710)
LH Cranston & Sons, Inc.	(615,622)		
Jet Facilities Group, Inc.			225,080

Note 11. Major Customers

The Company earned approximately 78% of its revenue under several different contracts and locations from one major customer for the year ended December 31, 2005. Accounts receivable from this customer was $7,824,600 at December 31, 2005. For the year ended December 31, 2004 the Company earned approximately 60% of its revenue from three customers. Accounts receivable from these customers was $1,446,183 at December 31, 2004. For the year ended December 31, 2003 the Company earned approximately 77% of its revenue from three major customers under several different contracts for the year ended December 31, 2003. Accounts receivable from these major customers was $2,180,769 at December 31, 2003.

Note 12. Litigation

From time to time, the Company has certain pending claims and legal proceedings that generally involve contract claims and disputes. These proceedings are, in the opinion of management, ordinary routine matters incidental to the construction business. In the opinion of management, the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company s financial position, results of operations or cash flows.

Note 13. Restatement and Discontinued Operations

The 2005 and 2004 financial statements have been restated to include the assets, liabilities and gains and (losses) of the S3 Integration Division, which was transferred into a separate LLC, S3 Integration, LLC (S3I) on September 1, 2005. As part of the transaction, S3I assumed all the liabilities of the division and entered into a term loan agreement

with VTC, LLC.

On the date of the transaction the Company had a balance due from the Division in the amount of $558,955 as follows:

Note receivable	$ 350,000
Distribution to members	200,000
Amount remaining in due from affiliated entities	8,955
	$ 558,955

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 13. Discontinued Operations (continued)

The note receivable from S3 Integration is to be repaid over seven years in monthly principal and interest payments $5,282 beginning in February 2006 with interest at 7%. It has been classified as contra equity on the December 31, 2005 combined balance sheet as it is the intention of the Company to distribute the balance of the loan to it s members in 2006.

A summary of the assets and liabilities of discontinued operations as of December 31, 2004 were as follows:

Assets of Discontinued Operations	
Current assets	$ 157,414
Property and equipment	101,320
	$ 258,734
Liabilities of Discontinued Operations	
Current liabilities	$ 400,172
Notes payable, net of current portion	16,253
	$ 416,425

The following results of the Division have been presented as gain (loss) from discontinued operations in the accompanying statements of income for the years ended December 31, 2005 and 2004 as follows:

		2005		**2004**
Earned revenues	**$**	**1,525,897**	$	738,905
Costs and expenses		**1,832,007**		991,750
Operating loss		**(306,110)**		(252,845)
Gain on transfer of the Division		**558,955**		
Gain (loss) from discontinued operations	**$**	**252,845**	$	(252,845)

VORTECH, LLC AND VTC, LLC

COMBINED FINANCIAL REPORT
September 30, 2006
(unaudited)

VORTECH, LLC AND VTC, LLC

COMBINED BALANCE SHEET
September 30, 2006 and December 31, 2005

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 913,573**	$ 1,737,075
Contract and other receivables, net including $239,523 and $869,131 from related parties in 2006 and 2005	**11,525,906**	11,136,833
Costs and estimated earnings in excess of billings on uncompleted contracts	**597,771**	528,494
Prepaid expenses	**511,690**	6,197
Due from affiliated entities	**104,846**	51,773
Total current assets	**13,653,786**	13,460,372
Property and Equipment, net	**455,645**	532,452
Deposits and Other Assets	**55,256**	106,486
	$ 14,164,687	$ 14,099,310
LIABILITIES AND MEMBERS EQUITY		
Current Liabilities		
Notes payable, current portion	**$ 72,808**	$ 72,808
Accounts payable, including $883,651 and $1,388,347 to related parties in 2006 and 2005	**6,695,102**	6,360,959
Accrued bonuses	**49,647**	745,247
Other accrued expenses	**1,660,358**	1,140,244
Billings in excess of costs and estimated earnings on uncompleted contracts	**2,218,204**	2,899,728
Total current liabilities	**10,696,119**	11,218,986
Long-Term Liabilities		
Notes payable, less current portion	**104,680**	160,652
Deferred compensation payable	**178,538**	128,038
	283,218	288,690
Commitments (Note 5)		
Members Equity	**3,517,255**	2,941,634

Note receivable from affiliate	**(331,905)**	(350,000)
	3,185,350	2,591,634
	$ 14,164,687	$ 14,099,310

See Notes to Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF INCOME
Nine Months Ending September 30, 2006 and September 30, 2005

		September 30, 2006		**September 30, 2005**
		(unaudited)		
Earned Revenues, including $1,729,928 and $2,947,915 with related parties in 2006 and 2005	**$**	**47,300,017**	$	43,427,459
Cost of earned revenues, including $5,851,261 and $9,368,404 with related parties in 2006 and 2005		**38,938,582**		36,802,943
Gross profit		**8,361,435**		6,624,516
General and administrative expenses, including $971,249 and $715,034 with related parties in 2006 and 2005		**5,147,245**		3,727,689
Operating income		**3,214,190**		2,896,827
Interest expense		**(14,122)**		(26,118)
Net income from continuing operations	**$**	**3,200,068**	$	2,870,709
Gain from discontinued operations (Note 11)				(252,845)
Net income	**$**	**3,200,068**	$	3,123,554

See Notes to Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF CHANGES IN MEMBERS EQUITY
Nine Months Ending September 30, 2006

		Six Months Ending June 30, 2006 (unaudited)
Balance, December 31, 2005	$	2,941,634
Distributions		2,624,447
Net income		3,200,068
Balance, September 30, 2006	**$**	**3,517,255**

See Notes to Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

COMBINED STATEMENT OF CASH FLOWS
Nine Months Ending September 30, 2006 and September 30, 2005

	September 30, 2006	**September 30, 2005**
	(unaudited)	
Cash Flows From Operating Activities		
Net income	**$ 3,200,068**	$ 3,123,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**194,318**	120,246
Allowance for doubtful accounts		
Gain from discontinued operation		(252,845)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contract and other receivables	**(389,073)**	(5,578,379)
Costs and estimated earnings in excess of billings on uncompleted contracts	**(69,277)**	775,804
Prepaid expenses	**(505,493)**	(85,437)
Due from affiliated entities	**(34,978)**	(499,116)
Deposits	**730**	(146,841)
Increase (decrease) in:		
Accounts payable and accrued expenses	**158,657**	4,637,331
Billings in excess of costs and estimated earnings on uncompleted contracts	**(681,524)**	280,414
Deferred compensation payable	**50,500**	
Net cash provided by operating activities	**1,923,928**	2,374,731
Cash Flows From Investing Activities		
Purchases of property and equipment	**(67,011)**	(94,615)
Net cash used in investing activities	**(67,011)**	(94,615)
Cash Flows From Financing Activities		
Principal payments on notes payable	**(55,972)**	(66,355)
Member distributions	**(2,624,447)**	(350,000)
Net cash used in financing activities	**(2,680,419)**	(416,355)
Net increase in cash and cash equivalents	**(823,502)**	1,863,761
Cash and Cash Equivalents		

Beginning	**$**	**1,737,075**	$	1,503,338
Ending	**$**	**913,573**	$	3,367,099
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	**$**	**(14,122)**	$	(26,118)

See Notes to Combined Financial Statements.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 1. Interim Financial Statements

This document includes unaudited interim financial statements that should be read in conjunction with the Company s latest audited annual financial statements. However, in the opinion of management, these financial statements contain all adjustments, consisting only of normal recurring items, necessary for a fair presentation of the Company s financial position as of September 30, 2006 and 2005, the results of its operations for the nine months ended September 30, 2006 and 2005, and its cash flows for the nine months ended September 30, 2006 and 2005. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results expected for the full fiscal year.

Note 2. Nature of Business and Significant Accounting Policies

The Companies and nature of businesses: Vortech Consulting, LLC was organized in the State of Maryland on May 31, 2002. The Company previously operated under three separate divisions, Vortech, Total Site Solutions (TSS) and S3 Integration.

Effective August 15, 2005, Vortech Consulting, LLC changed its name to VTC, LLC and the Vortech division began operating as a separate LLC named Vortech, LLC. The 2005 financial statements include the combined financial position and results of operations of both VTC, LLC and Vortech, LLC and S3 Integration (collectively, the Company).

S3 Integration was in operation from July 1, 2004 to August 31, 2005 as a division of Vortech Consulting, LLC. S3 Integration is a provider of turnkey electronic security integration services. The operations of S3 Integration have been included in the 2005 Statement of Income as a discontinued operation (see Note 11).

Vortech provides cable and electrical plan design, installation and service. TSS provides a variety of services to the mission critical and high-tech industry, including planning and programming, engineering and design, project and construction manager, field installation, and facilities management. Operations of both divisions commenced effective January 1, 2003.

A summary of the Company s significant accounting policies follows:

Principles of combination: The combined financial statements include Vortech, LLC and VTC, LLC. for September 30, 2006 and December 31, 2005 and the results of operations and cash flows of Vortech Consulting, LLC for the nine months ending September 30, 2005. All intercompany accounts and transactions have been eliminated in combination.

Personal assets and liabilities and member salaries: In accordance with the generally accepted method of presenting financial statements for a limited liability company, the financial statements do not include the personal assets and liabilities of the members, including their obligation for income taxes on their distributive shares of the Company s net income or their rights to refunds on the Company s net loss, nor any provision for income tax expense or an income tax refund. The expenses shown on the statement of income include salaries paid to members.

Revenue recognition: Revenue from contracts is recognized on the percentage-of-completion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. This method is used because management considers cost incurred and costs to complete to be the best available measure of progress in the contracts.

Contract costs include all direct materials, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, payroll taxes, and supplies. General and administrative expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which losses are determined.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 2. Nature of Business and Significant Accounting Policies (continued)

The asset, Costs and estimated earnings in excess of billings on uncompleted contracts, represents revenue recognized in excess of amounts billed. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenue recognized.

As these long-term contracts extend over one or more years, revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts which require the revisions are determined.

Cash and cash equivalents: For purposes of reporting cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

Contract receivables: Contract receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer s financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not recorded on any past due balances.

Property and equipment: Property and equipment are recorded at cost and depreciated using the straight-line method of depreciation over their estimated useful lives, ranging from 3 to 7 years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining lease term. Normal repairs and maintenance are charged against income.

Valuation of long-lived assets: The Company accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Advertising costs: The Company expenses all advertising costs as incurred. Advertising expense was $384,409 for the year ended December 31, 2005.

Income taxes: The Company is treated as a partnership for Federal income tax purposes, and members are taxed individually on their pro-rata share of the Company s earnings. The Company s net income or loss is allocated among the members in accordance with the Company s operating agreement. The Company intends to make distributions to its members subsequent to year-end sufficient to pay personal income taxes on taxable income, if any, from the Company.

Credit risk: The Company may from time to time, have cash in banking institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Company grants credit to its customers in the normal course of business on an unsecured basis. The Company s accounts receivable are derived from customers throughout the metropolitan Washington, D.C. and Baltimore, Maryland areas, and are made on an unsecured basis.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 2. Nature of Business and Significant Accounting Policies (continued)

*Estimate*s: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for estimated costs to complete long-term contracts in progress, allowance for doubtful accounts, and depreciation, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

Note 3. Property and Equipment

Property and equipment as of September 30, 2006 and December 31, 2005, consist of the following:

	2006	**2005**
	(unaudited)	
Vehicles	**$ 393,185**	$ 395,006
Leasehold improvements	**375,638**	375,638
Furniture and fixtures	**14,732**	14,732
Office equipment	**160,908**	92,076
	944,463	877,452
Less accumulated depreciation	**488,818**	345,000
	$ 455,645	$ 532,452

Note 4. Line of Credit

VTC, LLC has a revolving demand line of credit agreement with a bank that allows for maximum borrowings of up to $1,000,000. Interest accrues daily on the outstanding balance at the one month LIBOR rate plus 225 basis points. The line is personally guaranteed by a 50% member of the Company, and is collateralized by substantially all Company assets. There were no borrowings under the line of credit as of September 30, 2006 and December 31, 2005.

Note 5. Leasing Arrangements

Chesapeake Tower Systems, Inc. (Chesapeake) and affiliated entity, entered into a six-year lease for office and warehouse space expiring in October 2008. The Company is subleasing a portion of the space under a similar arrangement, however Chesapeake remains ultimately obligated. The Company has also entered into a five year lease for office space effective November 1, 2006 with TPR Group Re Three, LLC which is 100% owned by the members of the Company. The Company is also leasing office equipment under operating lease arrangements.

Future minimum payments under leasing arrangements as of September 30, 2006, are as follows:

Years Ending December 31,	**Unaudited**

2007	$	555,754
2008		555,754
2009		376,644
2010		376,454
2011		282,341
	$	2,146,757

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 6. Profit Sharing Plan

The Company provides retirement benefits to its employees through its participation in the Chesapeake Tower Systems and Affiliates 401(k) Plan in which it is an adopting employer. Substantially all employees who meet certain eligibility requirements are eligible to participate. Participants may elect to defer a percentage of their annual compensation, subject to certain limitations, in accordance with Section 401(k) of the Internal Revenue Code. The Company makes matching contributions of 40% of the first 6% of compensation deferred by each participant.

Note 7. Phantom Unit Plan

The Company signed agreements with certain key employees to provide incentive compensation for enhancement of Company and shareholder value and to share in the future economic success of the Company. Under these agreements, the Company had issued 30,250 phantom units as of September 30, 2006. The phantom units vest over a three-year period from the grant date and realize value based on a formula provided in the agreements. The deferred compensation is to be paid to the individuals or their beneficiaries over a period of five years commencing with the termination of employment, death or date of closing if the Company is sold or merged. The Company records periodic accruals for the cost of providing such benefits by charges to income.

Note 8. Related Party Transactions

The Company participates in transactions with entities affiliated through common ownership and management.

CSI Engineering, Inc. CSI Engineering, Inc. (CSI), which was 9% owned by a 50% partner in the Company, acts as an engineering services subcontractor to the Company, and the Company acts as an electrical subcontractor to CSI.

TPR Group LLC. As of January 1, 2006, TPR Group LLC (TPR Group), which is wholly-owned by a 50% partner in the Company, has provided human resources, administrative support and insurance and employee benefit plan administration services to TSS/Vortech.

S3 Integration LLC. S3 Integration LLC (S3 Integration), which is owned 15% by each of the partners, provides commercial and government security systems design and installation services as a subcontractor to the Company. In addition, S3 Integration utilizes the Company as subcontractor.

GR Partners. GR Partners, which is owned 50% by each of the partners, leases office and field equipment to the Company under the terms of an equipment lease. In addition the Company has paid fees for management services (which is included in general and administrative expenses) for the years ended December 31, 2003, 2004 and 2005.

Chesapeake Tower Systems, Inc. Chesapeake Tower Systems, Inc. (Chesapeake), which is 60% owned by one of the partners, is a manufacturer s representative and distributor of mechanical and electrical equipment, which Chesapeake sells to the Company. In addition, the Company acts as a subcontractor to Chesapeake for certain equipment installation on project-by-project basis.

CTS Services, LLC. (CTS), which is 55% owned by a partner, is a mechanical contractor and acts as subcontractor to the Company for certain projects. In addition, CTS utilizes the Company as a subcontractor on projects as needed.

L.H. Cranston Acquisition Group, Inc. L.H. Cranston Acquisition Group, Inc., 25% of which was acquired by a partner in July 2005, is a mechanical, electrical and plumbing contractor that acts, directly or through its subsidiary L.H. Cranston and Sons, Inc., as subcontractor to the Company on a project-by-project basis.

Telco P&C, LLC. Telco P&C, LLC, which is 55% owned by a partner, is a specialty electrical installation company that acts as a subcontractor to the Company. The Company has also acted as a subcontractor to Telco as needed.

Automotive Technologies, Inc. Automotive Technologies, Inc., which is 60% owned by a partner, provides vehicle maintenance and repair services to the Company.

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 8. Related Party Transactions (continued)

Jet Facilities Group, Inc. Jet Facilities Group, Inc. (Jet) which was 50% owned by a partner provides facilities management services to commercial customers. As of January 1, 2005 the partner has divested himself of his ownership interest in Jet.

A summary of the entities and such transactions for the nine months ended and year ended September 30, 2006 and December 31, 2005, and the amount due from and to these related parties as of September 30, 2006 and December 31, 2005, are listed below:

	September 30, 2006 (unaudited)	December 31, 2005
Sales/Contract Revenue:		
CTS Services, LLC	$ 80,232	$ 189,743
CSI Engineering, Inc.	1,632,365	3,627,743
S3 Integration, LLC	1,618	18,204
Chesapeake Tower Systems, Inc.	13,941	7,729
TPR Group, LLC	1,772	8,808
Purchases/Contract Costs:		
Chesapeake Tower Systems, Inc.	576,818	7,387,225
CTS Services, LLC	3,923,741	3,425,784
S3 Integration, LLC	114,007	6,628
CSI Engineering, Inc.	461,287	380,586
GR Partners		508,234
LH Cranston & Sons, Inc.	758,140	2,001,354
Telco P&C, LLC	17,268	
Management/Consulting Fees:		
CTS Services, LLC		534,700
GR Partners	50,935	275,000
TPR Group, LLC	726,300	
Office rent paid to Chesapeake Tower Systems, Inc.	120,668	190,727
Equipment rent paid to GR Partners	55,550	33,066

Vehicle repairs to Automotive Technologies, Inc.	17,796	26,165
Accounts receivable/(payable):		
CTS Services, LLC	4,275	4,669
CSI Engineering, Inc.	228,859	854,455
S3 Integration, LLC	150	9,381
TPR Group		532
Chesapeake Tower Systems, Inc.	6,239	94
CTS Services, LLC	(669,269)	(275,553)
Chesapeake Tower Systems, Inc.	(39,003)	(469,418)
Telco P&C, LLC	(12,412)	(4,174)
GR Partners	(2,801)	(14,785)
CSI Engineering, Inc.	(81,299)	(8,795)
LH Cranston & Sons, Inc.	(78,867)	(615,622)
TPR Group, LLC		

VORTECH, LLC AND VTC, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 9. Major Customer

The Company earned approximately 66% of its revenue under several different contracts and locations from one major customer for the six months ended September 30, 2006. Accounts receivable from this customer was $7,117,404 at September 30, 2006.

Note 10. Litigation

From time to time, the Company has certain pending claims and legal proceedings that generally involve contract claims and disputes. These proceedings are, in the opinion of management, ordinary routine matters incidental to the construction business. In the opinion of management, the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company s financial position, results of operations or cash flows.

Note 11. Discontinued Operations

Effective September 1, 2005 VTC, LLC transferred all the assets of the S3 Integration division (Division) of the Company to a separate LLC, S3 Integration, LLC (S3I), as part of the transaction S3I assumed all the liabilities of the division and entered into a term loan agreement with VTC, LLC.

The following results of the Company have been presented as gain from discontinued operations in the accompanying statements of income for the nine months ended September 30, 2005:

		(Unaudited)
Earned Revenues	$	1,525,897
Costs and Expenses		(1,832,007)
Operating (loss)		(306,110)
Gain on Transfer of the Division		558,955
Gain from discontinued operations	$	252,845

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Fortress America Acquisition Corporation

We have audited the accompanying balance sheet of Fortress America Acquisition Corporation (a corporation in the development stage) as of December 31, 2005 and the related statements of operations, stockholders equity and cash flows for the year ended December 31, 2005, the period from December 20, 2004 (inception) to December 31, 2004, and the cumulative period from December 20, 2004 (inception) to December 31, 2005. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fortress America Acquisition Corporation as of December 31, 2005, and the results of its operations and its cash flows for the year ended December 31, 2005, the period from December 20, 2004 (inception) to December 31, 2004 and the cumulative period from December 20, 2004 (inception) to December 31, 2005 in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Fortress America Acquisition Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, the Company may face a mandatory liquidation by July 20, 2006 if a business combination is not consummated, unless certain extension criteria are met, which raises substantial doubt its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

GOLDSTEIN GOLUB KESSLER LLP

New York, New York
March 27, 2006

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

BALANCE SHEET

		December 31, 2005
ASSETS		
Current assets:		
Cash	$	992,547
Investments held in Trust Fund		42,603,801
Prepaid expenses		50,165
Total current assets		43,646,513
Deferred tax asset		132,000
Total assets	$	43,778,513
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$	105,308
Income taxes payable		206,194
Deferred interest on investments		127,904
Total current liabilities		439,406
Common stock, subject to possible conversion, 1,559,220 shares at conversion value		8,388,604
Commitment		
Stockholders equity		
Preferred stock, $.0001 par value, Authorized 1,000,000 shares; none issued		
Common stock, $.0001 par value		
Authorized 50,000,000 shares. Issued and outstanding 9,550,000 shares (which includes 1,559,220 subject to possible conversion)		955
Additional paid-in capital		34,819,062
Income (deficit) accumulated during the development stage		130,486
Total stockholders equity		34,950,503
Total liabilities and stockholders equity	$	43,778,513

The accompanying notes should be read in conjunction with the financial statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2005	For the Period December 20, 2004 (inception) to December 31, 2004	For the Period December 20, 2004 (inception) to December 31, 2005
Income:			
Net interest income	$ 525,430	$	$ 525,430
Total income	525,430		525,430
Expenses:			
Formation and operating costs	319,694	1,056	320,750
Net income (loss) for the period before income taxes	205,736	(1,056)	204,680
State and federal income taxes	74,194		74,194
Net income (loss) for the period	$ 131,542	$ (1,056)	$ 130,486
Weighted average number of shares outstanding basic and diluted	5,107,534	1,250,000	4,984,748
Net income (loss) per share basic and diluted	$ .03	$ (.00)	$ .03

The accompanying notes should be read in conjunction with the financial statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

STATEMENT OF STOCKHOLDERS EQUITY
For the period from December 20, 2004 (inception) to December 31, 2005

	Common Stock		Addition Paid-in Capital	Income (Deficit) Accumulated During the Development Stage	Total Stockholders Equity
	Shares	Amount			
Common shares issued December 20, 2004 at $.02 per share	1,250,000	$ 125	$ 24,875		$ 25,000
Net loss for the period				$ (1,056)	(1,056)
Balance at December 31, 2004	1,250,000	125	24,875	(1,056)	23,944
Redemption of common stock	(1,250,000)	(125)	(24,875)		(25,000)
Common shares issued March 9, 2005 at $0.01429 per share	1,750,000	175	24,825		25,000
Common shares issued July 20, 2005, net of underwriters discount and offering expenses (includes 1,399,300 shares subject to possible conversion)	7,000,000	700	38,687,329		38,688,029
Common shares issued August 24, 2005, net of underwriters discount and offering expenses (includes 159,920 shares subject to possible conversion)	800,000	80	4,495,412		4,495,492
Proceeds subject to possible conversion of 1,559,220 shares			(8,388,604)		(8,388,604)
Proceeds from issuance of option			100		100

Net income for the period				131,542	131,452
Balance at December 31, 2005	9,550,000	$ 955	$ 34,819,062	$ 130,486	$ 34,950,503

The accompanying notes should be read in conjunction with the financial statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 2005	For the period December 20, 2004 (inception) to December 31, 2004	For the period December 20, 2004 (inception) to December 31, 2005
Cash flow from operating activities			
Net income (loss)	$ 131,542	$ (1,056)	130,486
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Deferred income taxes	(132,000)		(132,000)
Interest income on treasury bills	(639,801)		(639,801)
Increase in prepaid expenses	(50,165)		(50,165)
Increase in accounts payable and accrued expenses	104,252	1,056	105,308
Increase in income taxes payable	206,194		206,194
Increase in deferred interest	127,904		127,904
Net cash used in operating activities	(252,074)		(252,074)
Cash flows from investing activities			
Investments placed in Trust Fund	(41,964,000)		(41,964,000)
Net cash used in investing activities	(41,964,000)		(41,964,000)
Cash flows from financing activities			
Gross proceeds of public offering, including over-allotment option exercise	46,800,000		46,800,000
Proceeds of issuance of option	100		100
Proceeds of notes payable, stockholders	57,500	12,500	70,000
Payment of notes payable, stockholders	(70,000)		(70,000)
Proceeds from sales of shares of common stock	25,000	25,000	50,000
Redemption of common stock	(25,000)		(25,000)
Payment of costs of public offering, including over-allotment option exercise	(3,603,979)	(12,500)	(3,616,479)
Net cash provided by financing activities	43,183,621	25,000	43,208,621
Net increase in cash	967,547	25,000	992,547
Cash at beginning of the period	25,000	0	

Cash at the end of the period	$	992,547	25,000	$ 992,547

The accompanying notes should be read in conjunction with the financial statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Proposed Business Operations

Fortress America Acquisition Corporation (the Company) was incorporated in Delaware on December 20, 2004 as a blank check company, the objective of which is to acquire one or more operating businesses in the homeland security industry.

The Company was formed on December 20, 2004 and consummated an initial public offering (IPO) on July 20, 2005. In addition, on August 24, 2005 the underwriters for the IPO exercised their over-allotment option (the Over-Allotment Option Exercise and, together with the IPO, the Offering), generating total net proceeds of $43,183,521. The Company s management has broad discretion with respect to the specific application of the net proceeds of this Offering, although substantially all the net proceeds of this Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) one or more operating businesses in the homeland security industry (Business Combination). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. Upon the closing of the Offering, approximately $41,964,000 of the net proceeds was deposited in a trust fund account (Trust Fund) and has been invested in Treasury Bills until the earlier of (i) the consummation of its first Business Combination; or (ii) the liquidation of the Company. The Treasury Bills have been accounted for as trading securities and are recorded at their market value of approximately $42,603,801 at December 31, 2005. The excess of market value over cost, exclusive of the deferred interest described further below, is included in interest income in the accompanying statement of operations. The remaining proceeds may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. All of the Company stockholders prior to the Offering, including all of the officers and directors of the Company (Initial Stockholders), have agreed to vote their 1,750,000 founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company (Public Stockholders) with respect to any Business Combination. After consummation of the Company s first Business Combination, all of these voting safeguards will no longer be applicable.

In the event (i) the Business Combination is not approved by a majority of the shares of common stock held by the Public Stockholders or (ii) 20% or more of the shares of common stock held by the Public Stockholders vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated.

With respect to the first Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his or her shares. The per share conversion price will equal the amount in the Trust Fund, calculated as of two business days prior to the proposed Business Combination, divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding approximately 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Fund computed without regard to the shares held by the Initial Stockholders. Accordingly, a portion of the net proceeds of the Offering (19.99% of the amount originally held in the Trust Fund) has been classified as common stock subject to possible conversion in the accompanying December 31, 2005 balance sheet and 19.99% of the related interest earned has been recorded as deferred interest.

The Company s Certificate of Incorporation, as amended, provides for the mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination within 12 months from the date of the

consummation of the Offering, or 18 months from the consummation of the Offering if certain extension criteria have been satisfied. There is no assurance that the Company will be able to successfully effect a Business Combination during this period. This factor raises substantial doubt about the Company s ability to continue as a going concern. The accompanying financial statements are prepared assuming the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Fund assets) will be less than the initial public offering price per share in the Offering.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Proposed Business Operations (continued)

The Company maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts.

Deferred income taxes are provided for the differences between the bases of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Basic income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share gives effect to dilutive options, warrants and other potential common stock outstanding during the period. Potential common stock (consisting of 15,600,000 warrants included in the units issued in the initial public offering and 700,000 units issued to the underwriters as described in Note 4) has not been included in the computations for all periods as the effect would be antidilutive.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), Share Based Payment . SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company is required to adopt SFAS 123(R) effective January 1, 2006. The Company does not believe that the adoption of SFAS No. 123(R) will have a significant impact on its financial condition or results of operations.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

2. Notes Payable Stockholders

The Company had unsecured promissory notes to the Initial Stockholders, who are officers and directors of the Company, of $12,500 at December 31, 2004. The loans were non-interest bearing and were payable the earlier of March 9, 2006 or the consummation of the Offering. Due to the short-term nature of the notes, the fair value of the notes approximated its carrying amount. The notes were paid in full subsequent to the consummation of the Offering.

3. Commitment

Commencing January 1, 2005, the Company occupied office space from, and had certain office and secretarial services made available to it by, an unaffiliated third party. Rent expense under this agreement for each of the periods from December 20, 2004 (inception) to December 31, 2005 and for the year ended December 31, 2005 was $1,362. The rental agreement expired June 30, 2005.

Commencing on the consummation of the Offering, the Company occupies office space provided by an affiliate of an Initial Stockholder. Such affiliate has agreed that, until the acquisition or a target business by the Company, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be

required by the Company from time to time. The Company has agreed to pay such affiliate $7,500 per month for such services. Rent expense under this agreement amounted to $37,500 during the periods ended December 31, 2005.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO FINANCIAL STATEMENTS

4. Initial Public Offering

On July 20, 2005, the Company sold 7,000,000 units (Units) in the IPO. On August 24, 2005 the Company sold an additional 800,000 Units pursuant to the Over-Allotment Option Exercise. Each Unit consists of one share of the. Company s common stock, $0.0001 par value, and two Redeemable Common Stock Purchase Warrants (Warrants). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of $5.00 (which such Warrant may be exercised on a cashless basis) commencing the later of (a) one year from the effective date of the IPO; or (b) the completion of a Business Combination with a target business and expiring four years from the date of the prospectus (unless earlier redeemed). The Warrant will be redeemable, upon written consent of the representative of the underwriters, at a price of $0.01 per Warrant upon 30 days notice after the Warrant becomes exercisable, only in the event that (a) the last sales price of the common stock is at least $8.50 per share for any 20 trading days within a 30-trading-day period ending on the third day prior to date on which notice of redemption is given and (b) the weekly trading volume of our common stock has been at least 200,000 shares for each of the 2 calendar weeks before the Company sends the notice of redemption.

In addition, the Company sold to Sunrise Securities Corporation, for $100, an option to purchase up to a total of 700,000 units. The units issuable upon exercise of this option are identical to those offered in the Offering, except that each of the warrants underlying this option entitles the holder to purchase one share of our common stock at a price of $6,25. This option is exercisable at $7.50 per unit commencing on the later of the consummation of a business combination and one year from the date of the prospectus and expiring five years from the date of the prospectus. In lieu of exercise, the option maybe converted into units (i.e., a cashless exercise) to the extent that the market value of the units at the time of conversion exceeds the exercise price of the option. The option may only be exercised or converted by the option holder.

The sale of the option is accounted for as an equity transaction. Accordingly, there is no net impact on the Company s financial position or results of operations, except for the recording of the $100 proceeds from the sale. The Company determined, based upon a Black-Scholes model, that the fair value of the option on the date of sale was approximately $3.075 per unit, or $2,152,500 total, using an expected life of four years, volatility of 75.19% and a risk-free interest rate of 3.922%.

The volatility calculation of 75.19% is based upon the 365-day average volatility of a representative sample of seven (7) companies with market capitalizations under $250 million that management believes could be considered to be engaged in a business in the homeland security industry (the Sample Companies). Because the Company does not have a trading history, the Company needed to estimate the potential volatility of its common stock price, which will depend on a number of factors which cannot be ascertained at this time. The Company referred to the 365-day average volatility of the Sample Companies because management believes that the average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of the Company s common stock post-business combination. Although an expected life of four years was taken into account for purposes of assigning a fair value to the option, if the Company does not consummate a business combination within the prescribed time period and liquidates, the option would become worthless.

Although the purchase option and its underlying securities have been registered, the purchase option grants to holders demand and piggyback rights for periods of five and seven years, respectively, from the date of the prospectus with respect to the registration under the Securities Act of 1933 of the securities directly and indirectly issuable upon exercise of the purchase option. The Company will bear all fees and expenses attendant to registering the securities, other than underwriting commissions which will be paid for by the holders themselves. The exercise price and number

of units issuable upon exercise of the purchase option may be adjusted in certain circumstances including in the event of a stock dividend, or the Company s recapitalization, reorganization, merger or consolidation. However, the purchase option will not be adjusted for issuances of common stock at a price below its exercise price.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO FINANCIAL STATEMENTS

5. Common Stock

On December 20, 2004, the Company issued 1,250,000 shares of Common Stock. On March 8, 2005, the Company authorized the redemption of the 1,250,000 shares of common stock at the original subscription price. On March 9, 2005, the Company issued 1,750,000 shares of common stock to the original stockholders along with new stockholders (in the aggregate, these stockholders are the Initial Stockholders).

At August 24, 2005, 17,700,000 shares of Common Stock were reserved for issuance upon exercise of redeemable warrants and underwriters unit purchase option.

6. Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

7. Income Taxes

The provision for income taxes consists of the following:

	For the Period Ended December 31,	
	2005	**2004**
Current:		
Federal	$ 202,163	$
State	4,031	
Deferred:		
Federal	(132,000)	
	$ 74,194	$

The total provision for income taxes differs from that amount which would be computed by applying the U.S. federal income tax rate to income before provision for income taxes due to the following:

	For the Period Ended December 31,	
	2005	**2004**
Federal statutory rate	34 %	(34)%
State tax, net of income tax benefit	2	
	36	(34)
Valuation allowance		34

36 %

The tax effect of temporary differences that give rise to the net deferred tax asset is as follows:

	December 31, 2005
Interest income deferred for reporting purposes	43,000
Expenses deferred for income tax purposes	89,000
Subtotal	132,000
Valuation allowance	
Net deferred tax asset	$ 132,000

FORTRESS AMERICA ACQUISITION CORPORATION

FINANCIAL REPORT
September 30, 2006
(unaudited)

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

CONDENSED BALANCE SHEET

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 74,854	$ 992,547
Investments held in Trust Fund	44,112,431	42,603,801
Prepaid expenses		50,165
Total current assets	44,187,285	43,646,513
Deferred acquisition costs	508,592	
Deferred tax asset	364,936	132,000
Total assets	$ 45,060,813	$ 43,778,513
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 374,469	$ 105,308
Income taxes payable	396,604	206,194
Deferred interest on investments	429,479	127,904
Total current liabilities	1,200,552	439,406
Common stock, subject to possible conversion, 1,559,220 shares at conversion value	8,388,604	8,388,604
Commitment		
Stockholders equity		
Preferred stock, $.0001 par value, Authorized 1,000,000 shares; none issued		
Common stock, $.0001 par value		
Authorized 50,000,000 shares		
Issued and outstanding 9,550,000 shares (which includes 1,559,220 subject to possible conversion) and 1,250,000 shares respectively	955	955
Additional paid-in capital	34,819,062	34,819,062
Income accumulated during the development stage	651,640	130,486
Total stockholders equity	35,471,657	34,950,503
Total liabilities and stockholders equity	$ 45,060,813	$ 43,778,513

See Notes to Unaudited Condensed Financial Statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

CONDENSED STATEMENT OF OPERATIONS

	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005	For the Period December 20, 2004 (inception) to September 30, 2006
			(unaudited)		
Income:					
Net interest income	$ 444,941	$ 1,217,406	$ 213,897	$ 213,897	$ 1,742,836
Total income	444,941	1,217,406	213,897	213,897	1,742,836
Expenses:					
Formation and operating costs	129,823	427,778	133,219	134,865	748,528
Net income for the period before income taxes	315,118	789,628	80,678	79,032	994,308
State and federal income taxes	107,140	268,474	31,613	31,613	342,668
Net income for the period	$ 207,978	$ 521,154	$ 49,065	$ 47,419	$ 651,640
Weighted average number of shares outstanding basic and diluted	9,550,000	9,550,000	7,634,783	3,610,440	6,910,863
Net income per share basic and diluted	$ ..02	$ ..05	$ ..01	$ ..01	$ ..08

See Notes to Unaudited Condensed Financial Statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

CONDENSED STATEMENT OF STOCKHOLDERS EQUITY
For the period from December 20, 2004 (inception) to September 30, 2006

	Common Stock		Additional Paid-In	Income (deficit) Accumulated During the Development	
	Shares	Amount	Capital	Stage	Total
Common shares issued December 20, 2004 at $.02 per share	1,250,000	$ 125	$ 24,875		$ 25,000
Net Loss				$ (1,056)	(1,056)
Balance at December 31, 2004	1,250,000	125	24,875	(1,056)	23,944
Redemption of common stock	(1,250,000)	(125)	(24,875)		(25,000)
Common shares issued March 9, 2005 at $0.01429 per share	1,750,000	175	24,825		25,000
Common shares issued July 20, 2005, net of underwriters discount and offering expenses (includes 1,399,300 shares subject to possible conversion)	7,000,000	700	38,687,329		38,688,029
Common shares issued August 24, 2005, net of underwriters discount and offering expenses (includes 159,920 shares subject to possible conversion)	800,000	80	4,495,412		4,495,492
Proceeds subject to possible conversion of 1,559,220 shares			(8,388,604)		(8,388,604)
Proceeds from issuance of option			100		100
Net Income				131,542	131,542

Balance at December 31, 2005	9,550,000	955	34,819,062	130,486	34,950,503
Unaudited:					
Net income				521,154	521,154
Balance at September 30, 2006	9,550,000	$ 955	$ 34,819,062	$ 651,640	$ 35,471,657

See Notes to Unaudited Condensed Financial Statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

CONDENSED STATEMENT OF CASH FLOWS

	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005 (unaudited)	For the Period December 20, 2004 (inception) to September 30, 2006
Cash flow from operating activities			
Net income	$ 521,154	$ 47,419	$ 651,640
Adjustments to reconcile net income to net cash used in operating activities:			
Deferred income taxes	(232,936)		(364,936)
Interest income on treasury bills	(1,508,630)	(259,569)	(2,148,431)
Decrease (Increase) in prepaid expenses	50,165	(54,166)	
(Decrease) Increase in accounts payable and accrued expenses	(19,227)	60,687	86,081
Increase in income taxes payable	190,410	31,613	396,604
Increase in deferred interest	301,575	51,896	429,479
Net cash used in operating activities	(697,489)	(122,120)	(949,563)
Cash flows from investing activities			
Payment of deferred acquisition costs	(220,204)		(220,204)
Investments placed in Trust Fund		(41,964,000)	(41,964,000)
Net cash used in investing activities	(220,204)	(41,964,000)	(42,184,204)
Cash flows from financing activities			
Gross proceeds of public offering, including over-allotment option exercise		46,800,000	46,800,000
Proceeds of issuance of option		100	100
Proceeds from notes payable, stockholders		57,500	70,000
Payment of notes payable, stockholders		(70,000)	(70,000)
Proceeds from sale of shares of common stock		25,000	50,000
Redemption of common stock		(25,000)	(25,000)
Payment of costs of public offering, including over-allotment option exercise		(3,596,979)	(3,616,479)
Advances from stockholder		10,600	
Net cash provided by financing activities		43,201,221	43,208,621

Net (decrease) increase in cash	(917,693)	1,115,101	74,854
Cash at beginning of the period	992,547	25,000	
Cash at the end of the period	$ 74,854	$ 1,140,101	$ 74,854
Non cash investing activity:			
Accrual of acquisition costs	288,388		288,388
Non cash financing activity:			
Accrual of costs of public offering		12,000	

See Notes to Unaudited Condensed Financial Statements.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization and Proposed Business Operations

Fortress America Acquisition Corporation (the Company) was incorporated in Delaware on December 20, 2004 as a blank check company, the objective of which is to acquire one or more operating businesses in the homeland security industry. The Company has elected December 31 as its fiscal year-end.

The financial statements at September 30, 2006 and for the periods from inception to September 30, 2006 and the three and nine month periods ended September 30, 2006 are unaudited. In the opinion of management, all adjustments (consisting of normal adjustments) have been made that are necessary to present fairly the financial position of the Company as of September 30, 2006, the results of its operations for the three and nine month periods ended September 30, 2006 and 2005 and for the period from December 20, 2004 (inception) through September 30, 2006, and its cash flows for the nine month period ended September 30, 2006 and for the period from December 20, 2004 (inception) through September 30, 2006. Operating results for the interim period presented are not necessarily indicative of the results to be expected for a full year. The condensed balance sheet at December 31, 2005 has been derived from the audited financial statements.

The Company was formed on December 20, 2004 and consummated an initial public offering (IPO) on July 20, 2005. In addition, on August 24, 2005 the underwriters for the IPO exercised their over-allotment option (the Over-Allotment Option Exercise and, together with the IPO, the Offering). The Offering generated total net proceeds of $43,183,521. The Company s management has broad discretion with respect to the specific application of the net proceeds of the Offering, although substantially all the net proceeds of the Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) one or more operating businesses in the homeland security industry (Business Combination). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. Upon the closing of the Offering, approximately $41,964,000 of the net proceeds was deposited in a trust fund account (Trust Fund) and has been invested in Treasury Bills until the earlier of (i) the consummation of its first Business Combination; or (ii) the liquidation of the Company. The Treasury Bills have been accounted for as trading securities and are recorded at their market value of approximately $44,112,431 at September 30, 2006. The excess of market value over cost, exclusive of the deferred interest described further below, is included in interest income in the accompanying statement of operations. The proceeds not deposited into the Trust Fund may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. All of the Company stockholders prior to the Offering, including all of the officers and directors of the Company (Initial Stockholders), have agreed to vote their 1,750,000 founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company (Public Stockholders) with respect to any Business Combination. After consummation of the Company s first Business Combination, all of these voting safeguards will no longer be applicable.

In the event (i) the Business Combination is not approved by a majority of the shares of common stock held by the Public Stockholders or (ii) 20% or more of the shares of common stock held by the Public Stockholders vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated.

With respect to the first Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his or her shares into cash. The per share conversion price will equal the amount in the Trust Fund, calculated as of two business days prior to the

proposed Business Combination, divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding approximately 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Fund computed without regard to the shares held by the Initial Stockholders. Accordingly, a portion of the net proceeds of the Offering (19.99% of the amount originally held in the Trust Fund) has been classified as common stock subject to possible conversion in the accompanying balance sheets and 19.99% of the related interest earned has been recorded as deferred interest.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization and Proposed Business Operations (continued)

The Company s Amended and Restated Certificate of Incorporation provides for the mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination within 12 months from the date of the consummation of the Offering, or 18 months from the consummation of the Offering if certain extension criteria have been satisfied. There is no assurance that the Company will be able to successfully effect a Business Combination during this period. This factor raises substantial doubt about the Company s ability to continue as a going concern. The accompanying financial statements are prepared assuming the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Fund assets) will be less than the initial public offering price per share in the Offering.

On July 20, 2005, the Company sold 7,000,000 units (Units) in the IPO. On August 24, 2005 the Company sold an additional 800,000 Units pursuant to the Over-Allotment Option Exercise. Each Unit consists of one share of the Company s common stock, $0.0001 par value, and two Redeemable Common Stock Purchase Warrants (Warrants). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of $5.00 (which such Warrant may be exercised on a cashless basis) commencing the later of (a) one year from the effective date of the IPO or (b) the completion of a Business Combination with a target business and expiring July 11, 2009 (unless earlier redeemed). The Warrant will be redeemable, upon written consent of the representative of the underwriters, at a price of $0.01 per Warrant upon 30 days notice after the Warrant becomes exercisable, only in the event that (a) the last sales price of the common stock is at least $8.50 per share for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given and (b) the weekly trading volume of our common stock has been at least 200,000 shares for each of the two calendar weeks before the Company sends the notice of redemption.

Under the terms of the Warrants, the Company is required to use its best efforts to maintain the effectiveness of the registration statement covering the Warrants. The Company will not be obligated to deliver securities, and there are no contractual penalties for failure to deliver securities, if a registration statement is not effective at the time of exercise. Additionally, in the event that a registration is not effective at the time of exercise, the holder of such Warrant shall not be entitled to exercise such Warrant and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the warrant exercise. Consequently, the Warrants may expire unexercised and unredeemed if there is no effective registration statement covering the shares of the Company s common stock issuable upon exercise of the Warrants.

In addition, the Company sold to Sunrise Securities Corporation, for $100, an option to purchase up to a total of 700,000 units. The units issuable upon exercise of this purchase option are identical to those offered in the Offering, except that each of the warrants underlying this purchase option entitles the holder to purchase one share of our common stock at a price of $6.25. This purchase option is exercisable at $7.50 per unit commencing on the later of the consummation of a business combination and one year from the date of the prospectus and expiring five years from the date of the prospectus.

The holder of the unit purchase option will not be entitled to exercise the unit purchase option or the Warrants underlying the unit purchase option unless a registration statement covering the securities underlying the unit purchase option is effective or an exemption from registration is available. Accordingly, the option and underlying Warrants may expire unexercised and unredeemed if there is no effective registration statement covering the securities issuable

upon exercise. In addition, there are no circumstances under which the Company will be required to net cash settle the purchase option or the underlying Warrants.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization and Proposed Business Operations (continued)

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), Share Based Payment . SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company is required to adopt SFAS 123(R) effective January 1, 2006. The Company does not believe that the adoption of SFAS No. 123(R) will have a significant impact on its financial condition or results of operations.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing this new standard to determine the effects, if any, on its results of operations or financial position.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

2. Commitment

Commencing January 1, 2005, the Company occupied office space from, and had certain office and secretarial services made available to it by, an unaffiliated third party. Rent expense under this agreement for each of the periods from December 20, 2004 (inception) to September 30, 2006 and from January 1, 2006 to September 30, 2006 amounted to $1,362 and $0, respectively. The rental agreement expired June 30, 2005.

Commencing on the consummation of the Offering, the Company occupies office space provided by an affiliate of an Initial Stockholder. Such affiliate has agreed that, until the acquisition or a target business by the Company, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such affiliate $7,500 per month for such services. Rent expense under this agreement for each of the periods from December 20, 2004 (inception) to September 30, 2006 and from January 1, 2006 to September 30, 2006 amounted to $105,000 and $67,500, respectively.

3. Proposed Acquisition

On June 5, 2006, Fortress America Acquisition Corporation (FAAC) entered into a Membership Interest Purchase Agreement (the Purchase Agreement) with VTC, L.L.C. (VTC), Vortech, LLC (together with VTC, the Acquisition Companies), Thomas P. Rosato (Rosato) and Gerard J. Gallagher (together with Rosato, the Members), pursuant to which FAAC will acquire (the Acquisition) all of the issued and outstanding membership units of the Acquisition Companies from the Members.

FORTRESS AMERICA ACQUISITION CORPORATION
(a corporation in the development stage)

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

3. Proposed Acquisition (continued)

On June 26, 2006, (FAAC) and the other parties to the Purchase Agreement entered into an Amended and Restated Membership Interest Purchase Agreement, pursuant to which the cash portion of the initial purchase consideration was reduced from $19.0 million to $11.0 million, the portion the initial purchase consideration consisting of convertible promissory notes was increased from $8.0 million to $10.0 million and the portion of the initial purchase consideration consisting of FAAC common stock was increased from approximately $11.5 million to approximately $17.5 million (subject, in both cases, to a dollar for dollar reduction for assumed debt up to a maximum of $161,000). As a result of the increase in value of the initial purchase consideration consisting of FAAC common stock, the maximum number of shares of FAAC common stock issuable at closing has increased from 2,107,385 to 3,205,128. The aggregate initial purchase consideration, before adjustments for assumption of debt and working capital adjustments, remained unchanged at $38.5 million. Through September 30, 2006, the Company incurred $508,592 of costs in connection with the acquisition which have been recorded as deferred acquisition costs on the accompanying September 30, 2006 balance sheet.

4. Common Stock

On December 20, 2004, the Company issued 1,250,000 shares of common stock. On March 8, 2005, the Company authorized the redemption of the 1,250,000 shares of common stock at the original subscription price. On March 9, 2005, the Company issued 1,750,000 shares of common stock to the original stockholders along with new stockholders (in the aggregate, these stockholders are the Initial Stockholders).

On July 20, 2005, the Company issued 7,000,000 shares of Common Stock in connection with the IPO. On August 24, 2005, the Company issued 800,000 share of Common Stock pursuant to the Over-Allotment Option Exercise.

5. Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

Annex A

SECOND AMENDED AND RESTATED

MEMBERSHIP INTEREST PURCHASE AGREEMENT

BY AND AMONG

FORTRESS AMERICA ACQUISITION CORPORATION,

VTC, L.L.C.,

VORTECH, LLC,

THOMAS P. ROSATO

AND

GERARD J. GALLAGHER

Effective July 31, 2006

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This Table of Contents is for convenience of reference only and is not intended to define, limit or describe the scope, intent or meaning of any provision of this Agreement.

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SECOND AMENDED AND RESTATED

MEMBERSHIP INTEREST PURCHASE AGREEMENT

SECOND AMENDED AND RESTATED MEMBERSHIP INTEREST PURCHASE AGREEMENT (*Agreement*), dated July 31, 2006 (the *Effective Date*), by and among (i) Fortress America Acquisition Corporation, a Delaware corporation (*FAAC*); (ii) VTC, L.L.C., a Maryland limited liability company (*VTC*); (iii) Vortech, LLC, a Maryland limited liability company (*Vortech*); Thomas P. Rosato and Gerard J. Gallagher (who together own all of the outstanding membership interests of both VTC and Vortech (each a *Member* and jointly the Members)); and (iv) Thomas P. Rosato in his capacity as the Members Representative (as defined in Section 2.6(a)).

RECITALS:

R-1. The Members are the holders and owners of all of the issued and outstanding Equity Interests (as hereinafter defined) of each VTC and Vortech (the *Membership Interests*).

R-2. By the terms of a Membership Interest Purchase Agreement dated June 5, 2006, as amended by an Amended and Restated Membership Interest Purchase Agreement dated June 26, 2006 (jointly the *Existing Agreement*), FAAC agreed to purchase from the Members and the Members agreed to sell to FAAC the Membership Interests for certain consideration described therein.

R-3. Under the terms of the Existing Agreement: (i) pursuant to Section 2.2(d)(iv) of the Existing Agreement, 500,000 of the FAAC common shares payable to each of the Members are to be held in a Lock Up Escrow Agreement and subject to forfeiture if employment of the applicable member is terminated for various reasons prior to July 13, 2008; and (ii) pursuant to Section 2.2(e) of the Existing Agreement each of the Members is entitled to certain Earn Out Consideration as more particularly described therein.

R-4. FAAC and the Members have agreed to modify the Existing Purchase Agreement (i) to delete Section 2.2(d)(iv) of the Existing Agreement in its entirety; (ii) to delete Section 2.2(e) of the Existing agreement in its and entirety (and to amend the Employment Agreements of each of the Members to incorporate the right to FAAC common shares in the event certain price thresholds are met); and (iii) to make certain other modifications.

R-5. The parties hereto wish to amend and restate the Existing Purchase Agreement to reflect the deletion of Sections 2.2(d)(iv) and 2.2(e).

R-6. On or before the Effective Date and the Closing Date (as hereinafter defined), FAAC intends to change its name to Fortress International Group, Inc.

NOW THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the parties hereby amend and restate the Initial Purchase Agreement in its entirety:

ARTICLE I

Definitions and Rules of Construction

1.1 *Definitions*.

As used in this Agreement, the following terms shall have the meanings as set forth below:

Acquired Business means the collective operations and business activities of the Companies as conducted and existing as of the Closing Date.

Acquisition Agreement has the meaning set forth in Section 2.2(d).

Acquisition Proposal has the meaning set forth in Section 5.9(a).

Active has the meaning set forth in Section 3.18(a).

Adjusted Closing Net Working Capital has the meaning set forth in Section 2.4(b).

Affiliate means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, control of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

Agreement has the meaning set forth in the Preamble.

Acquisition Agreement has the meaning set forth in Section 2.2(d).

Acquisition Proposal has the meaning set forth in Section 5.8.

Assumed Debt has the meaning set forth in Section 2.2(c).

Audited Financial Statements means collectively the audited consolidated balance sheets and statements of income, changes in shareholders equity, and cash flow together with accompanying notes of the Companies as of December 31, 2003 and December 31, 2004 together with the December 31, 2005 Financial Statements.

Auditor has the meaning set forth in Section 2.5.

Average Share Value shall mean Five and 46/100 Dollars ($5.46) per share which the undersigned agree was the average closing price of a share of FAAC common stock on the Nasdaq OTC market for the twenty (20) consecutive trading days prior to public announcement by FAAC of the contemplated purchase of the Membership Interests pursuant to this Agreement (June 5, 2006).

Balance Sheet Escrow Account has the meaning set forth in Section 2.3.

Balance Sheet Escrow Agreement has the meaning set forth in Section 2.3.

Balance Sheet Escrow Property has the meaning set forth in Section 2.3.

Balance Sheet Escrow Shares has the meaning set forth in Section 2.3.

Base Net Working Capital Amount means One Million Dollars ($1,000,000).

Benefit Arrangement has the meaning set forth in Section 3.28(a).

Bid has the meaning set forth in Section 3.18(a).

Bonus Pool has the meaning set forth in Section 3.26(b).

Business Day shall mean any day other than a Saturday, Sunday, or any Federal holiday. If any period expires on a day that is not a Business Day or any event or condition is required by the terms of this Agreement to occur or be fulfilled on a day that is not a Business Day, such period shall expire or such event or condition shall occur or be fulfilled, as the case may be, on the next succeeding Business Day.

Cash Consideration has the meaning set forth in Section 2.4.

Claimant has the meaning set forth in Section 11.11(a).

Claims means jointly all Third-Party Claims and Direct Claims.

Closing has the meaning set forth in Section 2.1.

Closing Balance Sheet has the meaning set forth in Section 2.4(d).

Closing Date has the meaning set forth in Section 2.1.

Closing Net Working Capital has the meaning set forth in Section 2.4(b).

COC has the meaning set forth in Section 3.18(m).

Code means the Internal Revenue Code of 1986, as amended from time to time, or corresponding provisions of subsequent superseding federal revenue Laws.

Commercial Software means commercially available Software licensed pursuant to a standard license agreement with a value of more than $1,000 and excluding any software, as to which a license is implied by sale of a product.

Companies means Vortech and VTC together and Company refers to either of them.

Companies Information has the meaning set forth in Section 5.17.

Company Subcontract has the meaning set forth in Section 3.18(a).

Confidentiality Agreement has the meaning set forth in Section 5.2.

Consultant means all persons who (i) are or have been engaged as consultants by either of the Companies or (ii) otherwise provide services to either of the Companies under a contractual arrangement.

Contemplated Transactions means the transactions contemplated by this Agreement and the other Transaction Documents.

Continuing Related Party Transactions has the meaning set forth in Section 3.6.

Convertible Promissory Note and *Convertible Promissory Notes* have the meanings set forth in Section 2.2(b).

Copyrights means all United States and foreign copyright registrations and applications therefor.

Damages has the meaning set forth in Section 2.6(b).

December 2005 Balance Sheet means the audited consolidated balance sheets of the Companies as of December 31, 2005 included in the December 2005 Financial Statements.

December 2005 Financial Statements means the audited consolidated balance sheets and statements of income, changes in shareholders equity, and cash flow together with accompanying notes of the Companies as of December 31, 2005, a copy of which is included in the Financial Statements attached as Exhibit A.

Direct Claim and *Direct Claims* mean any claim or claims (other than Third Party Claims) by an Indemnified Party against an Indemnifying Party for which the Indemnified Party may seek indemnification under this Agreement.

Direct Claim Notice has the meaning set forth in Section 9.2(d).

Direct Claim Notice Period has the meaning set forth in Section 9.2(d).

Disclosure Schedules has the meaning set forth in the definition of *Schedule*.

Disclosure Schedule Update Losses means Losses that may be sustained, suffered or incurred by FAAC Indemnitees and that are related to facts and circumstances reflected in the Updated Disclosure Schedules, but not in the Disclosure Schedules dated as of the date of this Agreement.

Dispute Notice has the meaning set forth in Section 11.11(a).

D&O Indemnification Claims means actions, suits, claims trials, written demands, arbitrations, proceedings and actions relating to indemnification under or with respect to indemnification provisions in the Companies Articles of Organization or Operating Agreements (collectively, the D&O Indemnification Claims)

Effective Date has the meaning set forth in the Preamble.

Employee Bonuses has the meaning set forth in Section 3.26(b).

Employee Stock Grants and *Employee Stock Grant* have the meanings set forth in Section 2.2(g).

Entity means any general partnership, limited partnership, limited liability partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative, association, foreign trust or foreign business organization.

Environmental Laws means any and all Federal, state, local and foreign statutes, laws (including case or common law), regulations, ordinances, rules, judgments, orders, decrees, codes, injunctions, permits, concessions, grants, franchises, licenses, or agreements relating to human health, the environment or omissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, facilities, structures, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the investigation, clean-up or other remediation thereof. Without limiting the generality of the foregoing, Environmental Laws include: (a) the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq., as amended; (b) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 26 U.S.C. § 4611 and 42 U.S.C. § 9601 et seq., as amended; (c) the Superfund Amendment and Reauthorization Act of 1984, as amended; (d) the Clean Air Act, 42 U.S.C. § 7401 et seq., as amended; (e) the Clean Water Act, 33 U.S.C. 5 1251 et seq.; (f) the Safe Drinking Water Act, 42 U.S.C. § 300f et seq.; and (g) the Occupational Safety and Health Act of 1976, 29 U.S.C.A. § 651, as amended, and all rules and regulations promulgated thereunder.

Environmental Liabilities means all liabilities, whether vested or unvested, fixed or unfixed, actual or potential, that arise under or relate to Environmental Laws, as applied to the facilities and business of the Companies, including, without limitation: (i) the investigation, clean-up or remediation of contamination or environmental degradation or damage caused by or arising from the generation, use handling, treatment, storage, transportation, disposal, discharge, release or emission of Hazardous Substances; (ii) personal injury, wrongful death or property damage claims; or (iii) claims for natural resource damages.

Equity Interest of any Person means any and all shares, rights to purchase, warrants or options (whether or not currently exercisable), participations or other equivalents of or interests in (however designated) the equity (including without limitation common stock, preferred stock and limited liability company, partnership and joint venture interests) of such Person.

ERISA has the meaning set forth in Section 3.28(a).

ERISA Affiliate has the meaning set forth in Section 3.28(a).

Escrow Account and *Escrow Accounts* have the meanings referred to in Section 2.3.

Escrow Agent means and refers to SunTrust Bank.

Escrow Agreements has the meaning set forth in Section 2.3.

Escrow Deposits has the meaning set forth in Section 2.3.

Escrowed Property has the meaning set forth in Section 2.3.

Estimated Closing Balance Sheet has the meaning set forth in Section 2.4(b).

Estimated Closing Cash Purchase Price has the meaning set forth in Section 2.4(a).

Evergreen has the meaning set forth in Section 3.33.

Evergreen Agreement has the meaning set forth in Section 3.33.

Evergreen Fees has the meaning set forth in Section 5.14.

Evergreen Release has the meaning set forth in Section 5.14.

Evergreen Stock Payment has the meaning set forth in Section 5.8.

Evergreen Stock Payment Amount has the meaning set forth in Section 5.8.

Exchange Act means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

Executive Employment Agreements has the meaning set forth in Section 5.10.

Existing Purchase Agreement has the meaning set forth in Recital R-2.

FAAC refers to Fortress America Acquisition Corporation, a Delaware corporation.

FAAC Indemnitees has the meaning set forth in Section 9.2(b)(i).

FAAC Securities has the meaning set forth in Section 4.6.

Financial Statements means collectively (i) the Audited Financial Statements and (ii) the Interim Financial Statements, copies of all of which are attached hereto as Exhibit A.

Financing Statements has the meaning set forth in Section 3.15(b).

Forfeited Shares has the meaning set forth in Section 2.2(g).

Form 5500 means the Internal Revenue Service Form 5500 Annual Return/ Report of Employee Benefit Plan.

GAAP means generally accepted accounting principles as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession in the United States.

Gallagher refers to Gerard J. Gallagher.

General Indemnity Escrow means the escrow established under the General Indemnity Escrow Agreement to hold the General Indemnity Escrow Property.

General Indemnity Escrow Account has the meaning set forth in Section 2.3.

General Indemnity Escrow Agreement has the meaning set forth in Section 2.3.

General Indemnity Escrow Property has the meaning set forth in Section 2.3.

General Indemnity Escrow Shares has the meaning set forth in Section 2.3.

Governmental Authority means any nation or government, any foreign or domestic Federal, state, county, municipal or other political instrumentality or subdivision thereof and any foreign or domestic entity or body exercising executive, legislative, judicial, regulatory, administrative or taxing functions of or pertaining to government.

Government Contract has the meaning set forth in Section 3.18(a).

Government Contractor means a prime contractor or subcontractor to a contract or subcontract, at any tier, as applicable, issued by a Governmental Authority.

Government-Furnished Property has the meaning set forth in Section 3.18(n).

Government Subcontract has the meaning set forth in Section 3.18(a).

Hazardous Substances means any substance that is toxic, ignitable, reactive, corrosive, radioactive, caustic, or regulated as a hazardous substance, contaminant, toxic substance, toxic pollutant, hazardous waste, special waste, or pollutant, including, without limitation, petroleum, its derivatives, by-products and other hydrocarbons, poly-chlorinated bi-phenyls and asbestos regulated under, or that is the subject of, applicable Environmental Laws.

Indebtedness means (a) indebtedness of either of the Companies for borrowed money (including, without limitation, any pre-payment penalties and costs associated with pre-payment of such indebtedness) but excluding the Assumed Debt; (b) obligations of either of the Companies evidenced by bonds (all of which

performance bonds are shown on Schedule 1.1 of the Disclosure Schedules), notes, debentures, bankers acceptances or similar instruments; (c) obligations of either of the Companies under installment sales, conditional sale, title retention or similar agreements or arrangements creating an obligation with respect to the deferred purchase price of property or services (other than customary trade credit); (d) obligations of either of the Companies secured by a Lien on any property; and (e) guarantees by either of the Companies in respect of Indebtedness.

Indemnified Party means and refers to a party that has the right under ARTICLE IX to seek indemnification from an Indemnifying Party.

Indemnifying Party means and refers to a party that has the obligation under ARTICLE IX to indemnify an Indemnified Party.

Intellectual Property means Software and Technology.

Intellectual Property Rights means rights that exist under Laws respecting Copyrights, Patents, Trademarks and Trade Secrets.

Interim Financial Statements means the internally prepared unaudited consolidated interim balance sheets and related interim consolidated statements of operations, changes in Members equity and cash flows of the Companies for the period January 1, 2006 through March 31, 2006, a copy of which is included as part of the Financial Statements attached as Exhibit A hereto.

IRS means and refers to the Internal Revenue Service.

Key Employee Employment Agreements has the meaning set forth in Section 5.10(c).

Key Employees has the meaning set forth in Section 5.10(a).

Knowledge of the Companies means the actual knowledge of each of Rosato and Gallagher.

Knowledge of FAAC means the actual knowledge of Harvey L. Weiss or C. Thomas McMillen.

Laws means (a) all constitutions, treaties, laws, statutes, codes, regulations, ordinances, orders, decrees, rules, or other requirements with similar effect of any Governmental Authority, (b) all judgments, orders, writs, injunctions, decisions, rulings, decrees and awards of any Governmental Authority, and (c) all provisions of the foregoing, in each case binding on or affecting the Person referred to in the context in which such word is used; Law means any one of them and the words Laws and Law include Environmental Laws.

Lien means any lien, statutory or otherwise, security interest, mortgage, deed of trust, priority, pledge, charge, conditional sale, title retention agreement, financing lease or other encumbrance or similar right of others, or any agreement to give any of the foregoing.

Lock Up Agreement has the meaning set forth in Section 2.2(d)(iv).

Lock Up Termination Date means July 13, 2008.

Losses has the meaning set forth in Section 9.2(a)(i).

Material Adverse Effect means any change, event or effect that is, or would reasonably be expected to be, materially adverse to (i) the business, assets (whether tangible or intangible), liabilities, financial condition, operations, results of operations or prospects of the Companies, or (ii) the Companies ability to consummate the transactions contemplated

by this Agreement, except, in each case, any change, event or effect directly resulting from (A) decreases in working capital substantially consistent with the Companies internal projections; (B) any adverse conditions, occurring after the date hereof, affecting the Companies industries as a whole or the U.S. or world economies as a whole, that do not disproportionately affect the Companies; or (C) taking any action required by this Agreement.

Material Negotiations has the meaning set forth in Section 5.9(b).

Members and *Member* have the meanings referred to in the Preamble.

Members Indemnitees has the meaning set forth in Section 9.2(a).

Membership Interests means all of the issued and outstanding Equity Interests of the Companies, all of which are owned by the Members.

Members Proportionate Interests means each of the Members proportionate interest relative to the other Members, as determined by the number of Membership Interests held by each Member on the Closing Date over the total number of Membership Interests held by the Members in each Company as of the Closing Date. Each of the Members owns fifty percent (50%) of each Company and accordingly each member has an aggregate fifty percent (50%) interest in the Companies.

Members Representative has the meaning set forth in Section 2.6.

Members Transaction Costs has the meaning set forth in Section 5.7.

Non-Key Employees has the meaning set forth in Section 5.10(a).

New VTC Lease has the meaning set forth in Section 5.18.

Participating Employees has the meaning set forth in Section 2.2(g).

Patents means issued patents, including United States and foreign patents and applications therefor; divisions, reissues, continuations, continuations-in-part, reexaminations, renewals and extensions of any of the foregoing; and utility models and utility model applications.

Pension Plan has the meaning set forth in Section 3.28(a).

Permits has the meaning set forth in Section 3.23(a).

Person means any individual, person, Entity, or Governmental Authority, and the heirs, executors, administrators, legal representatives, successors and assigns of the Person when the context so permits.

Personal Property has the meaning set forth in Section 3.15(a).

Personnel has the meaning set forth in Section 3.26(a).

Phantom Membership Interest Plan has the meaning set forth in Section 3.26(b).

Phantom Membership Interest Release has the meaning set forth in Section 3.26(b).

Plan has the meaning set forth in Section 3.28(a).

Post-Closing Tax Period has the meaning set forth in Section 5.11(c)(ii)(A).

Pre-Closing Tax Period has the meaning set forth in Section 5.11(c)(i).

Prior Period Returns has the meaning set forth in Section 5.11(b).

Proposals has the meaning set forth in Section 3.17(c).

Proposed Closing Balance Sheet has the meaning set forth in Section 2.4(d).

Proposed Transaction has the meaning set forth in Section 5.9(b).

Proxy Materials has the meaning set forth in Section 5.17.

Public Disclosure Documents has the meaning set forth in Section 4.7(a).

Purchase Consideration has the meaning set forth in Section 2.2.

Real Property Interests has the meaning set forth in Section 3.14.

Registration Rights Agreement has the meaning set forth in Section 2.2(b)(vi).

Related Party Termination Agreements has the meaning set forth in Section 6.3(q).

Related Party Transactions and *Related Party Transaction* have the meanings set forth in Section 3.6.

Respondent has the meaning set forth in Section 11.11(a).

Representative has the meaning set forth in Section 5.9(a).

Rosato refers to Thomas P. Rosato.

SBIR has the meaning set forth in Section 3.18(g).

Schedule as used in this Agreement together with a numerical designation, means a schedule contained in the Disclosure Schedules of even date herewith delivered by the Companies and/or the Members in connection with the execution and delivery of this Agreement (the Disclosure Schedules).

Scheduled Contracts has the meaning set forth in Section 3.17(a).

SEC means the United States Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended, and the rules promulgated thereunder.

Self Insured Plan and *Self Insured Plans* have the meaning set forth in Section 3.28(m).

Senior Executives has the meaning set forth in Section 5.10(a).

Senior Executive Employment Agreements has the meaning set forth in Section 5.10(b).

Signia Threatened Litigation has the meaning set forth in Section 5.20.

Software means the manifestation, in tangible or physical form, including, but not limited to, in magnetic media, firmware, and documentation, of computer programs and databases, such computer programs and databases to include, but not limited to, management information systems, and personal computer programs. The tangible manifestation of such programs may be in the form of, among other things, source code, flow diagrams, listings, object code, and microcode. Software does not include any Technology.

State Government has the meaning set forth in Section 3.18(a).

Stock Consideration has the meaning set forth in Section 2.2(d).

Stock Consideration Amount has the meaning set forth in Section 2.2(d).

Stock Grant Documents has the meaning set forth in Section 2.2(g).

Stock Grant Shares has the meaning set forth in Section 2.2(g).

Stock Grant Shares Value has the meaning set forth in Section 2.2(d).

Straddle Period and *Straddle Periods* have the meanings set forth in Section 5.11(c)(i).

Subcontract has the meaning set forth in Section 3.18(a)(iv).

Subsidiary means and refers to any corporation, association or other business entity of which more than fifty (50) percent of the issued and outstanding shares of capital stock or equity interests is owned or controlled, directly or indirectly, by either of the Companies, or FAAC, as the case may be, and in which either of the Companies or FAAC, as the case may be, has the power, directly or indirectly, to elect a majority of the directors.

Survival Date has the meaning set forth in Section 9.1.

Surviving Representations has the meaning set forth in Section 9.1.

Tax or *Taxes* has the meaning set forth in Section 3.29(d).

Tax Return and *Tax Returns* has the meaning set forth in Section 3.29(d).

Taxing Authority means any government or any subdivision, agency, commission or authority thereof, or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or other imposition of Taxes.

Teaming Agreement has the meaning set forth in Section 3.18(a).

Technology means all types of technical information and data, whether or not reduced to tangible or physical form, including, but not limited to: know-how; product definitions and designs; research and development, engineering, manufacturing, process, test, quality control, procurement, and service specifications, procedures, standards, and reports; blueprints; drawings; materials specifications, procedures, standards, and lists; catalogs; technical information and data relating to marketing and sales activity; and formulae. Technology does not include any Software.

Terminated at Closing Related Party Transactions has the meaning set forth in Section 3.6.

Third-Party Claims means a claim made by an Indemnified Party against an Indemnifying Party in connection with any third party litigation, arbitration, action, suit, proceeding, claim or demand made upon the Indemnified Party for which the Indemnified Party may seek indemnification from the Indemnifying Party under the terms of this Agreement.

Trademarks means all United States and foreign trademark and service mark registrations and applications therefor.

Trade Secrets means information in any form that is considered to be proprietary information by the owner, is maintained on a confidential or secret basis by the owner, and is not generally known to other parties.

Transaction Documents has the meaning set forth in Section 3.2.

Uncapped Non-Threshold Indemnifications has the meaning set forth in Section 9.2(f).

Updated Disclosure Schedules has the meaning set forth in Section 5.19.

U.S. Government has the meaning set forth in Section 3.17(a).

VEBA has the meaning set forth in Section 3.28(d).

Vortech refers to Vortech, LLC, a Maryland limited liability company.

VTC refers to VTC, L.L.C., a Maryland limited liability company.

VTC Lease Appraisal has the meaning set forth in Section 5.18.

VTC Lease Commitment has the meaning set forth in Section 5.18.

Welfare Plan has the meaning set forth in Section 3.28(a).

1.2 *Rules of Construction*.

Unless the context otherwise requires:

(a) A capitalized term has the meaning assigned to it;

(b) An accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(c) References in the singular or to him, her, it, itself, or other like references, and references in the plural or the feminine or masculine reference, as the case may be, shall also, when the context so requires, be deemed to include the plural or singular, or the masculine or feminine reference, as the case may be;

(d) References to Articles, Sections and Exhibits shall refer to articles, sections and exhibits of this Agreement, unless otherwise specified;

(e) The headings in this Agreement are for convenience and identification only and are not intended to describe, interpret, define or limit the scope, extent, or intent of this Agreement or any provision thereof;

(f) This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party that drafted and caused this Agreement to be drafted;

(g) References to best efforts in this Agreement shall require commercially reasonable best efforts, and not commercially unreasonable expenditures of money, time or other resources; and

(h) A monetary figure given in United States dollars shall be deemed to refer to the equivalent amount of foreign currency when used in a context that refers to or includes operations conducted principally outside of the United States.

ARTICLE II

Closing; Purchase Price; Adjustments; Escrow

2.1 *Closing*.

The closing (the *Closing*) of the Contemplated Transactions shall take place at the offices of Squire, Sanders & Dempsey L.L.P., 8000 Towers Crescent Drive, Tysons Corner, Virginia 22182-2700, at 10:00 A.M. local time on the third (3rd) Business Day after the conditions and deliveries referred to in ARTICLES VI, VII and VIII have been satisfied, or at such other time, date and place that shall be mutually agreed upon by the parties hereto (the *Closing Date*). At the Closing, each of the Members shall sell, transfer, convey or assign and deliver to FAAC, and FAAC shall purchase, acquire and accept from the Members, the Membership Interests, free and clear of any and all Liens or rights of any third party (and each of the Members shall thereafter cease to have any rights or interests as a member of either of the Companies other than any rights granted to the Members pursuant to the terms of this Agreement and the other Transaction Documents) and FAAC shall (a) deliver to the Members Representative on behalf of the Members the Purchase Consideration pursuant to Section 2.2 and (b) grant to certain of the Companies employees the Employee Stock Grants pursuant to Section 2.2 below.

2.2 *Purchase Consideration; Employee Payments and Stock Grants*.

As payment in full for all of the Membership Interests, FAAC shall pay to the Members Representative at Closing the *Purchase Consideration* that shall consist of (a) the Cash Consideration ; (b) the Convertible Promissory Note ; (c) the Assumed Debt ; and (d) the Stock Consideration. Rosato and Gallagher hereby agree that it is their intention that notwithstanding that each of them owns fifty percent (50%) of the Membership Interests the wish to allocate the Purchase Consideration such that the Purchase Consideration is allocated as follows.

		Stock**	
	Cash*	**General Indemnity Escrow**	**Balance Sheet**
Rosato	$ 4,400,000	1,492,490	43,956
Gallagher	$ 6,600,000	994,994	29,304
	$ 11,000,000	2,487,484	73,260

*

Subject to adjustment pursuant to Section 2.4.

**

Subject to adjustment for Assumed Debt.

(a) *Cash Consideration*. At the Closing cash in the amount of the Cash Consideration shall be paid by wire transfer of immediately available funds to an account or accounts designated by the Members Representative. The Members Representative shall be responsible for directing the distribution of the Cash Consideration to the Members (60% to Gallagher and 40% to Rosato) and FAAC shall be entitled to fully rely on such directions.

(b) *Convertible Promissory Note*. Ten Million Dollars ($10,000,000) of the Purchase Consideration shall be evidenced by and payable under the terms of two (2) Convertible Notes, each in the amount of Five Million Dollars ($5,000,000) one payable to Rosato and the other to Gallagher in the form attached hereto as *Exhibit B* (each a *Convertible Promissory Note* and collectively the Convertible Promissory Notes).

(c) *Assumed Debt*. Up to One Hundred Sixty One Thousand Dollars ($161,000) of the Purchase Consideration may be paid and evidenced by long term debt of the Companies that (i) is assumable by FAAC and (ii) FAAC agrees, in writing, to assume on or before the Closing Date (the *Assumed Debt*).

(d) *Stock Consideration*. Subject to Sections 2.3 and 5.8 a portion of the Purchase Consideration equal to Seventeen Million Five Hundred Thousand Dollars ($17,500,000) and which the parties hereto agree less (1) the amount of the Assumed Debt and (2) the value (the Stock Grant Shares Value) of Stock Grant Shares, as determined pursuant to Section 2.2(d)(i) below (the Stock Consideration Amount) shall be paid in the form of FAAC s common stock (Stock Consideration).

(i) *Stock Grant Shares Value*. The Stock Grant Shares Value shall be determined by multiplying the number of Stock Grant Shares (576,559 shares) by the Average Share Value.

(ii) *FAAC Shares Constituting Stock Consideration*. The number of FAAC shares of common stock to be issued as Stock Consideration shall be determined on the Closing Date by dividing the Stock Consideration Amount by the Average Share Value.

(iii) *Delivery of Stock Certificates*. At the Closing stock certificates evidencing the Stock Consideration shall be delivered by FAAC as follows: (A) pursuant to Section 2.3 stock certificates for (1) the Balance Sheet Escrow Shares and (2) the General Indemnity Escrow Shares shall be delivered to the Escrow Agent; and (B) pursuant to Section 5.8(c) below, 33,913 shares of FAAC common stock otherwise deliverable to Rosato and 33,912 shares of FAAC common stock otherwise deliverable to Gallagher shall be delivered by FAAC, on Rosato s and Gallagher s behalf, to Evergreen (or other recipients identified by Evergreen).

(iv) *Acquisition Agreement; Registration Rights Agreement and Lock Up Agreement*. At the Closing, each Member and FAAC will execute and deliver (A) an Acquisition Agreement in the form attached hereto as *Exhibit C* (the *Acquisition Agreement*); (B) a Registration Rights Agreement in the form attached hereto as *Exhibit D* (the *Registration Rights Agreement*); and (C) a Lock Up Agreement in the form attached hereto as Exhibit E (the Lock Up Agreement) under the terms of which all of the Stock Consideration is subject to various restrictions described therein until the Lock Up Termination Date).

(e) *Fractional and Restricted Shares*.

(i) *Fractional Shares*. If the calculation of the number of shares of FAAC common stock to be received as Stock Consideration pursuant to Section 2.2(d) would result in the issuance of fractional shares, then the number of shares of FAAC common stock that the Members would otherwise receive as Stock Consideration shall be rounded down to the nearest whole number of shares (which shall be the Stock Consideration payable to the Member(s) and the Member(s) shall receive as cash the amount attributable to the fractional interest.

(ii) *Restricted Shares*. The shares of FAAC s common stock to be issued pursuant to this Agreement as Stock Consideration (A) have not been, and will not be at the time of issuance, registered under the Securities Act, and will be issued in a transaction that is exempt from the registration requirements of the Securities Act and (B) will be restricted securities under the federal securities laws and cannot be offered or resold except pursuant to registration under the Securities Act or an available exemption from registration. All certificates evidencing the Stock Consideration shall bear, in addition to any other legends required under applicable securities laws, the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION.

(f) *Employees Stock Grants*. As consideration for executing their respective Key Employment Agreements FAAC agrees to grant to certain employees to be designated by Rosato (the *Participating Employees*) restricted stock grants for 576,559 FAAC Common Shares (collectively the Stock Grant Shares) in such amounts as determined by Rosato (collectively the *Employee Stock Grants* and each an Employee Stock Grant). The Employee Stock Grants shall be made pursuant to a Stock Grant Plan and Stock Grant Agreement substantially in the form attached hereto as Exhibits F and G respectively (collectively the *Stock Grant Documents*) and under the terms of which the Stock Grant Shares granted thereunder are subject to forfeiture

to FAAC for various reasons prior to the Lock Up Termination Date. If any Stock Grant Shares issued to Employee Participants under the Employee Stock Grants are forfeited to FAAC on or before the third (3rd) anniversary of the Closing Date (collectively the *Forfeited Shares*); FAAC shall cause shares of FAAC stock equal in number to the Forfeited Shares to be issued equally to Rosato and Gallagher within thirty (30) days after the effective date of the forfeiture as additional consideration for their respective Membership Interests. In connection with the issuance to Rosato or Gallagher prior to the end of the Lock Up Period, of any FAAC common shares pursuant to the previous sentence, Rosato and Gallagher will be required to execute and deliver a Lock Up Agreement for such shares.

2.3 *Escrows*. At the Closing, FAAC shall deposit with the Escrow Agent the following (collectively the Escrow Deposits): (1) 73,260 shares of FAAC common stock having an approximate value (as determined by the Average Share Value) equal to Four Hundred Thousand Dollars ($400,000 (collectively the *Balance Sheet Escrow Shares*)) to be held by the Escrow Agent in an escrow account (the *Balance Sheet Escrow Account*) pursuant to the terms of an escrow agreement substantially in the form of *Exhibit H-1* (the *Balance Sheet Escrow Agreement*); and (2) 2,487,484 shares of FAAC stock having an approximate value (as determined by the Average Share Value) equal to [Thirteen Million Five Hundred Eighty One Thousand Six Hundred Sixty Two ($13,581,662] collectively the *General Indemnity Escrow Shares*)) to be held by the Escrow Agent in an escrow account (the *General Indemnity Escrow Account*) pursuant to the terms of an escrow agreement substantially in the form of *Exhibit H-2* (the *General Indemnity Escrow Agreement* and together with the Balance Sheet Escrow Agreement the *Escrow Agreements*). The escrow accounts set up by the Escrow Agent with respect to each of the Escrow Agreements are hereinafter individually referred to as an Escrow Account and collectively as the *Escrow Accounts*. The aggregate amount held in the Escrow Accounts by the Escrow Agent at any time and from time to time, together with any interest or appreciation thereon, shall be referred to as the *Escrowed Property* with that portion of the Escrowed Funds held from time to time in the Balance Sheet Escrow Account being hereinafter sometimes referred to as the *Balance Sheet Escrow Property* and that portion of the Escrowed Property held from time to time in the General Indemnity Escrow Account being hereinafter sometimes referred to as the *General Indemnity Escrow Property*;

(A) The Balance Sheet Escrow Property shall be released and delivered to FAAC or the Members Representative, as applicable, pursuant to Section 2.4(e).

(B) The General Indemnity Escrow Property shall be released and delivered to FAAC or the Members Representative, as applicable, pursuant to Section 9.3.

2.4 *Cash Consideration and Net Working Capital Adjustments*.

(a) *Cash Consideration*. The *Cash Consideration* shall be an amount equal to Eleven Million Dollars ($11,000,000) (the *Estimated Closing Cash Purchase Price*) as adjusted upward or downward pursuant to Sections 2.4(b) and (c) below.

(b) *Estimated Closing Balance Sheet*. Not less than two (2) Business Days prior to the Closing Date, the Members shall deliver to FAAC an estimated, unaudited consolidated balance sheet (the *Estimated Closing Balance Sheet*) of the Companies as of the Closing Date, together with all supporting documentation. The Estimated Closing Balance Sheet shall be prepared by Members, in accordance with GAAP and in a manner consistent with the December 2005 Balance Sheet except that the Estimated Closing Balance Sheet shall include a calculation of the Adjusted Closing Net Working Capital (hereinafter defined). For purposes of this Agreement, the terms Adjusted Closing Net Working Capital and Closing Net Working Capital shall have the following meanings.

(i) The term *Adjusted Closing Net Working Capital* shall mean the Closing Net Working Capital (as hereinafter defined and as adjusted pursuant to Section 2.4(d) below) of the Companies as shown on the Estimated Closing Balance Sheet as reduced to reflect: (A) the payment in full of any and all outstanding Indebtedness of the Companies (other than the Assumed Debt), repaid at or prior to Closing pursuant to Section 5.7; (B) the payment in full of any and all Members Transaction Costs paid, or repaid by FAAC after the Closing Date or incurred by the Companies and

unreimbursed by the Members at or prior to the Closing pursuant to Section 5.7; (C) the payment of all sums due at Closing with respect to the Phantom Membership Interest Plan; (D) any portion of the Bonus Pool for which adequate reserves are not otherwise maintained; or (E) payments made to employees in connection with the Contemplated Transactions (other than normal compensation or payments with respect to the Phantom Membership Interest Plan).

(ii) The term *Closing Net Working Capital* shall mean the amount as of the Closing Date and as shown by the Closing Balance Sheet by which the Companies current assets (including without limitation unbilled receivables, security deposits and prepaid expenses and excluding all assets which, in the normal course of business, will not be converted to cash in one year and all intangible assets) exceed their current liabilities (excluding all liabilities, which in the normal course of business, will not be due in one year or less), as such terms are defined under GAAP consistently applied.

(c) *Adjustments to Estimated Closing Cash Purchase Price*. The Estimated Closing Cash Purchase Price will be adjusted (i) downwards on a dollar-for-dollar basis to the extent that the Adjusted Closing Net Working Capital, as shown on the Estimated Closing Balance Sheet, is below the Base Net Working Capital Amount and (ii) upwards on a dollar-for-dollar basis to the extent that the Adjusted Closing Net Working Capital is above the Base Net Working Capital Amount.

(d) *Closing Balance Sheet and Adjusted Closing Net Working Capital*. Promptly following the Closing, FAAC will cause Grant Thornton, LLP (or an equivalent firm selected by FAAC) to review the Estimated Closing Balance Sheet, including the Adjusted Closing Net Working Capital, the Closing Net Working Capital as reflected thereon. Based on such review, FAAC will deliver a proposed Closing Balance Sheet, prepared in a manner consistent with Section 2.4(b) above together with all related work papers, to the Members Representative within sixty (60) days after the later of (i) the Closing Date, or (ii) the date of receipt by FAAC of all information sufficient for FAAC to complete its review of all aspects of the Estimated Closing Balance Sheet, but in no event more than One Hundred Fifty (150) days after the Closing Date (the *Proposed Closing Balance Sheet*). If within thirty (30) days following delivery of the Proposed Closing Balance Sheet, the Members Representative has not given FAAC notice of his objection to the Proposed Closing Balance Sheet (which notice must contain a statement in reasonable detail of the basis of any such objection), then such Proposed Closing Balance Sheet shall constitute the *Closing Balance Sheet*, and the Adjusted Closing Net Working Capital and Closing Net Working Capital amounts included therein shall constitute the Adjusted Closing Net Working Capital and Closing Net Working Capital. If the Members Representative gives notice of an objection, the parties shall use their respective best efforts to resolve any dispute by negotiation. If such dispute cannot be settled by negotiation within thirty (30) days after receipt by FAAC of the Members Representative s notice, the dispute shall be resolved in accordance with the Financial Issue Resolution Process set forth in Section 2.5.

(e) *Final Adjustment to the Estimated Closing Cash Purchase Price*. If the Adjusted Closing Net Working Capital is such that Sections 2.4(d) and/or 2.5 do not require an adjustment to the Estimated Closing Cash Purchase Price, then the Escrow Agent shall disburse to the Members Representative the Balance Sheet Escrow within five (5) days after the finalization of the Closing Balance Sheet pursuant to Sections 2.4(d) and/or 2.5. If the Adjusted Closing Net Working Capital is such that Sections 2.4(d) or 2.5 require an adjustment to the Estimated Closing Cash Purchase Price, any amount due to the Members by FAAC in excess of the Balance Sheet Escrow shall be paid by FAAC to the Members Representative, and any amount due to FAAC from the Members shall be satisfied from the Balance Sheet Escrow Property with the FAAC common stock then in the Balance Sheet Escrow valued at the Average Share Value. If the amount due FAAC is in excess of the Balance Sheet Escrow Property, then such excess shall be paid to FAAC by the Members within five (5) days after the finalization of the Closing Balance Sheet pursuant to Sections 2.4(d) and/or 2.5. In the event that the Members for any reason fails to make the payment contemplated in the previous sentence, then FAAC may bring an indemnification claim under ARTICLE IX and the Members shall be jointly and severally liable for that payment. Any earnings on the Balance Sheet Escrow Property, net of escrow expenses and taxes, shall be paid, pro rata, to the parties receiving distributions from the Balance Sheet Escrow Account. All sums payable by the Escrow Agent to the Members Representative under this Section 2.4(e) shall be paid by the Escrow Agent to an account or accounts designated by the Members Representative. The Members Representative shall be responsible for directing the distribution of the Balance Sheet Escrow (60% to Gallagher and 40% to Rosato) and the Escrow Agent shall be entitled to fully rely on such directions.

2.5 *Financial Issue Resolution Process*.

Disputes between FAAC and the Members Representative, that cannot be resolved by negotiation within thirty (30) days after receipt by FAAC of the Members Representative s notice in accordance with Section 2.4(d) shall be referred no later than such 30th day for decision to a nationally recognized independent public accounting firm mutually selected by the Members Representative and FAAC (the *Auditor*) who shall act as

arbitrator and determine, based solely on presentations by the Members Representative and FAAC and only with respect to the remaining differences so submitted. If such accounting firm cannot be identified within ten (10) business days after the identification of the need for dispute resolution, the dispute shall be resolved in accordance with Section 11.11. The Auditor shall deliver its written determination to FAAC and the Members Representative no later than the 30th day after the remaining differences underlying the dispute are referred to the Auditor, or such longer period of time as the Auditor determines is necessary. The Auditor s determination shall be conclusive and binding upon the parties. The fees and disbursements of the Auditor shall be allocated equally between FAAC and the Members Representative. FAAC and the Members shall make readily available to the Auditor all relevant information, books and records and any work papers relating to the dispute and all other items reasonably requested by the Auditor. In no event may the Auditor s resolution of any difference be for an amount that is outside the range of FAAC s and the Members Representative s disagreement.

2.6 *Members Representative*.

(a) Thomas P. Rosato is hereby appointed as the Members true and lawful representative, proxy, agent and attorney-in-fact (the *Members Representative*) for a term that shall be continuing and indefinite and without a termination date except as otherwise provided herein, to act for and on behalf of the Members in connection with or relating to the Transaction Documents and the Contemplated Transactions, including, without limitation, to give and receive notices and communications, to receive and accept service of legal process in connection with any proceeding arising under the Transaction Documents or in connection with the Contemplated Transactions, receive and deliver amounts comprising the Purchase Consideration, to authorize delivery of stock from each of the Escrow Accounts, to object to or accept any claims against or on behalf of the Members pursuant to ARTICLE IX, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such amounts or claims, and to take all actions necessary or appropriate in the sole opinion of the Members Representative for the accomplishment of the foregoing. Such agency may be changed at any time and from time to time by the action of Members holding more than fifty percent (50%) of the issued and outstanding Membership Interests just prior to the Closing, and shall become effective upon not less than thirty (30) days prior written notice to FAAC. Any change in the Members Representative shall become effective only upon delivery of written notice of such change to FAAC. The Members Representative shall not receive compensation for his or her services. Notices, deliveries or communications to or from the Members Representative by or to any of the parties to the Transaction Documents shall constitute notices, deliveries or communications to or from the Members.

(b) The Members Representative shall not be liable for any act done or omitted hereunder in his capacity as Members Representative in the absence of gross negligence or willful misconduct on his or her part. The Members shall jointly and severally indemnify the Members Representative and hold the Members Representative harmless from and against any and all damages, actions, proceedings, demands, liabilities, losses, taxes, fines, penalties, costs, claims and expenses (including, without limitation, reasonable fees of counsel) of any kind or nature whatsoever (whether or not arising out of third-party claims and including all amounts paid in investigation, defense or settlement of the foregoing) (Damages) that may be sustained or suffered by the Members Representative in connection with the administration of its duties hereunder, except where such Damages arise from or are the result of the Members Representative s gross negligence or willful misconduct.

(c) Any decision, act, consent or instruction taken or given by the Members Representative pursuant to this Agreement shall be and constitute a decision, act, consent or instruction of the Members and shall be final, binding and conclusive upon the Members. The Escrow Agent and FAAC may rely upon any such decision, act, consent or instruction of the Members Representative as being the decision, act, consent or instruction of the Members and shall have no duty to inquire as to the acts and omissions of the Members Representative. The Escrow Agent and FAAC are hereby relieved from any liability to any Person for any acts done by them in accordance with such decision, act, consent or instruction of the Members Representative.

(d) Notices given to the Members Representative in accordance with Section 11.2 shall constitute notice to the Members for all purposes under this Agreement.

(e) This Section 2.6 shall survive the termination or expiration of the Agreement or any one or more of the Escrow Agreements.

ARTICLE III

Representations and Warranties of the Members and the Companies

Except as set forth in the Disclosure Schedules, the Members and the Companies jointly and severally represent and warrant to FAAC that each of the statements contained in this ARTICLE III is true and correct as of the date of this Agreement and will be true and correct as of the Closing Date as though made on the Closing Date:

3.1 *Organization and Power*.

(a) *Members*. Each of the Members has the full power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to consummate the Contemplated Transactions.

(b) *Companies*. Each of the Companies (i) is a limited liability company duly organized and validly existing and in good standing under the laws of the State of Maryland, (ii) has all requisite corporate power and authority to own or lease and to operate its properties and carry out the businesses in which it is engaged, and (iii) is duly qualified or licensed to do business as a foreign corporation in good standing in every jurisdiction where its ownership of property, or the conduct of its business, requires such qualification, other than jurisdictions in which the failure to so qualify, individually or in the aggregate, would not have a material adverse effect on it. Schedule 3.1(b) of the Disclosure Schedules lists each of the jurisdictions in which each of the Companies is qualified or licensed to do business as a foreign limited liability company. Each of the Companies is in good standing in each jurisdiction listed on Schedule 3.1(b) of the Disclosure Schedules.

(c) *No Subsidiaries*. Neither of the Companies has any Subsidiaries.

3.2 *Authorization and Enforceability*.

(a) This Agreement has been, and each of the other documents, agreements and instruments to be executed and delivered at Closing (collectively with this Agreement, the *Transaction Documents*) will be, duly authorized, executed and delivered by the Members and the Companies and constitutes, or in the case of each Transaction Document other than this Agreement, as of the Closing Date will constitute, a valid and legally binding agreement of the Members and the Companies enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors rights and to general equitable principles.

3.3 *No Violation*.

Neither the execution, delivery or performance of this Agreement or any of the other Transaction Documents by the Companies and the Members, nor the consummation of the Contemplated Transactions will:

(a) conflict with or violate any provision of the certificate or articles of organization or operating agreement of either of the Companies;

(b) result in the creation of, or require the creation of, any Lien upon any (i) Membership Interests or (ii) property of either of the Companies;

(c) result in (i) the termination, cancellation, modification, amendment, violation, or renegotiation of any contract, agreement, indenture, instrument, or commitment, or (ii) the acceleration or forfeiture of any term of payment;

(d) give any Person the right to (i) terminate, cancel, modify, amend, vary, or renegotiate any contract, agreement, indenture, instrument, or commitment, or (ii) to accelerate or forfeit any term of payment either of which would have a Material Adverse Effect; or

(e) violate any Law applicable to the Companies or by which their properties are bound or affected which would have a Material Adverse Effect.

3.4 *Consents*.

Except as set forth on Schedule 3.4(a) of the Disclosure Schedules, neither the execution, delivery or performance of this Agreement by the Companies and the Members, nor the consummation of the Contemplated Transactions or compliance with the terms of the Transaction Documents, will require (a) the consent or approval under any agreement or instrument or (b) the Members or the Companies to obtain the approval or consent of, or make any declaration, filing (other than administrative filings with Taxing Authorities, foreign companies registries and the like) or registration with, any Governmental Authority and all such consents or approvals have been obtained or waived.

3.5 *Financial Statements*.

(a) *In General*. The Audited Financial Statements were prepared in accordance with GAAP and the Interim Financial Statements were and the Estimated Closing Balance Sheet will be internally prepared by the Companies in a manner consistent with past practices for such internally prepared unaudited financial statements. Throughout the periods involved, the Financial Statements fairly and accurately present the consolidated financial position of the Companies, as of the dates thereof, and the consolidated statements of operations, changes in Members equity and cash flows for the periods then ended.

(b) *Financial Books and Records*. The financial books and records of the Companies have been maintained in accordance with sound business practices, including an adequate system of internal control, and fairly and accurately reflect, in accordance with applicable Law and GAAP, and on a basis consistent with past periods and throughout the periods involved, (i) the financial position of the Companies and (ii) all transactions of the Companies. Neither of the Companies has received any advice or notification from their respective independent certified public accountants that they have used any improper accounting practice that would have the effect of not reflecting or incorrectly reflecting in the books and records of the Companies any properties, assets, liabilities, revenues, or expenses.

(c) *No Undisclosed Liabilities; Etc*. Except as set forth on Schedule 3.5(c) of the Disclosure Schedules, neither of the Companies has any liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent, or otherwise), except for amounts of liabilities or obligations reflected or reserved against in the Financial Statements.

(d) *Accounts Receivable*. All receivables (including intercompany and unbilled receivables) reflected in the Financial Statements or recorded on the books of each of the Companies resulted from the ordinary course of business, have been properly recorded in the ordinary course of business and subject to the reserves reflected in the Financial Statements, which reserves are adequate and determined in accordance with GAAP applied on a basis consistent with prior periods and throughout the periods involved, and are good and collectible (subject to the reserves reflected in the Financial Statements) in full without any discount, setoff or valid counterclaim (net of recovery from vendors or subcontractors), in amounts equal to not less than the aggregate face amounts thereof.

(e) *No Letters of Credit or Guarantees*. Except as reflected in the Financial Statements or as set forth on Schedule 3.5(e) of the Disclosure Schedules, none of the Companies (i) has any letters of credit outstanding as to which the Companies have any actual or contingent reimbursement obligations; (ii) is a party to or bound, either absolutely or on a contingent basis, by any agreement of guarantee, indemnification or any similar commitment with respect to the liabilities or obligations of any other Person (whether accrued, absolute, or contingent); or (iii) is a party to any swap, hedge, derivative, or similar instrument.

(f) *Contingent or Deferred Acquisition Expenses or Payments*. Except as otherwise disclosed on Schedule 3.5(f) of the Disclosure Schedules, neither of the Companies is obligated or otherwise liable for the payment of any contingent or deferred acquisition payments relating to the direct or indirect acquisition of any business, enterprise, or combination.

3.6 *Relationships with Affiliates*.

Except as set forth on Schedule 3.6 of the Disclosure Schedules, no Member or any Affiliate of any Member or the Companies has, or has had, any interest in any property (real, personal, or mixed and whether tangible or intangible), used in or pertaining to the business of the Companies. No Member or any Affiliate of any Member, or the Companies is, or has owned (of record or as a beneficial owner) an equity interest or any other financial or a profit interest in, a Person that has (a) had business dealings or a material financial interest

in any transaction with the Companies or (b) engaged in competition with the Companies with respect to any line of the products or services of the Companies in any market presently served by the Companies. Except as set forth on Schedule 3.6 of the Disclosure Schedules, no Member or any Affiliate of any Member, or Company is a party to any contract or agreement with any of the Companies. The various contracts, agreements and relationships shown on Schedule 3.6 of the Disclosure Schedules (a) are hereinafter collectively referred to as the *Related Party Transactions* and individually as a *Related Party Transaction* and (b) as shown on Schedule 3.6 of the Disclosure Schedules are comprised of (i) Related Party Transactions that are to be terminated at or before Closing (collectively the *Terminated at Closing Related Party Transactions*) and (ii) Related Party Transactions that are to continue after the Closing (the *Continuing Related Party Transactions*).

3.7 *Indebtedness to/from Officers, Directors, Members and Employees*.

Except as set forth on Schedule 3.7 of the Disclosure Schedules, neither of the Companies is indebted, directly or indirectly, to any Person who immediately prior to the Closing was a Member, officer or director of a Company in any amount whatsoever, other than for salaries for services rendered or reimbursable business expenses. No Member, officer, director, or employee is indebted to either of the Companies except for advances made to employees of the Companies in the ordinary course of business to meet reimbursable business expenses anticipated to be incurred by such obligor.

3.8 *No Adverse Change*.

Since December 31, 2005, there has not been any change in the businesses, operations, properties or condition, financial or otherwise of the Companies that has had a Material Adverse Effect, nor has any event, condition or contingency occurred that is reasonably likely to result in such an adverse change.

3.9 *Conduct of the Business*.

(a) *Cooperative Business Arrangements*. Except as set forth on Schedule 3.9(a) of the Disclosure Schedules none of the business of the Companies has been conducted through any joint venture, teaming agreement or relationship, partnership or other entity.

(b) *Letters of Intent, Non-Competition Agreements and Non-Disclosure Agreements*. Except as set forth in Schedule 3.9(b) of the Disclosure Schedules, neither of the Companies is a party to any letters of intent, memoranda of understanding, non-competition arrangements, non-disclosure agreements or confidentiality agreements that remain in effect.

3.10 *Capital Structure; Equity Interests*.

(a) *Capital Structure*. The capitalization and record owners of all of the Equity Interests of the Companies are as set forth on Schedule 3.10(a) of the Disclosure Schedules and the Membership Interests of the Members as shown on Schedule 3.10(a) of the Disclosure Schedules constitute the only issued and outstanding Equity Interests in the Companies and neither of the Companies (i) has any outstanding securities convertible into or exchangeable or exercisable for any Equity Interests or (ii) has outstanding any rights to subscribe for or to purchase, or any agreements providing for the issuance (contingent or otherwise), of, or any calls against, commitments by or claims against it of any character relating to, any shares of its Equity Interests or any securities convertible into or exchangeable or exercisable for any shares of its Equity Interests. The capitalization and record owners of all the Equity Interests as shown on Schedules 3.10(a) of the Disclosure Schedules accurately list the names of each of the Members, their principal addresses, and the number of Membership Interests owned.

(b) All Equity Interests in the Companies previously issued and now cancelled were duly authorized and issued in compliance with the applicable Maryland law, the Securities Act of 1933, as amended, and any applicable state Blue

Sky laws or exemptions therefrom. All outstanding Membership Interests are duly authorized have been validly issued, and owned beneficially and of record by the Members, free and clear of any Lien, and were issued in compliance with the Securities Act of 1933, as amended, and any applicable state Blue Sky laws or exemptions therefrom. None of the Members has granted any proxy, or entered into any voting trust, voting agreement or similar arrangement, with respect to his or her Membership Interests.

3.11 *Title to Membership Interests*.

The Members own the Membership Interests of record and beneficially in the amounts set forth on Schedule 3.10(a), free and clear of any Liens, and upon completion of the Closing FAAC will own all of the issued and outstanding Membership Interests of the Company free and clear of any Liens.

3.12 *Articles, Operating Agreements and Records*.

True and complete copies of the Articles of Organization and Operating Agreements, as amended through the date hereof, minute books and membership interest record books of the Companies (i) have been provided or made available to FAAC prior to the execution of this Agreement, and (ii) are complete and correct in all material respects. Such minute books contain a true and complete record of all actions taken at all meetings and by all written consents in lieu of meetings of the directors, member and committees of the boards of directors of the Companies from their respective dates of incorporation through the date hereof. Neither of the Companies is in violation of any provisions of its respective certificate of organization or operating agreement.

3.13 *Assets In General*.

Except as set forth on Schedule 3.13 of the Disclosure Schedules, the assets and rights of the Companies include (a) all of the assets and rights of the Companies that were used in the conduct of their businesses as of December 31, 2005, subject to such changes as have occurred in the ordinary course of business since December 31, 2005, and (b) all assets reflected in the December 2005 Financial Statements, subject to such changes as have occurred in the ordinary course of business since December 31, 2005. Except as set forth on Schedule 3.13 of the Disclosure Schedules, each of the Companies, has good and marketable title to all of their respective assets, free and clear of any Lien. Except as set forth on Schedule 3.13 of the Disclosure Schedules, all assets necessary for the conduct of the business of the Companies in accordance with past practice are (a) in good operating condition and repair, ordinary wear and tear excepted, (b) not in need of maintenance or repair, except for ordinary routine maintenance or repairs that are not material in nature or cost, and (c) adequate and sufficient for the continuing conduct of the businesses of the Companies as conducted prior to the date hereof.

3.14 *Real Property Interests*.

Except as set forth on Schedule 3.14 of the Disclosure Schedules, neither of the Companies now owns, or has ever owned, any real property. Schedule 3.14 of the Disclosure Schedules sets forth a list and summary description of all leases, subleases, or other occupancies used by the Companies or to which any of them is a party (the *Real Property Interests*). Except as set forth on Schedule 3.14 of the Disclosure Schedules, each of the Real Property Interests listed and described on Schedule 3.14 of the Disclosure Schedules is in full force and effect, and there is no default by either of the Companies under any such Real Property Interests.

3.15 *Personal Property*.

(a) Set forth on Schedule 3.15(a) of the Disclosure Schedules is a list of all material equipment, machinery, motor vehicles, and other tangible personal property owned or leased by the Companies (the *Personal Property*). Each of the Companies has good title to all of their respective Personal Property, free and clear of any Lien.

(b) Schedule 3.15(b) of the Disclosure Schedules is a true and correct list of all of the Uniform Commercial Code Financing Statements filed and in force in the indicated jurisdictions with respect to the Companies (the *Financing Statements*). Except for those Financing Statements indicated on Schedule 3.15(b) that are with respect to Indebtedness that shall be repaid at Closing (and are to be terminated upon the repayment of that Indebtedness) the Financing Statements relate only to leased property. The only Financing Statements in force with respect to the Companies relate to leased property.

3.16 *Intellectual Property Rights*.

(a) Schedule 3.16(a) of the Disclosure Schedules includes a true and complete list of all Commercial Software used by or in connection with the businesses of each of the Companies. Schedule 3.16(a) of the Disclosure Schedules also includes a true and complete list of (i) all Copyrights, Patents and Trademarks of the Companies used by or in connection with the businesses of each of the Companies and (ii) all pending applications for Copyrights, Patents and Trademarks filed by or on behalf of the Companies and used by or in connection with the businesses of the Companies as presently conducted. None of such rights is or has been opposed or held unenforceable. Each of the aforesaid Intellectual Property Rights is valid, subsisting and

enforceable. Each of the aforesaid registered or issued Intellectual Property Rights is duly registered in the name of the applicable Company, as appropriate.

(b) Except as set forth on Schedule 3.16(b) of the Disclosure Schedules, the business of the Companies as presently conducted does not require or use any Intellectual Property Rights not owned by or licensed to the Companies. The Companies are the owners or have the right to use the Intellectual Property Rights listed on Schedule 3.16(a) of the Disclosure Schedules without making any payment to others or granting rights to others in exchange therefor.

(c) Except as set forth on Schedule 3.16(c) of the Disclosure Schedules, (i) no Person (other than the Companies) has any right to use any Intellectual Property Rights owned by the Companies and (ii) no member, director, officer or employee of, or Consultant to, the Companies has any right to use, other than in connection with the business activities of the Companies as presently conducted, any of the Intellectual Property or Intellectual Property Rights.

(d) The operation of the business of the Companies in the normal course of business prior to the Effective Date does not infringe in any respect upon the Intellectual Property Rights of any Person, and no Person who does not have the right to use the Intellectual Property Rights has claimed or asserted the right to use any Intellectual Property Rights or to deny the right of either of the Companies the right to use same. No proceeding alleging infringement of the Intellectual Property Rights of any Person is pending or threatened against either of the Companies.

(e) With respect to each Trade Secret of the Companies, the documentation relating to such Trade Secret is current, accurate and in sufficient detail and content to identify and explain it and allow its full and proper use without reliance on the knowledge or memory of any individual. The Companies have taken all reasonable precautions to protect the secrecy, confidentiality, and value of their respective Trade Secrets. Such Trade Secrets are not part of the public knowledge or literature, and have not been used, divulged, or appropriated either for the benefit of any Person (other than the Companies) or to the detriment of the Companies.

(f) Schedule 3.16(f) of the Disclosure Schedules includes a true and complete list of any rights (e.g. unlimited, limited, restrictive, government purpose license rights, and march-in) that any Governmental Authority has in any copyrights, patents, trademarks, Technology, or Software that the Companies use in their respective businesses. Except as set forth in Schedule 3.16(f) of the Disclosure Schedules, neither of the Companies has developed any item, component, process or software as a requirement of any Government Contract, or for which any Governmental Authority paid some or all of the cost of development.

3.17 *Scheduled Contracts and Proposals*.

(a) *Scheduled Contracts*. Schedule 3.17(a) of the Disclosure Schedules is a true and complete list of all Scheduled Contracts (as hereinafter defined) to which either of the Companies is a party, by which it is bound, or which otherwise pertain to the businesses of the Companies. For the purposes of this Section 3.17(a), the term *Scheduled Contracts* shall mean the following written or oral contracts, agreements, indentures, instruments, commitments and amendments thereof with suppliers, customers, producers, consumers, lenders of the Companies and other third parties that are currently in effect:

(i) loan and credit agreements, revolving credit agreements, security agreements, guarantees, notes, agreements evidencing any lien, conditional sales agreements, factoring agreements, leasing agreements, sale and leaseback and synthetic lease agreements, or title retention agreements;

(ii) hedging and similar agreements;

(iii) contracts that involve the sale by the Companies of goods, materials, supplies, or services (other than Government Contracts) providing for payments over the life of the contract greater than $50,000;

(iv) agreements relating to Intellectual Property Rights listed on Schedule 3.16(a) of the Disclosure Schedules;

(v) contracts, agreements, indentures, instruments or commitments by and between the Companies and Persons with whom the Companies is not dealing at arm s length;

(vi) agreements listed on Schedule 3.9(a) of the Disclosure Schedules;

(vii) franchise, distribution, license or consignment contracts or agreements;

(viii) sales, agency or advertising contracts, agreements, or commitments providing for payments over the life of the contract greater than $50,000;

(ix) leases under which either of the Companies is the lessor or lessee other than operating leases that require future payments by either of the Companies of more than $10,000 per annum;

(x) management or service contracts or agreements, and contracts (other than agreements with Consultants and agreements with independent contractors and sub-contractors) and commitments providing for payments over the life of the company greater than $50,000;

(xi) contracts or agreements with Consultants to the extent not otherwise disclosed on Schedule 3.26(e) of the Disclosure Schedules;

(xii) agreements of any kind with any Affiliate of the Companies;

(xiii) agreements of any kind relating to the business of the Companies to which employees of the Companies, or entities controlled by them, are parties; and

(xiv) discount policies and practices, if any.

(b) *Status of Scheduled Contracts*. Except as otherwise disclosed on Schedule 3.17(b) of the Disclosure Schedules, as of the Effective Date, (x) each of the Scheduled Contracts is in full force and effect; (y) a true and complete copy of each written Scheduled Contract (and all amendments thereto); and (z) there are no oral modifications or amendments to any of the Scheduled Contracts. In addition:

(i) All of the Scheduled Contracts have been legally awarded and are binding on the parties thereto, and each of the Companies, as the case may be, is in material compliance with all terms and conditions in such Scheduled Contracts;

(ii) Neither of the Companies has received any written notice of deficient performance or administrative deficiencies relating to any Scheduled Contract;

(iii) Neither of the Companies has received any notice of any stop work orders, terminations, cure notices, show cause notices or notices of default or breach under any of the Scheduled Contracts, nor has any such action been threatened or asserted;

(iv) Each Scheduled Contract was entered into in the ordinary course of business and, based upon assumptions that the Companies management believes to be reasonable and subject to such assumptions being fulfilled;

(v) There are no Scheduled Contracts for the provision of goods or services by either of the Companies that include a liquidated damages clause or unlimited liability by the Companies, or liability for consequential damages;

(vi) There are no Scheduled Contracts for the provision of goods or services by either of the Companies that require the applicable Company to post a surety, performance or other bond or to be an account party to a letter of credit or bank guarantee;

(vii) There are no written claims of any type, or requests for equitable adjustments outstanding or, to the Knowledge of the Companies, threatened under any Scheduled Contracts in process and no money presently due to either of the Companies on any Scheduled Contract has been withheld or set off or subject to attempts to withhold or setoff; and

(viii) No party to a Scheduled Contract has notified either of the Companies that a Company has breached or violated any Law or any certification, representation, clause, provision or requirement of any Scheduled Contract.

(c) *Proposals*. Schedule 3.17(b) of the Disclosure Schedules sets forth a true and accurate summary of all bids, proposals, offers, or quotations made by the Companies that were outstanding as of the date of this Agreement (collectively the *Proposals*), true and complete copies of which have been made available to

FAAC. Schedule 3.17(b) of the Disclosure Schedules identifies each Proposal by the party to whom such bid, proposal, or quotation was made, the subject matter of such bid, proposal, or quotation and the proposed price.

3.18 *Government Contracting*.

(a) *Definitions*. The following capitalized terms, when used in this Section 3.18, shall have the respective meanings set forth below:

(i) *Active* , whether or not capitalized, when used to modify any Government Contract, or Government Subcontract, means that final payment has not been made on such Government Contract, or Government Subcontract and when used to modify any Teaming Agreement, active means that such Teaming Agreement has not terminated or expired.

(ii) *Bid* means any bid, proposal, offer or quotation made by either of the Companies or by a contractor team or joint venture, in which either of the Companies is participating, that, if accepted, would result in the award of a Government Contract or a Government Subcontract.

(iii) *Company Subcontract* means any subcontract, basic ordering agreement, letter subcontract, purchase order, task order, delivery order, consulting agreement or other written agreement issued by either of the Companies or entered into between either of the Companies and to any Person in support of either of the Companies performance of a Government Contract or Government Subcontract.

(iv) *Government Contract* means any prime contract, multiple award schedule contract, basic ordering agreement, letter contract, and otherwise to include any purchase order, task order or delivery order issued thereunder between either of the Companies and either the U.S. Government or a State Government.

(v) *Government Subcontract* means any subcontract issued to either of the Companies by a Government prime contractor, including any basic ordering agreement, letter subcontract, and otherwise any purchase order, task order or delivery order between one of the Companies and any prime contractor to either the U.S. Government or a State Government.

(vi) *State Government* means any state, territory or possession of the United States or any department or agency of any of the above with statewide jurisdiction and responsibility.

(vii) *Teaming Agreement* has the same meaning as the term, Contractor team arrangement, as defined in Federal Acquisition Regulation (FAR) 9.601.

(viii) *U.S. Government* means the United States Government or any department, agency or instrumentality thereof.

(b) *Government Contracts and Subcontracts*. Schedule 3.18(b) of the Disclosure Schedules separately lists and identifies, in each case as of the Effective Date:

(i) Each active Government Contract and Government Subcontract identified by contract number, customer and date of award to the extent such information can be provided consistent with national security (true and complete copies of which, including all modifications and amendments thereto, have been provided to FAAC); and

(ii) Each active Government Contract and Government Subcontract that was negotiated (or modification thereto was negotiated) based on cost and pricing data that either of the Companies certified as being current, complete and accurate pursuant to the Truth in Negotiations Act (10 U.S.C. § 2306a; 41 U.S.C. § 256b).

(c) *Bids*. Schedule 3.18(c) of the Disclosure Schedules separately lists and identifies as of the Effective Date each outstanding Bid, identified by the Person to whom such Bid was made, the date submitted, the subject matter of such

Bid, and, to the Knowledge of the Companies, the anticipated award date and whether any such Bid is dependent, in whole or in part, on the small business or other status of the Companies under Applicable Law.

(d) *Teaming Agreements*. Schedule 3.18(d) of the Disclosure Schedules separately lists and identifies each active Teaming Agreement as of the Effective Date to which either of the Companies is a party (true and complete copies of which, including all modifications and amendments thereto, have been provided to FAAC).

(e) *Company Subcontracts*.

(i) To the Knowledge of the Company, each active Company Subcontract is in full force and effect and is binding on the Companies, or either of them and, to the Knowledge of the Companies, the other party thereto, except to the extent any such failure to be in full force and effect and binding would not result in a Material Adverse Effect.

(ii) To the Knowledge of the Company, each of the Companies has substantially complied with all material terms and conditions of each active Company Subcontract, except to the extent either Company s failure so to have complied would not result in a Material Adverse Effect.

(iii) There are no outstanding claims against either of the Companies arising out of or relating to any active Company Subcontract, and to the Knowledge of the Companies, there are not facts that might give rise to or result in such a claim, except, in either case, for claims that would not result in a Material Adverse Effect if asserted against and paid by either of the Companies.

(iv) There are no disputes between either of the Companies and any other party arising out of or relating to any active Company Subcontract, and to the Knowledge of the Companies, there are not facts that might give rise to or result in such a dispute, except, in either case, for disputes that would not result in a Material Adverse Effect if resolved. There are no outstanding claims against either of the Companies arising out of or relating to any active Company Subcontract, and to the Knowledge of the Companies, there are not facts that might give rise to or result in such a claim, except in either case for claims that would not result in a Material Adverse Effect if they were asserted against and paid by either of the Companies against either of the Companies.

(f) *Marketing Agreements*. Schedule 3.18(f) of the Disclosure Schedules separately lists and identifies as of the Effective Date each sales representation, consulting and other agreement regarding marketing and selling the Companies products and services to the U.S. Government, any State Government or any foreign government (or department, agency or instrumentality thereof), to which either of the Companies is (or has been at any time since December 31, 2003) a party (true and complete copies of which, including all modifications and amendments thereto, have been provided to FAAC).

(g) *Status*. Except as set forth on Schedule 3.18(g) of the Disclosure Schedules, as of the Effective Date:

(i) To the Knowledge of the Companies, each active Government Contract and Government Subcontract is in full force and effect, has been legally awarded and is binding on the Companies, or either of them and, to the Knowledge of the Companies, the other party thereto.

(ii) To the Knowledge of the Companies, each active Teaming Agreement is in full force and effect and is binding on the Companies and, to the Knowledge of the Companies, the other party thereto.

(iii) To the Knowledge of the Companies, each of the Companies has substantially complied with all material terms and conditions of each active Government Contract, Government Subcontract and Teaming Agreement, including all clauses, provisions and requirements incorporated therein expressly, by reference or by operation of Applicable Law.

(iv) To the Knowledge of the Companies, all representations and certifications executed, acknowledged or set forth in or pertaining to any Bid submitted by either of the Companies or to any Government Contract or Government Subcontract awarded to either of the Companies, in each case since December 31, 2003, were current, accurate and complete in all material respects as of their respective effective dates, and each of the Companies has complied in all

material respects with all such representations and certifications.

(v) Neither the U.S. Government, any State Government nor any prime contractor, subcontractor or other Person has notified either of the Companies that it has breached or violated any Applicable Law or any certification or representation pertaining to any Bid, Government Contract or Government Subcontract.

(vi) To the Knowledge of the Companies, no active Government Contract was awarded to either of the Companies pursuant to the Small Business Innovative Research (*SBIR*) program or any set-aside program (small business, small disadvantaged business, 8(a), woman owned business, etc.) or as a result of either of the Companies small business or other status under Applicable Law.

(vii) To the Knowledge of the Companies, no active Government Subcontract was awarded to either of the Companies as a result of its small business or other preferred status.

(viii) No active Government Contract or Government Subcontract or outstanding Bid includes a liquidated damages clause or any requirement to post a surety, performance or other bond or to be an account party to a letter of credit or bank guarantee.

(ix) The cost accounting practices that each of the Companies is using (and has used since December 31, 2003) to estimate and record costs in connection with the submission of Bids and performance of Government Contracts and Government Subcontracts are (and have been) in substantial compliance with Applicable Law, including but not limited to, the FAR Cost Principles (48 C.F.R. Part 31) and Cost Accounting Standards (48 C.F.R. Chap. 99), and have been properly disclosed to the U.S. Government (if required to be disclosed by Applicable Law).

(x) To the Knowledge of the Companies, neither of the Companies nor any of their respective directors, officers or employees is (or has been at any time since December 31, 2003) suspended or debarred from doing business with the U.S. Government or any State Government, or is (or has been at any time since December 31, 2003) deemed nonresponsible or ineligible for U.S. Government or State Government contracting; and to the Knowledge of the Companies, there are no circumstances that would warrant in the future the institution of suspension or debarment proceedings, criminal or civil fraud or other criminal or civil proceedings or a determination of nonresponsibility or ineligibility against either of the Companies or any of their respective directors, officers or employees.

(xi) Since December 31, 2003, no Government Contract or Government Subcontract has been terminated for convenience or default, no stop work order, cure notice, show cause notice or other notice threatening termination or alleging noncompliance with any material term has been issued to either of the Companies with respect to any Government Contract or Government Subcontract, and to the Knowledge of the Companies, no event, condition or omission has occurred or exists that would constitute grounds for any such action with respect to any active Government Contract or Government Subcontract.

(xii) No money presently due to either of the Companies on any active Government Contract or Government Subcontract has been, or to the Knowledge of the Companies threatened or likely to be, withheld or set off or subject to attempts to withhold or setoff.

(xiii) To the Knowledge of the Companies, neither of the Companies is performing at risk under any anticipated Government Contract or Government Subcontract or any anticipated option exercise or modification thereof prior to award, option exercise or modification, or has made any expenditures or incurred costs or obligations in excess of any applicable limitation of government liability, limitation of cost, limitation of funds or other similar clause(s) limiting the U.S. Government s liability on any active Government Contract or Government Subcontract.

(xiv) Each of the Companies and their respective employees hold such security clearances as are required to perform Government Contracts and Government Subcontracts of the type performed prior to the date of this Agreement by each of them; to the Knowledge of the Companies, there are no facts or circumstances that could reasonably be expected to result in the suspension or termination of such clearances or that could reasonably be expected to render either of the Companies ineligible for such security clearances in the future; and each of the Companies has complied in all respects with all security measures required by the Government Contracts, Government Subcontracts or Applicable Law.

(h) *Investigations*.

(i) To the Knowledge of the Companies, neither of the Companies, nor any of their respective directors, officers or employees or any of its agents or consultants is (or has been since December 31, 2003) under administrative, civil (including, but not limited to, claims made under the False Claims Act, 18 U.S.C.§ 287) or criminal investigation, indictment or information, audit or internal investigation with

respect to any alleged irregularity, misstatement, act or omission arising under or relating to any Government Contract or Government Subcontract;

(ii) To the Knowledge of the Companies, neither of the Companies has made a voluntary disclosure to the U.S. Government or any State Government with respect to any alleged irregularity, misstatement or omission arising under or relating to a Government Contract or Government Subcontract; and

(iii) To the Knowledge of the Companies, there is no irregularity, misstatement, act or omission arising under or relating to any Government Contract or Government Subcontract that has led or could reasonably be expected to lead, either before or after the Closing Date, to any of the consequences set forth in (i)-(ii) above, or to any other damage, penalty assessment, recoupment of payment, or disallowance of cost.

(i) *Audits*.

(i) Schedule 3.18(i) of the Disclosure Schedules lists and identifies as of the Effective Date each audit report, including without limitation reports issued by the Defense Contract Audit Agency and any inspector general, and each notice of cost disallowance received by either of the Companies since January 1, 2000 relating to any Bid, Government Contract or Government Subcontract (true and complete copies of which have been provided to FAAC).

(ii) Since December 31, 2003, no cost in excess of $25,000 or group, type or class of cost in excess of $125,000 in the aggregate and which was incurred or invoiced by either of the Companies on any active Government Contract or Government Subcontract has been disallowed or is otherwise the subject of a formal dispute (excluding requests for clarification or back-up documentation, or correction of good faith invoice errors).

(iii) Neither of the Companies has incurred any material costs on any active cost-reimbursable Government Contract or Government Subcontract that are not allowable costs pursuant to FAR § 31.201-2 (48 CFR § 31.201-2) and any other applicable law or regulation and that have not been properly recorded as such in the Companies cost accounting books and records.

(iv) The reserves established by the Companies with respect to possible adjustments to the indirect and direct costs incurred by the Companies on any active Government Contract or Government Subcontract are reasonable and are adequate to cover any potential adjustments resulting from audits of any such Government Contract or Government Subcontract.

(j) *Financing Arrangements*. Except as set forth on Schedule 3.18(j) of the Disclosure Schedules, there exist no financing arrangements (e.g., an assignment of moneys due or to become due) with respect to any active Government Contract or Government Subcontract.

(k) *Protests*. Except as set forth on Schedule 3.18(k) of the Disclosure Schedules, no outstanding Bid or active Government Contract or Government Subcontract as of the Effective Date is subject to any protest to a procuring agency, the United States Government Accountability Office, the United States Small Business Administration or any other agency or court (whether one of the Companies is the protestor, an interested party or neither), and to the Knowledge of the Companies, no outstanding Bid or active Government Contract or Government Subcontract will become subject to such a protest.

(l) *Claims*. Except as set forth on Schedule 3.18(l) of the Disclosure Schedules, as of the Effective Date:

(i) Neither of the Companies has any interest in any pending or potential claim or request for equitable adjustment against the U.S. Government, any State Government or any prime contractor, subcontractor or vendor arising under or relating to any Government Contract, Government Subcontract, Bid or Teaming Agreement.

(ii) There are no outstanding claims against either of the Companies, either by the U.S. Government, any State Government or any prime contractor, subcontractor, vendor or other third party, arising out of or relating to any Government Contract, Government Subcontract, Bid or Teaming Agreement, and to the Knowledge of the Companies, there are no facts that might give rise to or result in such a claim.

(iii) There exist no disputes between either of the Companies and the U.S. Government, any State Government, or any prime contractor, subcontractor, vendor or other third party, arising out of or relating

to any active Government Contract, Government Subcontract, Company, Teaming Agreement or outstanding Bid, and to the Knowledge of the Companies, there are no facts that might give rise to or result in such a dispute.

(m) *Multiple Award Schedules*.

(i) With respect to each active multiple award schedule Government Contract as of the Effective Date, to the Knowledge of the Companies, the Companies have (1) provided to the U.S. Government all information required by the applicable solicitation or otherwise requested by the Government; (2) submitted information that was current, accurate, and complete within the meaning of applicable law and regulation; and (3) made all required disclosures of any changes in the Companies respective commercial pricelist(s), discounts or discounting policies prior to the completion of negotiations with the U.S. Government.

(ii) With respect to each active multiple award schedule Government Contract as of the Effective Date, Schedule 3.18(m) of the Disclosure Schedules identifies the basis of award, customer (or category of customer(s) (*COC*)) and the Government s price or discount relationship to the identified COC as agreed to by GSA and the Companies, or either of them, at time of award of such multiple award schedule Government Contract.

(iii) Neither of the Companies has been notified or has any reason to believe that it has not complied with the notice and pricing requirements of the Price Reduction clause in each active multiple award schedule Government Contract listed on Schedule 3.18(a) of the Disclosure Schedules, and, to the Knowledge of the Companies, there are no facts or circumstances that could reasonably be expected to result in a demand by the U.S. Government for a refund based upon either of the Companies failure to comply with the Price Reductions clause.

(iv) To the Knowledge of the Companies, each of the Companies has filed all reports related to and paid all industrial funding fees required to be paid by the Companies under any active multiple award schedule Government Contract.

(v) Neither of the Companies has received notice or otherwise has reason to believe that any active orders issued to either of the Companies pursuant to each active multiple award schedule Government Contract are within the scope of such Government Contract.

(n) *Government Furnished Property*. Schedule 3.18(n) of the Disclosure Schedules identifies as of the Effective Date all personal property, equipment and fixtures loaned, bailed or otherwise furnished to either of the Companies by or on behalf of the U.S. Government for use in the performance of an active Government Contract or Government Subcontract (*Government-Furnished Property*) and the active Government Contracts or Government Subcontracts to which each item of Government-Furnished Property relates. To the Knowledge of the Companies, the Companies have complied in all material respects with all of its obligations relating to the Government-Furnished Property.

(o) *Former Government Officials*. Except as set forth on Schedule 3.18(o) of the Disclosure Schedules, neither of the Companies employ any former government officials in key management positions or as consultants.

3.19 *Clients*.

Neither of the Companies has received any notice, or has any reason to believe, that any supplier, producer, consumer, financial institution or other party to any Scheduled Contract will not do business with the Companies on substantially the same terms and conditions subsequent to the Closing Date as before such date.

3.20 *Backlog*.

Schedule 3.20 of the Disclosure Schedules sets forth the contract backlogs of the Companies, as of March 31, 2006. Schedule 3.20 of the Disclosure Schedules includes with respect to each contract listed thereon (a) the name of each customer, (b) a reference as to whether the applicable contract is for a fixed price or other type of contract, (c) the

periods of performance, (d) the contract revenue for 2004, 2005 and the first quarter 2006,

(e) the dollar value of the contract, (f) the contract revenue from inception, and (g) the dollar amount of the backlog.

3.21 *Compliance with Laws*.

Each of the Companies has been and is in compliance with each Law that is or was applicable to it or the conduct or operation of its business or the ownership or use of any of its assets, except where any such failure to be in compliance with such Law would not reasonably be expected to have a Material Adverse Effect on either or both of the Companies. No event has occurred or circumstance exists that (with or without notice or lapse of time) (a) would constitute or result in a material violation by either of the Companies of (or failure on the part of either of the Companies to comply in all material respects with) any such applicable Law, or (b) would give rise to any obligation on the part of the Companies to undertake, or to bear all or any portion of the cost of, any remedial action of any nature under any such applicable Law. Neither of the Companies has received, at any time during the past three years, any notice or other communication (whether oral or written) from any Governmental Authority regarding (a) any actual, alleged, or potential violation of, or failure to comply with, any such applicable Law, or (b) any actual, alleged, or potential obligation on the part of a Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature under any such applicable Law.

3.22 *Environmental Matters*.

To the Knowledge of the Companies, each of the Companies has complied with, and is in compliance with, all applicable Environmental Laws and has no Environmental Liabilities.

3.23 *Licenses and Permits*.

(a) Each of the Companies has all licenses, permits and other authorizations from Governmental Authorities necessary for the conduct of their respective business as conducted in the normal course of business prior to and as of the date hereof (collectively *Permits*), except for where the failure to obtain such Permits would not have a Material Adverse Effect on them. Schedule 3.23(a) of the Disclosure Schedules sets forth a list of all Permits held by each of the Companies.

(b) To the Knowledge of the Companies and except as set forth on Schedule 3.23(a) of the Disclosure Schedules and except as would not have a Material Adverse Effect, (i) each of the Permits is in full force and effect, (ii) each of the Companies is in full compliance with the terms, provisions and conditions thereof, (iii) there are no outstanding violations, notices of noncompliance, judgments, consent decrees, orders or judicial or administrative actions, investigations or proceedings adversely affecting any of said Permits, and (iv) no condition (including, without limitation, this Agreement and the Contemplated Transactions) exists and no event has occurred that (whether with or without notice, lapse of time or the occurrence of any other event) would reasonably be expected to result in the suspension or revocation of any of said Permits other than by expiration of the term set forth therein, except in each case where such a suspension or revocation would not reasonably be expected to have a Material Adverse Effect on the Companies.

3.24 *Absence of Certain Business Practices*.

To the Knowledge of the Companies, neither of the Companies, nor any officer, employee or agent of the Companies, or any other Person acting on their behalf has, directly or indirectly, since the formation of the Companies, given, offered, solicited or agreed to give, offer or solicit any contribution, gift, bribe, rebate, payoff, influence payment, kickback or other payment, regardless of form and whether in money, property or services, to any customer, supplier, governmental employee or other Person who is or may be in a position to help or hinder the Companies in connection with the design, development, manufacture, distribution, marketing, use, sale, acceptance, maintenance or repair of their respective products and services (or assist the Companies in connection with any actual or proposed transaction relating to the products and services of the Companies) (a) that subjected or might have subjected either of the

Companies to any damage or penalty in any civil, criminal or governmental litigation or proceeding, (b) that, if not given in the past, might have had a Material Adverse Effect as it relates to the products and services of the Companies, (c) that, if not continued in the future, might have a Material Adverse Effect, or subject the Companies to suit or penalty in any private or governmental litigation or proceeding, (d) for any purposes described in Section 162(c) of the Code, or (e) for the purpose of establishing or maintaining any concealed fund or concealed bank account.

3.25 *Litigation*.

(a) Except as set forth on Schedule 3.25(a) of the Disclosure Schedules, there are no:

(i) actions, suits, claims, trials, written demands, investigations, arbitrations, or other proceedings (whether or not purportedly on behalf of the businesses of the Companies), pending or threatened against or with respect to the Companies, or their respective properties or businesses, but in all events including D&O Indemnification Claims pending or threatened against or with respect to the Companies or their respective properties or businesses; or

(ii) outstanding judgments, orders, decrees, writs, injunctions, decisions, rulings or awards against or with respect to the Companies, or their respective properties or businesses.

(b) Neither of the Companies (nor the businesses of either of them) are in default with respect to any judgment, order, writ, injunction, decision, ruling, decree or award of any Governmental Authority. Except as set forth on Schedule 3.25(b) of the Disclosure Schedules, there is no reasonable basis for a claim against the Companies relating to defective design, material, or performance.

(c) Schedule 3.25(c) of the Disclosure Schedules contains a true and complete description of all indemnification obligations of the Companies, including a description in reasonable detail of any such obligation for which the indemnitee has given notice of a claim or in connection with which there exits any facts that would reasonably cause it to believe an indemnification claim will be made.

3.26 *Personnel Matters*.

(a) True, accurate, and complete lists of all of the directors, officers, and employees of each of the Companies, as of May 4, 2006 (collectively, *Personnel*) and their positions are included on Schedule 3.26(a) of the Disclosure Schedules. True and complete information concerning the respective salaries, wages, and other compensation paid by the applicable Company during 2004 and 2005 as well as dates of employment, and date and amount of last salary increase, of such Personnel has been provided previously to FAAC.

(b) All bonuses and other compensation owed by the Companies to their respective employees and consultants for periods prior to December 31, 2005, have been paid in full and all compensation owed and due by the Companies to their respective employees and Consultants for periods after December 31, 2005 is paid and current (other than bonuses).

(i) A bonus pool (the Bonus Pool) for fiscal year 2006 has been established (which is shown and accrued for with adequate revenues on the Interim Financials) from which bonuses are to be paid to certain employees of the Companies if and when such bonuses are determined by the Companies management at the end of the Companies 2006 fiscal year (the Employee Bonuses).

(ii) Certain employees of the Companies are entitled to *Phantom Membership Interest Appreciation Rights* that are due and payable in full on the Closing Date (the Phantom Membership Interest Plan). Schedule 3.26(b) of the Disclosure Schedules shows the employees participating in the Phantom Membership Interest Plan and the amounts payable at Closing for each such participant. At Closing the Companies shall be responsible for paying all sums due under the Phantom Membership Interest Plan and deliver to FAAC releases for each participant in the Phantom Membership Interest Plan in the form allocated hereafter as *Exhibit I* (the *Phantom Membership Interest Release*).

(iii) The Estimated Closing Balance Sheet shall include reserves for the Bonus Pool and the payment of all sums due at Closing under the Phantom Membership Interest Plan.

(c) There are no disputes, grievances, or disciplinary actions pending, or, to the Knowledge of the Companies, threatened, by or between either of the Companies and any Personnel.

(d) All personnel policies and manuals of the Companies are listed on Schedule 3.26(d) of the Disclosure Schedules, and true, accurate, and complete copies of all such written personnel policies and manuals have been provided to FAAC.

(e) Except for the Employee Bonuses or as otherwise listed on Schedule 3.26(e) of the Disclosure Schedules, neither of the Companies is a party to any:

(i) management, employment, consulting, or other agreement with any Personnel or other person providing for employment or payments over a period of time or for termination or severance benefits, whether or not conditioned upon a change in control of the Companies;

(ii) bonus, incentive, deferred compensation, severance pay, profit-sharing, stock purchase, stock option, benefit, or similar plan, agreement, or arrangement, whether written or unwritten;

(iii) collective bargaining agreement or other agreement with any labor union or other Personnel organization (and no such agreement is currently being requested by, or is under discussion by management with, any Personnel or others); or

(iv) other employment contracts, non-competition agreement, or other compensation agreement or arrangement affecting or relating to Personnel or former Personnel of the Companies, whether written or unwritten.

(f) To the Knowledge of the Companies and except as otherwise disclosed on Schedule 3.26(f) of the Disclosure Schedules, there do not exist any facts that would give reasonable cause to believe that there will occur a discontinuation after the Closing Date of any currently existing employment situation of any executive and managerial Personnel with respect to either of the Companies on the currently existing terms.

(g) No officer, director, agent or employee of, or Consultant to, either of the Companies is bound by any contract or agreement that purports to limit the ability of such officer, director, agent, employee, or Consultant to (i) engage in or continue in any conduct, activity, or practice relating to the business of either of the Companies or (ii) assign to the Companies or to any other Person any rights to any Intellectual Property or any Intellectual Property Right.

(h) Except as otherwise disclosed on Schedule 3.26(h) of the Disclosure Schedules, no leased employee, as defined in Code Section 414(n), or independent contractor performs service for either of the Companies.

3.27 *Labor Matters*.

(a) Neither of the Companies is obligated by, or subject to, any order of the National Labor Relations Board or other labor board or administration, or any unfair labor practice decision.

(b) Neither of the Companies is a party or subject to any pending or, to the Knowledge of the Companies, threatened labor or civil rights dispute, controversy or grievance or any unfair labor practice proceeding with respect to claims of, or obligations of, any employee or group of employees. Neither of the Companies has received any notice that any labor representation request is pending or is threatened with respect to any employees of either of the Companies.

(c) Each of the Companies is in compliance with all applicable Laws and affirmative action programs respecting employment and employment practices, terms and conditions of employment and wages and hours, including but not limited to Executive Order 11246, as amended, the Workers Adjustment Retraining Notification Act and the Service Contract Act. This Section 3.27 does not extend to ERISA as defined in Section 3.28.

(d) No present or former employee of the Companies has any claim against the Companies (whether under Federal or state law, pursuant to any employment agreement, or otherwise) on account of, or for: (i) overtime pay, other than for the current payroll period; (ii) wages or salary (excluding bonuses and amounts accruing under any pension or profit-sharing plan, including but not limited to any Pension Plan or Welfare Plan (as such terms are defined in Section 3.28)) for a period other than the current payroll period; (iii) vacation, time off or pay in lieu of vacation or time off, other than vacation or time off (or pay in lieu thereof) earned in respect of the current or past fiscal year or accrued on the most recent balance sheet for the Companies, or (iv) payment under any applicable workers compensation law.

3.28 *ERISA*.

(a) Capitalized terms used in this Section 3.28 that are not otherwise defined in this Agreement shall have the meanings set forth below:

(i) *Benefit Arrangement* means any compensation or employment program (other than a Pension Plan or Welfare Plan), including but not limited to, any fringe benefit, incentive compensation, bonus, severance, deferred compensation and supplemental executive compensation plan that either of the Companies maintains or to which either of the Companies or any ERISA Affiliate contributes or has any obligation to contribute, or with respect to which either of the Companies or any ERISA Affiliate has any liability.

(ii) *ERISA* means the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, as well as any rules and regulations promulgated thereunder by any Governmental Authority, as from time to time in effect.

(iii) *ERISA Affiliate* means a corporation that is a member of a controlled group of corporations with either of the Companies within the meaning of Code Section 414(b), a trade or business that is under common control with either of the Companies within the meaning of Code Section 414(c), or a member of an affiliated service group with either of the Companies within the meaning of Code Sections 414(m) or (o), including any such Entity that was an ERISA Affiliate at any time.

(iv) *PBGC* means the Pension Benefit Guaranty Corporation.

(v) *Pension Plan* means any employee pension benefit plan (as defined in ERISA Section 3(2)) either Company or an ERISA Affiliate maintains or to which either of the Companies or an ERISA Affiliate contributes or has any obligation to contribute, or with respect to which either of the Companies or an ERISA Affiliate has any liability.

(vi) *Plan* means any Pension Plan, any Welfare Plan, and any Benefit Arrangement.

(vii) *Welfare Plan* means any employee welfare benefit plan (as defined in ERISA Section 3(1)) that either Company or an ERISA Affiliate maintains or to which either Company or an ERISA Affiliate contributes or has any obligation to contribute, or with respect to which either Company or an ERISA Affiliate has any liability.

(b) Schedule 3.28(b) of the Disclosure Schedules sets forth a list of: (i) each Pension Plan; (ii) each Welfare Plan; and (iii) each Benefit Arrangement.

(c) the Companies have delivered to FAAC true, accurate and complete copies of (i) the documents comprising each Plan (or, with respect to any Plan that is unwritten, a detailed written description of eligibility, participation, benefits, funding arrangements, assets and any other matters that relate to the obligations of the Companies or any ERISA Affiliate); (ii) all trust agreements, insurance contracts or any other funding instruments related to the Plans; (iii) all rulings, determination letters, no-action letters or advisory opinions from the IRS, the U.S. Department of Labor, the PBGC or any other Governmental Authority that pertain to each Plan and any open requests therefor; (iv) the most recent actuarial and financial reports (audited and/or unaudited) and the annual reports filed with any Governmental Authority with respect to the Plans during the most recent three years; and (v) all summary plan descriptions, summaries of material modifications, and memorandum, employee handbooks and other written communications regarding the Plans.

(d) Neither of the Companies has, at any time within six (6) years prior to the Effective Date, sponsored, maintained or contributed to a Pension Plan subject to Title IV of ERISA, a multiemployer plan (as defined in ERISA Section 3(37)), or a voluntary employees beneficiary association, as defined in Code Section 501(c)(9) (a *VEBA*).

(e) Full payment has been made of all amounts that are required under the terms of each Plan to be paid as contributions with respect to all periods prior to the Effective Date and any such amounts that are not required to be so paid under any Welfare Plan, including any vacation pay plan, have been accrued on the Financial Statements.

(f) No prohibited transaction within the meaning of ERISA Section 406 or Code Section 4975 has occurred with respect to any Pension Plan as of the date of this Agreement, other than a transaction to which a statutory or administrative exemption has been granted.

(g) Except as set forth on Schedule 3.28(g) of the Disclosure Schedules, the form of each Pension Plan and Welfare Plan is in compliance with the applicable terms of ERISA, the Code, and any other applicable laws, including, but not limited to, the Americans with Disabilities Act of 1990, the Family Medical Leave Act of 1993, the Health Insurance Portability and Accountability Act of 1996, the Uruguay Round Agreements Act, the Small Business Job Protection Act of 1996, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, the Community Renewal Tax Relief Act of 2000, and the Economic Growth and Tax Relief Reconciliation Act of 2001, and such plans have been operated in compliance with such laws and the written Plan documents. Neither of the Companies, nor, any fiduciary of a Pension Plan has violated the requirements of Section 404 of ERISA. Except as set forth on Schedule 3.28(g) of the Disclosure Schedules, all required reports and descriptions of the Plans (including Internal Revenue Service Form 5500 Annual Reports, Summary Annual Reports and Summary Plan Descriptions and Summaries of Material Modifications) have been (when required) timely filed with the IRS, the U.S. Department of Labor or other Governmental Authority and distributed as required, and all notices required by ERISA or the Code or any other Laws with respect to the Pension Plans and Welfare Plans have been appropriately given.

(h) Each Pension Plan that is intended to be qualified under Section 401(a) of the Code is subject to a favorable determination letter from the IRS, and to the Knowledge of the Companies there are no circumstances that will or could result in revocation of any such favorable determination letter. Each trust created under any Pension Plan has been determined to be exempt from taxation under Section 501(a) of the Code, and, to the Knowledge of the Companies, there is no circumstance that will result in a revocation of such exemption.

(i) No charge, complaint, action, suit, proceeding, hearing, investigation, claim or demand with respect to a Plan or to the administration or the investment of the assets of any Plan that either of the Companies or any ERISA Affiliate maintains or has maintained, or to which either of the Companies or any ERISA Affiliate contributes or has contributed, for the benefit of any current or former employee (other than routine claims for benefits) is pending or, to the Knowledge of the Companies, threatened that could reasonably be expected to result in a material liability to either of the Companies or any ERISA Affiliate or to such Plan or a fiduciary of such Plan.

(j) Except as required by the Code, the consummation of the transactions contemplated by this Agreement will not accelerate the time of vesting or the time of payment, or increase the amount of compensation due to any director, employee, officer, former employee or former officer of either Company or an ERISA Affiliate.

(k) No written or oral representations have been made to any employee, former employee, or director of either Company or any ERISA Affiliate at any time promising or guaranteeing any employer payment or funding for the continuation of medical, dental, life or disability coverage for any period of time (except to the extent of coverage required under COBRA or other applicable Law).

(l) All nonqualified deferred compensation plans maintained by either or both Companies, to the extent such plans are maintained for the benefit of individuals that are subject to United States Taxes, satisfy the requirements of Section 409A of the Code.

(m) Schedule 3.28(m) of the Disclosure Schedules identifies (i) all Welfare Plans that either or both Companies self insure (each a *Self Insured Plan* and collectively the *Self Insured Plans*); (ii) the administrator of each of the Self Insured Plans, (iii) the limits for each of the Self Insured Plans and (iv) the plan year for each of the Self Insured Plans.

(i) Each of the Self Insured Plans has been maintained in compliance, in all material respects, with its terms.

(ii) There are no actions, suits, or claims (other than routine claims for benefits in the ordinary course) pending or, to the Knowledge of the Companies, threatened, and to the Knowledge of the Companies, there are no facts that reasonably could be expected to give rise to any such claims.

(iii) To the Knowledge of the Companies, there are no benefit claims that either individually or in the aggregate are significantly greater than what the Companies generally experienced in the past.

(n) No act or omission has occurred, with respect to any Plan that would result in any penalty, tax or liability of any kind imposed upon either of the Companies under applicable Law, and to the Knowledge of the

Companies, no condition exists that reasonably could be expected to give rise to any such penalty, tax or liability.

3.29 *Tax Matters*.

Except as set forth Schedule 3.29 of the Disclosure Schedules:

(a) Each of the Companies (i) is a limited liability company under Maryland law, taxable as a partnership under Subchapter K of the Code, (ii) has never made an election to be taxable as a corporation for federal or state income tax purposes, and (iii) has never been a publicly traded partnership as defined in Section 7704(b) of the Code. Each member of the Companies has timely reported on their individual income tax returns their share of the items of income and deductions of the Companies as reported to them on the Form K-1 s that they receive from the Companies;

(b) The fiscal year of each of the Companies ends on December 31;

(c) Each of the Members of the Companies is a United States citizen and is a resident of the State of Maryland;

(d) Each of the Companies has duly and timely filed all federal, state, local and foreign Tax reports, statements, documents and returns required to be filed by them (the *Tax Returns*) and has timely paid all taxes and other charges of any kind whatsoever due and payable to federal, state, local or foreign taxing authorities (including, without limitation, those due and payable in respect of the sales, use, properties, income, franchises, licenses, foreign jurisdictions, levies, imposts, occupation, transfers, ad valorem, customs, goods and services, withholding or payrolls of the Companies, including any interest and penalties thereon and additions thereto) (*Taxes*). The Companies are not currently the beneficiary of any extension of time within which to file any Tax Return;

(e) The reserves for Taxes reflected in the December 2005 Balance Sheets of the Companies are adequate and reflect all liability of the Companies for Taxes. Since December 31, 2005, the Companies have not incurred any liability for Taxes outside the ordinary course of business or otherwise inconsistent with past custom and practice;

(f) There are no Tax liens upon any property or assets of the Companies except liens for current Taxes not yet due and payable;

(g) All Tax Returns and amendments thereof filed by the Companies are true, correct and complete in all material respects;

(h) All Taxes that the Companies are or were required by law to withhold or collect have been withheld or collected and, to the extent required, have been timely paid to the proper governmental body or other person;

(i) There are no Tax allocation, indemnity, sharing or similar arrangements with respect to or involving the Companies, and, after the date hereof, the Companies shall not be bound by any such tax sharing agreements or similar arrangements or have any liability thereunder for amounts due in respect of periods on or prior to the Closing Date;

(j) The Companies (i) have never been a partner for Tax purposes with respect to any joint venture, partnership, or other arrangement or contract which is treated as a partnership for income Tax purposes, (ii) do not own a single member limited liability company which is treated as a disregarded entity, (iii) are not a shareholder of a controlled foreign corporation as defined in Section 957 of the Code (or any similar provision of state, local or foreign law), and (iv) are not a shareholder of a passive foreign investment company within the meaning of Section 1297 of the Code;

(k) The Companies do not have and have not had a permanent establishment in any foreign country, as defined in any applicable Tax treaty or convention between the United States of America and such foreign country;

(l) The Companies have not entered into any transaction identified as a listed transaction for purposes of Treasury Regulations section 1.6011-4(b)(2) or 301.6111-2(b)(2) and have not engaged in any reportable transaction within the meaning of Sections 6111 and 6112 of the Code;

(m) There is no contract, plan or arrangement, including but not limited to the provisions of this Agreement, covering any employee or former employee of the Companies that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the Code;

(n) There is no pending or threatened claim, audit, action, suit, proceeding or investigation against or with respect to (i) Taxes due and payable or claimed to be due by the Companies, or (ii) any Tax Return;

(o) No deficiencies for any Tax relating to the Companies have been claimed, proposed, asserted or assessed (tentatively or definitively) by any governmental or taxing authority, including, without limitation, any sales and/or use Taxes due; and no governmental or taxing authority in any jurisdiction in which either of the Companies does not file Tax Returns has asserted that either of the Companies are, or may be, subject to Tax in that jurisdiction. There are no matters under discussion with any Tax Authority, or known to either of the Companies, with respect to Taxes that are likely to result in an additional liability for Taxes with respect to either of the Companies. The Companies have delivered or made available to Buyer complete and accurate copies of federal, state and local income Tax Returns of the Companies and its predecessors, if any, for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, and complete and accurate copies of all examination reports and statements of deficiencies assessed against or agreed to by the Companies or any predecessors since December 31, 2001, with respect to Taxes of any type. Neither the Companies nor any predecessor has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency, nor has any request been made in writing for any such extension or waiver;

(p) No power of attorney to deal with Tax matters of the Companies is currently in force;

(q) The relevant statute of limitations for the assessment or proposal of a deficiency against the Companies for Taxes has expired for taxable periods ending prior to December 31, 2003;

(r) Any nonqualified deferred compensation plan (within the meaning of Section 409A of the Code) to which the Companies are a party has at all times since the effective date of Section 409A of the Code complied in form and in operation with the requirements of paragraphs (2), (3), and (4) of Section 409A(a) of the Code. No event has occurred since the effective date of Section 409A of the Code that would be treated by Section 409A(b) of the Code as a transfer of property for purposes of Section 83 of the Code; and

(s) The Companies have disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code.

3.30 *Insurance*.

(a) The Companies maintain the general liability, professional liability, product liability, fire, casualty, motor vehicle, workers compensation, and other types of insurance shown on Schedule 3.30(a) of the Disclosure Schedules, which insurance is comprised of the types and in the amounts customarily carried by businesses of similar size in the same industry and which are reasonably necessary to adequately insure and protect the assets of the Companies. A list of all claims against such insurance since January 1, 2006 that individually exceed $5,000 in amount and the outcomes or status of such claims is set forth on Schedule 3.29 of the Disclosure Schedules.

(b) The Companies maintain life insurance on those persons in the amounts as indicated on Schedule 3.30(b) of the Disclosure Schedules. With respect to each of the foregoing life insurance policies (i) VTC is the designated beneficiary and (ii) all premiums are current as of the date hereof and there are no premiums due and unpaid as of the date hereof.

3.31 *Bank Accounts*.

Schedule 3.31 of the Disclosure Schedules sets forth (i) the name of each Person with whom the Companies maintains accounts or safety deposit boxes, (ii) the address where each such account or safety deposit box is maintained, and (iii) the names of all Persons authorized to draw thereon or to have access thereto.

3.32 *Powers of Attorney*.

(a) Neither of the Companies has given any irrevocable power of attorney (other than such powers of attorney given in the ordinary course of business with respect to routine matters or as may be necessary or desirable in connection with the consummation of the Contemplated Transactions) to any Person for any purpose whatsoever.

(b) Each of the Members jointly and severally represents and warrants to FAAC that such Shareholder has not given any irrevocable power of attorney (other than pursuant to Section 2.6 hereof or other than such powers of attorney given in the ordinary course of business with respect to routine matters or as may be necessary or desirable in connection with the consummation of the Contemplated Transactions) to any Person for any purpose whatsoever with respect to the Companies.

3.33 *No Broker*.

Except for Evergreen Capital LLC (*Evergreen*), which was retained by the Companies under two separate fee agreements both dated April 6, 2006 (jointly, the *Evergreen Agreement*), neither the Members nor the Companies (or any of their respective Affiliates, directors, officers, employees or agents) has employed or incurred any liability to any broker, finder or agent for any brokerage fees, finder s fees, commissions or other amounts with respect to this Agreement or the Contemplated Transactions.

3.34 *Security Clearances*.

To the Knowledge of the Companies, each of the Companies have the proper procedures to conduct business of a classified nature up to the level of their current clearances. The levels and locations of facility clearances are set forth on Schedule 3.34 of the Disclosure Schedules. Schedule 3.34 of the Disclosure Schedules identifies as of the Effective Date any employees whose security clearance, to the Knowledge of the Companies, has been lost or downgraded in the last twenty-four (24) months. Each of the Companies is in compliance in all material respects with applicable agency security requirements, as appropriate, and has in place proper procedures, practices and records to maintain security clearances necessary to perform their current contracts.

3.35 *No Unusual Transactions*.

Except as expressly contemplated by this Agreement, or as set forth in Schedule 3.35 of the Disclosure Schedules, since December 31, 2005, each of the Companies has conducted its business in the ordinary course and in a manner consistent with past practice and, without limiting the generality of the foregoing, neither of the Companies has:

(a) incurred or discharged any secured or any unsecured liability or obligation (whether accrued, absolute or contingent) other than liabilities and obligations disclosed in the December 2005 Balance Sheet or the Estimated Closing Balance Sheet and liabilities and obligations incurred since December 31, 2005 in the ordinary course of business and in a manner consistent with past practices;

(b) waived or cancelled any claim, account receivable or trade account involving amounts in excess of $25,000 in the aggregate;

(c) made any capital expenditures in excess of $25,000 in the aggregate;

(d) sold or otherwise disposed of or lost any capital asset or used any of its assets other than, in each case, for proper corporate purposes and in the ordinary course of business and in a manner consistent with past practices;

(e) issued any options to purchase any shares of its Equity Interests, or sold or otherwise disposed of any shares of its Equity Interests or any warrants, rights, bonds, debentures, notes or other security;

(f) entered into any transaction, contract, agreement, indenture, instrument or commitment involving amounts in excess of $25,000 in the aggregate other than in the ordinary course of business and in a manner consistent with past practices or in connection with the Contemplated Transactions;

(g) suffered any extraordinary losses whether or not covered by insurance;

(h) modified its charter, bylaws or capital structure;

(i) redeemed, retired, repurchased, purchased, or otherwise acquired its Equity Interests, options to purchase such stock, or any of its other corporate securities;

(j) suffered any material shortage or any material cessation or interruption of inventory shipments, supplies or ordinary services;

(k) entered into an employment agreement or made (i) (A) any increase in the rate or change in the form of compensation or remuneration payable to or to become payable to any of its directors or officers, or (B) any increase in the rate or change in the form of compensation or remuneration payable to or to become payable to any of its employees, licensors, licensees, franchisors, franchisees, distributors, agents, or suppliers, other than such increases or changes in the ordinary course of business and consistent with past practices, or (ii) any bonus or other incentive payments or arrangements with any of its, directors, officers, employees, licensors, licensees, franchisors, franchisees, distributors, agents, suppliers, or customers;

(l) removed any director or terminated any officer except those directors and officers who will resign in accordance with Section 7.8;

(m) entered into, terminated, cancelled, amended or modified any material contract, other than in the ordinary course of business or in connection with the Contemplated Transactions;

(n) made any change in its accounting policies, practices and calculations as utilized in the preparation of the December 2005 Financial Statements;

(o) voluntarily permitted any Person to subject the Membership Interests or the properties of the Companies to any additional Lien;

(p) (i) made any loan or advance to, or (ii) assumed, guaranteed, endorsed or otherwise become liable with respect to the liabilities or obligations of, any Person;

(q) purchased or otherwise acquired any corporate security or other equity interest in any Person;

(r) changed its pricing, credit, or payment policies;

(s) incurred any Indebtedness other than to trade creditors and financial institutions in the ordinary course of business and in a manner consistent with past practices;

(t) except as otherwise required by Law, entered into, amended, modified, varied, altered, or otherwise changed any of the Plans;

(u) changed its banking arrangements and signatories or granted any powers of attorney;

(v) purchased, sold, leased, or otherwise disposed of any of its properties or any right, title or interest therein other than in the ordinary course of business;

(w) failed to maintain its books in a manner that fairly and accurately reflects its income, expenses and liabilities in accordance with applicable accounting standards, including, without limitation, GAAP, and using accounting policies, practices and calculations applied on a basis consistent with past periods and throughout the periods involved;

(x) failed to maintain in full force and effect insurance policies on all of its properties providing coverage and amounts of coverage comparable to the coverage and amounts of coverage provided under its policies of insurance as shown on Schedule 3.30(a) of the Disclosure Schedules;

(y) failed to perform duly and punctually in all material respects all of its contractual obligations in accordance with the terms thereof, except where the failure to do so would not have a Material Adverse Effect as to the Companies;

(z) failed to maintain and keep its properties in good condition and working order, except for ordinary wear and tear;

(aa) materially modified or changed its business organization or materially and adversely modified or changed its relationship with its suppliers, customers and others having business relations with it;

(bb) entered into any contract, or agreement, or arrangement of any kind with a Member or any Affiliate of any Member or the Companies; or modified, amended or expanded any Related Party Transaction without the prior written consent of FAAC; or

(cc) authorized, agreed or otherwise committed to any of the foregoing.

3.36 *Full Disclosure*.

Neither this Agreement nor any Section, agreement, document or certificate delivered pursuant hereto contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which such statements were made. All documents and other papers delivered by or on behalf of the Members and the Companies in connection with this Agreement are true, complete and correct in all material respects.

ARTICLE IV

Representations and Warranties of FAAC

FAAC represents and warrants to the Members:

4.1 *Organization and Power*.

(a) FAAC is a corporation duly organized, validly existing and in good standing under the laws of Delaware and has full corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Contemplated Transactions.

(b) FAAC has all requisite corporate power to own or lease and operate its properties.

4.2 *Authorization and Enforceability*.

FAAC s Board of Directors has duly authorized and approved the execution and delivery of this Agreement and, subject to the approval of FAAC s shareholders, the execution and delivery of the other Transaction Documents and the consummation of the Contemplated Transactions. As of the Closing Date (a) FAAC will have duly authorized the execution and delivery of and the performance of its obligations under the Transaction Documents and (b) the Transaction Documents will constitute the legal, valid and binding obligation of FAAC and shall be enforceable against FAAC in accordance with its and their terms, respectively, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors rights and to general equity principles.

4.3 *No Violation*.

None of the execution, delivery or performance of this Agreement or any of the other Transaction Documents by FAAC and the consummation of the Contemplated Transactions will:

(a) conflict with or violate any provision of the certificate of incorporation, any bylaw or any corporate charter or document of FAAC;

(b) result in the creation of, or require the creation of, any Lien upon any (i) shares of shares of stock of FAAC or (ii) property of FAAC;

(c) result in (i) the termination, cancellation, modification, amendment, violation, or renegotiation of any contract, agreement, indenture, instrument, or commitment pertaining to the business of FAAC, or (ii) the acceleration or

forfeiture of any term of payment;

(d) give any Person the right to (i) terminate, cancel, modify, amend, vary, or renegotiate any contract, agreement, indenture, instrument, or commitment pertaining to the business of FAAC, or (ii) to accelerate or forfeit any term of payment; or

(e) violate any Law applicable to FAAC or by which its properties are bound or affected.

4.4 *Consents*.

None of the execution, delivery or performance of this Agreement by FAAC, nor consummation of the Contemplated Transactions or compliance with the terms of the Transaction Documents will require (a) the consent or approval under any agreement or instrument or (b) FAAC to obtain the approval or consent of, or make any declaration, filing (other than administrative filings with Taxing Authorities, foreign companies registries and the like) or registration with, any Governmental Authority.

4.5 *Authorization of Stock Consideration*.

The shares of FAAC common stock to be issued pursuant to Section 2.2 to the Members as Stock Consideration, when issued sold and delivered at Closing in accordance with the terms of this Agreement, will (a) be duly authorized, validly issued, fully paid and nonassessable, (b) not be subject to preemptive rights created by statute, FAAC s certificate of incorporation or bylaws or any agreement to which FAAC is a party or by which FAAC is bound and (c) be free of restrictions on transfer or Liens, other than restrictions on transfer under applicable state and federal securities laws or restrictions or Liens imposed thereon by the Members after the Closing.

4.6 *Capitalization*.

The authorized capital stock of FAAC consists, and as of Closing will consist, of 50,000,000 shares of common stock and 1,000,000 shares of preferred stock, par value $0.0001 per share, of which, (a) 9,550,000 shares of FAAC s common stock were issued and outstanding as of May 1, 2006, all of which were duly authorized, validly issued, fully paid and nonassessable, (b) no shares of FAAC common stock were held in the treasury of FAAC, and (c) no shares of FAAC s preferred stock were outstanding. As of the Effective Date hereof, and as of Closing, except as described in this Section or on Schedule 4.6, (a) there are no outstanding (i) shares of capital stock or other voting securities of FAAC, (ii) securities of FAAC convertible into or exchangeable for shares of capital stock or voting securities of FAAC, (iii) options or other rights to acquire from FAAC, or obligations of FAAC to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of FAAC, and (iv) equity equivalents, interests in the ownership or earnings of FAAC or other similar rights (collectively *FAAC Securities*), and (b) there are no outstanding obligations of FAAC to repurchase, redeem or otherwise acquire any FAAC Securities.

4.7 *Public Disclosure Documents*.

(a) FAAC has timely filed with, or furnished to, the SEC each form, proxy statement or report required to be filed with, or furnished to, the SEC by FAAC pursuant to the Exchange Act (collectively, with FAAC s prospectus filed with the SEC on July 13, 2005, as amended to date, the *Public Disclosure Documents*). The Public Disclosure Documents, as amended prior to the date hereof, complied, as of the date of their filing with the SEC, as to form in all material respects with the requirements of the Exchange Act and Securities Act, as applicable. The information contained or incorporated by reference in the Public Disclosure Documents was true, complete and correct in all material respects as of the respective dates of the filing thereof with the SEC; and, as of such respective dates, the Public Disclosure Documents did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The financial statements of FAAC included in the Public Disclosure Documents have been prepared in accordance with the published rules and regulations of the SEC and in conformity with GAAP applied on a consistent basis throughout the periods indicated therein, except as may be indicated therein or in the notes thereto, and presented fairly, in all material respects, the consolidated financial position of FAAC as of the dates indicated, and the consolidated results of the operations and cash flows of FAAC for the periods therein specified (except in the case of quarterly financial statements for the absence of footnote disclosure and subject, in the case of interim periods, to normal year-end adjustments).

4.8 *Litigation*.

There is no action, suit, proceeding, arbitration, claim, investigation or inquiry pending or, to FAAC s Knowledge, threatened by or before any governmental body or other forum against the FAAC that (i) would reasonably be expected to have a Material Adverse Effect as to FAAC, (ii) that questions the validity of this Agreement or (iii) that seeks to prohibit, enjoin or otherwise challenge the Contemplated Transactions.

4.9 *Brokers*.

FAAC has not entered into any contract or other understanding with any Person, which may result in the obligation of FAAC to pay any finder s fee, commission or other like payment in connection with this Agreement and the Contemplated Transactions.

4.10 *Full Disclosure*.

Neither this Agreement nor any Section, agreement, document or certificate delivered pursuant hereto contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which such statements were made. All documents and other papers delivered by or on behalf of the FAAC in connection with this Agreement are true, complete and correct in all material respects.

ARTICLE V

Covenants

5.1 *Conduct of the Companies*.

Except as contemplated by this Agreement, during the period from the Effective Date to the Closing Date, the Members will cause the Companies to conduct their business and operations in the ordinary course and, to the extent consistent therewith, to use reasonable efforts to preserve their respective current relationships with customers, employees, suppliers and others having business dealings with them. Accordingly, and without limiting the generality of the foregoing, during the period from the date of this Agreement to the Closing Date, without the prior written consent of FAAC, neither the Companies or the Members will take, and the Members will not permit the Companies to take, any action that would cause the representations set forth in Section 3.35 not to be true as of the Closing Date, except as expressly contemplated by this Agreement.

5.2 *Access to Information Prior to the Closing; Confidentiality*.

(a) During the period from the Effective Date through the Closing Date, the Members will cause the Companies to give FAAC and its authorized representatives reasonable access during regular business hours to all offices, facilities, books and records of the Companies as FAAC may reasonably request; *provided, however*, that (i) FAAC and its representatives shall take such action as is deemed necessary in the reasonable judgment of the Members to schedule such access and visits through a designated officer(s) of the Companies and in such a way as to avoid disrupting the normal business of the Companies, (ii) the Companies shall not be required to take any action that would constitute a waiver of the attorney-client or other privilege and (iii) the Companies need not supply FAAC with any information that, in the reasonable judgment of the applicable Company is under a contractual or legal obligation not to supply, including, without limitation, as a result of any governmental or defense industrial security clearance requirement or program requirements of any Governmental Authority prohibiting certain persons from sharing information; provided, however, each of the Companies and the Members will use their respective reasonable efforts to enable FAAC to receive such information.

(b) FAAC will hold and will cause its employees, agents, affiliates, consultants, representatives and advisors to hold any information that it or they receive in connection with the activities and transactions contemplated by this Agreement in strict confidence in accordance with and subject to the terms of the Confidentiality Agreement dated as of January 16, 2006 between FAAC, the Members and the Companies (the *Confidentiality Agreement*).

5.3 *Best Efforts*.

Subject to the terms and conditions of this Agreement, each of the parties hereto will use its best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable

laws and regulations to consummate the transactions contemplated by this Agreement at the earliest practicable date.

5.4 *Consents*.

Without limiting the generality of Section 5.3 hereof, each of the parties hereto will use its best efforts to obtain all licenses, permits, authorizations, consents and approvals of all third parties and governmental authorities necessary in connection with the consummation of the transactions contemplated by this Agreement prior to the Closing. Each of the parties hereto will make or cause to be made all filings and submissions under laws and regulations applicable to it as may be required for the consummation of the transactions contemplated by this Agreement. FAAC, the Members and the Companies will coordinate and cooperate with each other in exchanging such information and assistance as any of the parties hereto may reasonably request in connection with the foregoing.

5.5 *Access to Books and Records Following the Closing*.

Following the Closing, FAAC shall permit the Members and their authorized representatives, during normal business hours and upon reasonable notice, to have reasonable access to, and examine and make copies of, all books and records of the Companies and/or FAAC that relate to transactions or events occurring prior to the Closing or transactions or events occurring subsequent to the Closing that are related to or arise out of transactions or events occurring prior to the Closing; provided, however, (a) that the Members and their representatives shall take such action as is deemed necessary in the reasonable judgment of FAAC and the Companies to schedule such access and visits through a designated officer of the Companies and in such a way as to avoid disrupting the normal business of FAAC and/or the Companies, (b) neither FAAC nor the Companies shall be required to take any action that would constitute a waiver of the attorney-client or other privilege and (c) neither FAAC nor the Companies need supply the Members, or their representatives, with any information which, in the reasonable judgment of FAAC or the Companies (as the case may be) is under a contractual or legal obligation not to supply, including, without limitation, as a result of any governmental or defense industrial security clearance requirement or program requirements of any Governmental Authority prohibiting certain persons from sharing information. FAAC agrees that it shall retain and shall cause the Companies to retain all such books and records for a period of seven years following the Closing, or for such longer period following the Closing as may be required by applicable Law.

5.6 *Members Post-Closing Confidentiality Obligation*.

Following the Closing, except as otherwise expressly provided in this Agreement or in other agreements delivered in connection herewith, the Members shall, and shall cause their respective Affiliates, officers agents and representatives, as applicable to, (a) maintain the confidentiality of, (b) not use, and (c) not divulge, to any Person any confidential or proprietary information of the Companies, except with the prior written consent of FAAC or to the extent that such information is required to be divulged by legal process, except as may reasonably be necessary in connection with the performance of any indemnification obligations under this Agreement or except as may be required by Law; provided, however, that the foregoing limitations shall not apply to information that (i) otherwise becomes lawfully available to the Members, or their respective Affiliates, officers agents and representatives after the Closing Date on a nonconfidential basis from a third party who is not under an obligation of confidentiality to FAAC or the Companies or (ii) is or becomes generally available to the public without breach of this Agreement by the Members, or their respective Affiliates, officers agents and representatives.

5.7 *Expenses*.

(a) Except as otherwise provided in this Section 5.7, each of the parties shall bear its own expenses related to the Contemplated Transactions. Notwithstanding the foregoing, all compensation due Evergreen and other third-party costs of the Members or the Companies with respect to the Contemplated Transactions and other the amounts referred to on Schedule 5.7 of the Disclosure Schedules, including, but not limited to all payments under the Phantom Membership Interest Plan due at Closing and otherwise to terminate the Phantom Membership Interest Plan (collectively, the *Members Transaction Costs*) shall be the responsibility of the Members and, to the extent payable at Closing, and not otherwise paid by the Members, shall be paid at Closing in accordance with Section 5.8(a).

(b) Notwithstanding the foregoing, the obligation to pay Taxes shall be allocated pursuant to Section 5.11 rather than this Section 5.7.

5.8 *Certain Closing Payments*.

(a) The Members shall be obligated to repay all Indebtedness of the Companies as of the Closing (other than the Assumed Debt). In connection with the Closing, FAAC shall repay out of the Cash Consideration, on behalf of the Members, (i) all Indebtedness of the Companies remaining outstanding (other than the Assumed Debt), and (ii) all Members Transaction Costs. To the extent the amount of any such payment can be determined, and paid, at or prior to the Closing, then a downward adjustment shall be made in the Cash Consideration paid at Closing equal to such amount. In the event any such payment cannot be determined or paid at or prior to Closing, then (i) the parties to the Escrow Agreements shall instruct the Escrow Agent to pay any such amount (from the Balance Sheet Escrow to the extent of any Balance Sheet Escrow Property and then from the General Indemnity Escrow) to FAAC within three (3) Business Days of determination (which may be through delivery of an invoice) and (ii) the Members hereby agree and covenant that they shall be jointly and severally responsible for and shall immediately deposit in the General Indemnity Escrow cash in the amount of the distributions made from the Escrowed Property to cover costs the Members are responsible for under this Section 5.8.

(b) It is the intent of the parties that all Members shall be deemed to have repaid any and all loans outstanding and owing by any of the Members to the Companies as of the Closing Date. Notwithstanding anything in this Agreement to the contrary, the Members Representative shall be permitted to make, or direct, non-pro rata distributions of the Cash Consideration to the Members in order to account for any such deemed repayments.

(c) The Members hereby instruct FAAC and FAAC hereby agrees that 67,825 shares of FAAC common stock (the *Evergreen Stock Payment Amount*) otherwise payable to Gallagher and Rosato pursuant to Section 2.2(d) above, shall be issued, on Rosato s and Gallagher s behalf, to Evergreen, or such other recipients as may be identified in writing by Evergreen on or before the Closing Date as partial payment of the fees due Evergreen under the Evergreen Agreement (the *Evergreen Stock Payment*).

(i) As a condition to receiving the Evergreen Stock Payment, Evergreen and any other recipients identified by Evergreen, shall be required to sign a Lock Up Agreement and Acquisition Agreement in the form attached hereto as *Exhibit J*.

(ii) The shares of FAAC s common stock to be issued pursuant to this Agreement as the Evergreen Stock Payment (A) have not been, and will not be at the time of issuance, registered under the Securities Act, and will be issued in a transaction that is exempt from the registration requirements of the Securities Act and (B) will be restricted securities under the federal securities laws and cannot be offered or resold except pursuant to registration under the Securities Act or an available exemption from registration. All certificates evidencing the Stock Consideration shall bear, in addition to any other legends required under applicable securities laws, the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION.

5.9 *No Solicitation of Competitive Transactions*.

From the date of this Agreement until the Closing, or, if earlier, the termination of this Agreement in accordance with its terms, each of the Companies and each of the Members agrees that they will not, directly or indirectly, through any officer, director, employee, representative or agent or any of their affiliates, (i) solicit, initiate, entertain or encourage any inquiries or proposals that constitute, or could lead to, a proposal or offer for a merger, consolidation, business combination, recapitalization, sale of substantial assets, sale of a substantial percentage of shares of capital stock (including, without limitation, by way of a public offering or private placement), joint venture or similar transactions involving the Companies or any of its subsidiaries, other than a transaction with FAAC and/or its affiliates (any of the foregoing inquiries or proposals being referred to herein as an Acquisition Proposal), (ii) engage in negotiations or discussions concerning, or provide any non-public information to any person or entity relating to, any Acquisition

Proposal, or (iii) agree to, approve or recommend any Acquisition Proposal. The Members will notify FAAC immediately (and not later than twenty-four (24) hours) after receipt of any Acquisition Proposal or any request for non-public information in connection with an Acquisition Proposal or for access to the properties, books or records of the Companies by any person or entity that informs the Members or the Companies that it is considering making or has made an

Acquisition Proposal. Such notice shall be made orally (and shall be confirmed in writing) and, subject to existing confidentiality, nondisclosure or other similar agreements, shall indicate the identity of the party making the proposal and the material terms and conditions of such proposal, inquiry or contract. The Members and the Companies will prevent, as applicable any of their respective directors, officers, affiliates, representatives or agents (each a *Representative*) from taking any action prohibited hereby if taken by the Members or the Companies. If the Members or either of the Companies learns of any such action taken by a Representative, the Member(s) or Companies will immediately advise FAAC and provide the information specified herein.

5.10 *Personnel*.

(a)Except as otherwise provided in Section 5.10(e), FAAC intends that all Personnel employed by the Companies as of the Closing Date, shall have the opportunity to continue as an employee of FAAC following the Closing Date. For purposes of this Agreement, the Companies Personnel as of the Closing Date shall be categorized sometimes as (i) the senior executives (consisting of Thomas P. Rosato and Gerard J. Gallagher, the Senior Executives), (ii) the *Key Employees* (which shall mean and refer to those employees identified by FAAC on a written list previously provided to the Companies and Members) and (iii) the *Non-Key Employees* (which shall refer to all personnel other than the Senior Executives and the Key Personnel).

(b)Simultaneously with the execution of this Agreement, each of the Senior Executives shall enter into employment agreements with FAAC in the form attached hereto as *Exhibits K-1* and *K-2* (jointly, the *Senior Executives Employment Agreements*) with effectiveness contingent only on Closing.

(c) Not less than fifty percent (50%) of the Key Employees shall enter into employment agreements with FAAC in the form attached hereto as Exhibit L (the Key Employee Employment Agreement) with effectiveness contingent only upon Closing.

(d) From and after the Closing Date, the Senior Executives, any Key Employee who signs a Key Employee Employment Agreement and the Non-Key Employees shall be given (to the extent he or she elects to participate and it is permitted by Law), credit for past service with either of the Companies for purposes of participation and vesting in any employee benefit plan offered by FAAC.

5.11 *Certain Tax Matters*.

(a) *Purchase Price allocation*.

The Purchase Consideration, as adjusted, and other amounts treated as purchase price for income tax purposes will be allocated among the assets of the Companies shall be mutually agreed to by FAAC and the Members within thirty (30) days after the Closing. FAAC, the Companies and the Members shall use this allocation to prepare and file Internal Revenue Service Form 8594 and any other tax returns, and no party to this Agreement may take any inconsistent position. The parties to this Agreement shall cooperate in preparing, executing and filing with the Internal Revenue Service all necessary information returns required by Section 1060 of the Code. On or before the 60th day after the Closing Date, FAAC shall send the Members a draft of Internal Revenue Service Form 8594 containing FAAC s proposed allocation of the Purchase Price among the Transferred Assets, defined under Section 1060 of the Tax Code. Within 10 days after receipt of Form 8594, the Members Representative shall notify FAAC whether it disagree with the proposed allocation and, if the Members Representative disagrees, the parties to this Agreement shall make a good faith attempt to reach an agreement.

(b) *Tax Periods Ending on or Before the Closing Date*.

The Members shall prepare, or cause to be prepared, and file, or cause to be filed, on a timely basis (in each case, at their sole cost and expense) and on a basis reasonably consistent with past practice, all Tax Returns with respect to the

Companies for taxable periods ending on or prior to the Closing Date and required to be filed thereafter (the Prior Period Returns). The Members shall provide a draft copy of such Prior Period Returns to FAAC for its review at least fifteen (15) Business Days prior to the due date thereof. FAAC shall provide its comments to the Members at least five Business Days prior to the due date of such returns and the Members shall make all changes requested by FAAC in good faith (unless the Members are advised in writing by the independent outside accountants or attorneys that such changes (i) are contrary to applicable Law, or (ii) will, or are likely to, have a material adverse effect on the Members (provided that the Members agree to make any such

changes notwithstanding the application of this clause (ii) if the changes are consistent with applicable Law and past practices of the Companies)). Except as provided in Section 5.11(c), and only to the extent such Taxes have not been accrued or otherwise reserved for on the Closing Balance Sheets (and specifically reflected in Closing Net Working Capital), the Members shall pay, or cause to be paid, all Taxes with respect to the Companies shown to be due on such Prior Period Returns. In the event that the Members for any reason fail to make the payment contemplated in the previous sentence, then FAAC may bring an indemnification claim under ARTICLE IX.

(c) *Tax Periods Beginning Before and Ending After the Closing Date*.

(i) FAAC shall prepare or cause to be prepared and file or cause to be filed, on a basis reasonably consistent with past practice, any Tax Returns of the Companies for Tax periods that begin before the Closing Date and end after the Closing Date (collectively, the *Straddle Periods* and each a *Straddle Period*). FAAC shall permit the Members Representative to review and comment on each such Tax Return described in the preceding sentence prior to filing, and FAAC shall make all changes reasonably requested by the Companies in good faith (unless FAAC is (A) advised in writing by its independent outside accountants or attorneys that such changes are contrary to applicable Law or (B) will, or are likely to, have a material adverse effect on FAAC or any of its Affiliates (provided that FAAC agrees to make any such changes notwithstanding the application of this clause (B) if the changes are consistent with applicable Law and past practices of the Companies)). Within fifteen (15) days after the date on which FAAC pays any Taxes of the Companies with respect to any Straddle Period, the Members shall, to the extent such Taxes have not been accrued or otherwise reserved for on the Closing Balance Sheets (and specifically reflected in the Closing Net Working Capital), pay to FAAC the amount of such Taxes that relates to the portion of such Straddle Period ending on the Closing Date (the *Pre-Closing Tax Period*). In the event that the Members for any reason fail to make the payment contemplated in the previous sentence, then FAAC may bring an indemnification claim under ARTICLE IX.

(ii) For purposes of this Agreement:

(A) In the case of any gross receipts, income, or similar Taxes that are payable with respect to a Straddle Period, the portion of such Taxes allocable to (1) the Pre-Closing Tax Period and (2) the portion of the Straddle Period beginning on the day next succeeding the Closing Date (the *Post-Closing Tax Period*) shall be determined on the basis of a deemed closing at the end of the Closing Date of the books and records of the Companies.

(B) In the case of any Taxes (other than gross receipts, income, or similar Taxes) that are payable with respect to a Straddle Period, the portion of such Taxes allocable to the portion of the Straddle Period prior to the Closing Date shall be equal to the product of all such Taxes multiplied by a fraction the numerator of which is the number of days in the Straddle Period from the commencement of the Straddle Period through and including the Closing Date and the denominator of which is the number of days in the entire Straddle Period; *provided, however*, that appropriate adjustments shall be made to reflect specific events that can be identified and specifically allocated as occurring on or prior to the Closing Date (in which case the Members shall be responsible for any Taxes related thereto) or occurring after the Closing Date (in which case, FAAC shall be responsible for any Taxes related thereto).

(ii) FAAC shall be responsible for (A) any and all Taxes with respect to the Pre-Closing Tax Period of any applicable Straddle Period to (but only to) the extent such Taxes have been accrued or otherwise reserved for on the Closing Balance Sheet and (B) any Taxes with respect to the Post-Closing Tax Period of the Straddle Periods.

(d) *Cooperation on Tax Matters*.

(i) FAAC and the Members shall cooperate fully, as and to the extent reasonably requested by any party, in connection with the filing of Tax Returns pursuant to this Section and any audit, litigation, or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party s request) the provision of records and information reasonably relevant to any such audit, litigation, or other proceeding and making their respective employees, outside consultants and advisors available on a mutually convenient basis to provide additional

information and explanation of any material provided

hereunder. FAAC and the Members agree (A) to retain all books and records with respect to Tax matters pertinent to the Companies relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by FAAC or the Members Representative, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other so requests, FAAC or the Members, as the case may be, shall allow one of the others to take possession of such books and records.

(ii) FAAC and the Members further agree, upon request, to use their best efforts to obtain any certificate or other document from any Governmental Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) FAAC and the Members further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Section 6043 of the Code and all Treasury Department Regulations promulgated thereunder.

(e) *Certain Taxes*. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with the Contemplated Transactions (including any transfer or similar tax imposed by any governmental authority) shall be shared equally between FAAC on the one hand and the Members on the other, and each shall be responsible for one-half of such Taxes. The party required by Law to do so will file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees, and, if required by applicable Law, the other parties will join in the execution of any such Tax Returns and other documentation.

(f) *Indemnification and Tax Contests*. FAAC s and the Members indemnification obligations with respect to the covenants in this Section 5.11 together with the procedures to be observed in connection with any Tax Contest shall be governed by ARTICLE IX.

5.12 *Public Announcements*.

None of FAAC, the Companies or the Members, will issue any press release or make any public statement with respect to this Agreement or the Contemplated Transactions, or disclose the existence of this Agreement to any Person or entity, prior to the Closing and, after the Closing, will not issue any such press release or make any such public statement without the prior consent of the other parties (which consent shall not be unreasonably withheld or delayed), subject to any applicable disclosure obligations pursuant to Applicable Law provided that if FAAC proposes to issue any press release or similar public announcement or communication in compliance with any such disclosure obligations and related to the Contemplated Transactions, FAAC shall use commercially reasonable efforts to consult in good faith with the Members Representative before doing so.

5.13 *Communications with Customers and Suppliers*.

The Members Representative and FAAC will mutually agree upon all communications with suppliers and customers of the Companies relating to this Agreement and the Contemplated Transactions prior to the Closing Date.

5.14 *Evergreen Agreement*.

All compensation due Evergreen with respect to the Contemplated Transactions (collectively, the *Evergreen Fees*), whether under the Evergreen Agreement or otherwise, is the Members responsibility. The Members shall deliver to FAAC at the Closing a release signed by Evergreen and in form reasonably satisfactory to FAAC (the *Evergreen Release*) confirming that the Evergreen Fees have been paid in full and releasing the Companies and FAAC from all liability with respect to the Evergreen Agreement. The Members hereby agree to indemnify and hold FAAC harmless

from and against any indemnification claims brought by Evergreen (or any person or entity bringing an indemnification claim through Evergreen) under or with respect to the Evergreen Agreement.

5.15 *Covenants Regarding Management of FAAC*.

(a) *Amended and Restated Bylaws; Senior Management as of Closing*. As of the Closing Date (i) FAAC s Bylaws shall be amended and restated to expand the Board of Directors to nine (9) directors serving three-year staggered terms and (ii) the following people shall have been appointed to the various senior management positions in FAAC indicated to the right of their name:

Harvey L. Weiss	Chairman of the Board of Directors
C. Thomas McMillen	Vice Chairman of the Board of Directors
Thomas P. Rosato	Chief Executive Officer
Gerard J. Gallagher	President/Chief Operating Officer

(b) *Voting Agreement*. At Closing, the Members agree to sign a Voting Agreement in the form attached hereto as Exhibit M under the terms of which the Members, C. Thomas McMillen and Harvey L. Weiss agree (through the date of FAAC s 2008 annual Shareholders meeting) to vote their respective shares so as to:

(i) to keep in place the following individuals in the various management positions referenced in Section 5.15(a) above; and

(ii) to support the nomination of and to vote their shares for the appointment of certain directors as described in the Voting Agreement.

Notwithstanding anything to the contrary, contained in this Agreement or the Voting Agreement, the Members acknowledge that decisions with respect to who shall serve as a director of FAAC are subject to the vote of all shareholders and that the appointment of officers is reserved to directors of the corporation exercising their fiduciary responsibility and business judgment and that the Voting Agreement does not guarantee or ensure that the positions for which the shares are to be voted under the Voting Agreement will prevail.

(c) *Equity Incentive Plan*. Simultaneously with the Closing, FAAC will establish an equity incentive plan that will allow for the issuance of equity rights to key employees of FAAC and the Companies (including the Stock Grant Shares) representing 2,100,000 shares of FAAC common stock (subject to equitable adjustment in the event of a stock split, issuance of additional shares or similar event(s) prior to Closing).

5.16 *Welfare Plans*

(a) The Estimated Closing Balance Sheet will reflect a reserve, estimated on the basis of past experience and experience through the Closing Date, which will reflect the estimated cost of the Companies self-insurance under the Self Insured Plans through the Closing Date. The Companies will fully disclose to FAAC the basis of the computation of the reserves for the Self Insured Plans reflected in the Estimated Closing Balance Sheet. The Companies are in the process of replacing the Self Insured Plans with fully insured plans. In connection with this replacement, the Companies will be required to purchase an insurance tail for run-off liability. The Members shall jointly and severally indemnify FAAC, subject to the limitations set forth in ARTICLE IX on the indemnification obligations of the Members, for the amount of medical claims and related administrative costs arising in respect of the run-off period to the extent they exceed accrued reserves therefor as of the Closing Date and are not covered by the tail or stop loss insurance.

(b) Each of the Companies shall cease to be a participating employer under the Plans sponsored by Chesapeake Tower Systems, Inc. or an Affiliate as of the Closing Date and, prior to the Closing, shall provide Purchaser with written documentation thereof satisfactory to Purchaser.

5.17 *Cooperation in Connection with Proxy Materials*.

The Companies and the Members will, and will cause their respective Representatives to fully cooperate with FAAC in connection with the preparation of proxy materials, to be filed with the SEC and mailed to the shareholders of FAAC seeking approval of the Contemplated Transactions by the FAAC shareholders (such proxy materials, in the form mailed to the FAAC shareholders, the *Proxy Materials*). Without limiting the generality of the foregoing, the Companies and the Members shall cause the Companies (a) to provide, as soon as reasonably possible after the Effective Date all information required to be disclosed under Item 7 of Form S-4 under the Securities Act in a form that is customarily included in proxy statements (the *Companies Information*) and (b) to promptly review the Proxy Material when provided by FAAC. The Members represent and warrant that the Companies Information shall not contain any untrue statement of material fact or omit a material fact necessary to make the statements in the Companies Information not misleading. Further, the

Companies will cause McGladrey & Pullen LLP to deliver to FAAC, as of the date of the Proxy Materials and at the expense of FAAC, letters, addressed to FAAC, in form and substance satisfactory to FAAC and consistent with SAS No. 72, containing statements and information of the type customarily included in auditors comfort letters with respect to the audited financial statements, unaudited interim financial statements, unaudited pro forma financial information and other financial information of the Companies included in the Proxy Materials.

5.18 *Continuing Related Party Transactions*.

(a) To the extent that any Continuing Related Party Transactions are modified, amended, or expanded in any fashion, (including, but not limited to the award of new business by either VTC or Vortech) after the Closing, all such modifications, amendments, or expansions shall be expressly contingent upon the prior written approval of the independent members of the FAAC Board of Directors.

(b) Prior to the Closing (i) the lease commitment between VTC and TPR Realty Group III L.L.C. to lease office space for a new corporate headquarters for VTC in Columbia, Maryland (the *VTC Lease Commitment*) shall be reduced to a Deed of Lease (the *New VTC Lease*) in form satisfactory to FAAC in its sole discretion and (ii) the Members shall cause to be obtained from a real estate appraiser an appraisal (the *VTC Lease Appraisal*) indicating that the economic terms of the New VTC Lease are at or below the market terms (the appraiser and the VTC Lease Appraisal to be acceptable to FAAC, in its sole discretion). If for any reason (i) the VTC Lease Commitment is not reduced to a Deed of Lease acceptable to FAAC in its sole discretion, or (ii) the Members are unable to produce, prior to Closing, a VTC Lease Appraisal acceptable to FAAC; then the VTC Lease Commitment and New VTC Lease shall be terminated prior to Closing.

(c) The following Continuing Related Party Transactions shall be terminated on or before the dates specified below:

(i) As soon as possible, but in all events, no later than March 31, 2007, Rosato will cease to own any interest of any kind in Chesapeake Tower Systems, Inc. If for any reason Rosato continues to own any interest in Chesapeake Tower Systems, Inc. after March 31, 2007, any and all contracts between the Companies and Chesapeake Tower Systems, Inc. shall be terminable at will by FAAC, or the Companies without penalty, fee, or damages of any kind or nature.

(ii) As soon as possible, but in all events, no later than December 31, 2007, Rosato will cease to own any interest of any kind in L.H. Cranston Acquisition Group, Inc. If for any reason Rosato continues to own any interest in L.H. Cranston Acquisition Group, Inc. after December 31, 2007, any and all contracts between the Companies and L.H. Cranston Acquisition Group, Inc. shall be terminable at will by FAAC, or the Companies without penalty, fee, or damages of any kind or nature.

(iii) As soon as possible, but in all events, no later than March 31, 2007, Rosato will cease to own any interest of any kind in Telco Power and Cable LLC. If for any reason Rosato continues to own any interest in Telco Power and Cable LLC after March 31, 2007, any and all contracts between the Companies and Telco Power and Cable LLC shall be terminable at will by FAAC, or the Companies without penalty, fee, or damages of any kind or nature.

(d) The Members shall jointly and severally indemnify FAAC for any and all liability, of any kind or nature related to any Continuing Related Party Transactions that (i) do not conform in all respect to the requirements of Section 5.18(a) or (ii) that are terminated on or before the time provided and otherwise pursuant to Section 5.18(c).

(e) The Members shall jointly and severally indemnify FAAC for any and all liability, of any kind and nature, under or with respect to that certain Corporate Guaranty of Lease dated October 26, 2004 by which Vortech Consulting, L.L.C. guaranteed the obligations of S3 Integration, L.L.C. under the terms of a Lease dated October 25, 2004 by and between S3 Integration, L.L.C. and MIE Properties Inc., as amended by a First Amendment dated August 22, 2005.

5.19 *Update of Disclosure Schedules*.

The Members and the Companies may, at their option, but no later than three (3) Business Days prior to the Closing, deliver to FAAC the Disclosure Schedules updated to the date of Closing (the *Updated Disclosure*

Schedules). Any Updated Disclosure Schedules shall be prepared in a manner such that the Updated Disclosure Schedules clearly indicate differences between the Disclosure Schedules as delivered on the Effective Date and the Updated Disclosure Schedules. To the extent that that there are Disclosure Schedule Update Losses, the FAAC Indemnitees shall be entitled to indemnification pursuant to Section 9.2, subject to the limitations of Section 9.2(f).

5.20 *Threatened Litigation*.

As disclosed on Schedule 5.25 of the Disclosure Schedules the Members and either or both of the Companies have been threatened with litigation by Signia Solutions, Inc. and/or Martin C. Licht (the Signia Threatened Litigation). The Members shall jointly and severally indemnify FAAC for any and all liability, of any kind or nature related to the Signia Threatened Litigation (the forgoing indemnification to be deemed to be and treated as an Uncapped and Non-Threshold Indemnification for purposes of Section 9.2(f).

ARTICLE VI

Deliveries by All Parties at Closing

6.1 *Conditions to All Parties Obligations*.

The obligations of the parties to consummate the Contemplated Transactions are subject to the fulfillment prior to or at the Closing of each of the following conditions (any or all of which may be waived by the parties):

(a) *Injunctions*. There shall be no order or injunction of a foreign or United States federal or state court or other Governmental Authority of competent jurisdiction in effect precluding, restraining, enjoining or prohibiting consummation of the Contemplated Transactions or otherwise materially limiting or restricting ownership or the operation of the Acquired Business;

(b) *Statutes; Consents*. No statute, rule, order, decree or regulation shall have been enacted or promulgated after the date hereof by any Governmental Authority of competent jurisdiction which prohibits the consummation of the Contemplated Transactions or otherwise materially limits or restricts ownership or operation of the business of the Companies and all foreign or domestic governmental consents, orders and approvals required for the consummation of the Contemplated Transactions as set forth on Schedule 6.1(b) of the Disclosure Schedules, shall have been obtained and shall be in effect at the Closing and shall not materially limit or restrict ownership or the operation of the business of the Companies;

(c) *Escrow Agreements*. Each of the parties hereto, together with the Escrow Agent, shall have entered into the Escrow Agreements; and

(d) *Litigation*. No litigation regarding this Agreement or the Contemplated Transactions shall have commenced or be pending or threatened.

6.2 *Conditions to the Members Obligations*.

The obligations of the Members to consummate the Contemplated Transactions are subject to the fulfillment at or prior to the Closing of each of the following conditions (any or all of which may be waived in whole or in part by the Members Representative).

(a) *Representations and Warranties*. The representations and warranties of FAAC in this Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date, except for changes permitted under or contemplated by this Agreement.

(b) *Performance*. FAAC shall have performed and complied with all agreements, obligations, covenants and conditions required by this Agreement to be so performed or complied with by FAAC at or prior to the Closing.

(c) *Deliveries*. The Members shall have received the deliveries contemplated by ARTICLE VIII.

6.3 *Conditions to FAAC s Obligations*.

The obligations of FAAC to consummate the Contemplated Transactions are subject to the fulfillment at or prior to the Closing of each of the following conditions (any or all of which may be waived in whole or in part by FAAC).

(a) *Representations and Warranties*. The representations and warranties of the Members and the Companies in this Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date, except for those representations and warranties which address matters only as of a particular date (which will be true and correct in all material respects only as of such date), and except for changes permitted under or contemplated by this Agreement.

(b) *Performance*. The Members and the Companies shall have performed and complied with all agreements, obligations, covenants and conditions required by this Agreement to be so performed or complied with by the Members and the Companies at or prior to the Closing.

(c) *No Material Adverse Effect*. From December 31, 2005 until the Closing Date, there shall have been no Material Adverse Effect, or the occurrence of an event that has resulted or can reasonably be expected to result in such a change, in the business, operations, properties, contracts, customer relations or condition, financial or otherwise, of either or both of the Companies, other than changes expressly permitted under or contemplated by this Agreement.

(d) *Deliveries*. FAAC shall have received the deliveries contemplated by ARTICLE VII.

(e) *Matters Referred to in Disclosure Schedules*. All matters, if any, referred to in the Disclosure Schedules as being taken, in process, or intended to be taken shall have been completed to the reasonable satisfaction of FAAC.

(f) *Approval by FAAC Shareholders*. Approval of the Contemplated Transactions by the FAAC shareholders.

(g) *Phantom Membership Interest Plan*. The Phantom Membership Interest Plan is terminated and Phantom Membership Interest Releases for every participant in the Phantom Membership Interest Plan shall have been executed and delivered to FAAC.

(h) *Certain Indebtedness*. All Indebtedness of the Companies and their Subsidiaries (including, but not limited to, Indebtedness owed by any one or more of the Companies to officers and directors of the Companies), and all Indebtedness owed by any officers and directors to the Companies, shall be paid in full.

(i) *Members Transaction Costs*. Pursuant to Section 5.8, the Members Transaction Costs shall be paid in full.

(j) *Comfort Letters*. FAAC shall have received comfort letters, in customary form, from McGladrey & Pullen LLP dated the date of the Proxy Materials and the Closing Date (or such other date or dates reasonably acceptable to FAAC) with respect to certain financial statements and other financial information included in the Proxy Statement as contemplated by Section 5.17.

(k) *Evergreen Release*. The execution and delivery to FAAC of the signed Evergreen Release.

(l) *Senior Executive Employment Agreements*. The execution and delivery of the Senior Executive Employment Agreements.

(m) *Key Employee Employment Agreements*. The execution and delivery of the Key Employee Employment Agreements from not less than fifty percent (50%) of the Key Employees.

(n) *Stock Consideration*. The execution and delivery of the Acquisition Agreements, the Registration Rights Agreement, and the Lock Up Agreement.

(o) *Voting Agreement*. The execution and delivery of the Voting Agreement.

(p) *Fairness Opinion*. Delivery of an opinion letter, in a form satisfactory to FAAC, issued by FAAC s financial advisor to the effect that the Contemplated Transactions are fair from a financial point of view.

(q) *Termination of Related Party Contracts*. The termination of each of the Terminated at Closing Related Party Transactions pursuant to one or more Termination Agreements (collectively the *Related Party Termination Agreements*) acceptable to FAAC.

(r) *New VTC Lease and VTC Lease Appraisal*. Execution, delivery and approval by FAAC of the New VTC Lease and delivery to and approval by FAAC of the VTC Lease Appraisal; or if either the New VTC Lease or VTC Lease Appraisal are not acceptable to FAAC, the termination of the VTC Lease Commitment and New VTC Lease.

ARTICLE VII

Deliveries by Members and the Companies at Closing

On the Closing Date, the Members and/or the Companies shall deliver or cause to be delivered to FAAC:

7.1 *Members and the Companies Closing Certificate*.

A certificate in the form attached hereto as *Exhibit N*, dated as of the Closing Date, signed by the Members and the Companies certifying that:

(i) the Members and the Companies respectively have performed and complied with all agreements, obligations, covenants and conditions required by this Agreement to be so performed or complied with by each of them, as applicable at or prior to the Closing;

(ii) from the Effective Date until the Closing Date, there has been no Material Adverse Effect, or the occurrence of an event that has resulted or can reasonably be expected to result in such a change, in the business, operations, properties, contracts, customer relations or condition, financial or otherwise, or prospects of each of the Companies, other than changes expressly permitted under or contemplated by this Agreement;

(iii) no suit, action, investigation or other proceeding is pending or threatened before any Governmental Authority that seeks to restrain, prohibit or obtain damages or other relief in connection with this Agreement or consummation of the Contemplated Transactions or that questions the validity or legality of such transactions;

(iv) this Agreement, the execution and delivery of all of the Transaction Documents and the consummation of the Contemplated Transactions have been approved by all necessary Members and company actions on the part of each of the Companies (with copies of all resolutions to be attached to the certificate and to be certified as true and correct in the certificate); and

(v) the representations and warranties of the Members and the Companies set forth in this Agreement are true and correct as of the Closing Date (unless the representation or warranty by its terms is made as of a specific date).

7.2 *Consents*.

Copies or other evidence reasonably satisfactory to FAAC of the consents and approvals referred to in Section 6.1(b).

7.3 *Estimated Closing Balance Sheet*.

The Estimated Closing Balance Sheet not less than two (2) Business Days prior to the Closing Date pursuant to Section 2.3(b).

7.4 *Resignations of Directors and Officers*.

Written resignations, dated as of the Effective Date, of all directors, officers and managers of each of the Companies.

7.5 *Termination of Credit Facility/Facilities*.

Evidence satisfactory to FAAC that all amounts outstanding under any credit or loan agreements between SunTrust Bank and related agreements and notes have been paid in full or will be paid in full from proceeds of the Contemplated Transaction and that documentation providing for the release of all Liens on the assets of the Companies is available for filing immediately after the Closing.

7.6 *Release of Liens*.

Except as otherwise contemplated by Section 7.5, evidence satisfactory to FAAC that all Liens on the Companies assets have been released or terminated, as the case may be.

7.7 *Phantom Membership Interest Releases*.

Delivery of the fully executed Phantom Membership Interest Releases.

7.8 *Comfort Letters*.

Delivery of Comfort letters in customary form, from McGladrey & Pullen LLP dated the date of the Proxy Materials and the Closing Date (or such other date, or dates reasonably acceptable to FAAC) with respect to certain financial statements and other financial information included in the Proxy Statement as contemplated by Section 5.17.

7.9 *Evergreen Release*.

Delivery of the fully executed Evergreen Release.

7.10 *Senior Executive Employment Agreements*.

Delivery of fully executed Senior Executive Employment Agreements.

7.11 *Key Employee Employment Agreements*.

Delivery of fully executed Key Employee Employment Agreements from not less than fifty percent (50%) of the Key Employees.

7.12 *Stock Consideration Documents*.

Delivery of the following documents fully executed by each of the Members: Acquisition Agreements, Registration Rights Agreement and Lock Up Agreement.

7.13 *Voting Agreement*.

Delivery of fully executed Voting Agreement.

7.14 *Escrow Agreements*.

Delivery of fully executed Escrow Agreements.

7.15 *Related Party Termination Agreements*.

Delivery of fully executed Related Party Termination Agreements for each of the Terminated At Closing Related Party Transactions.

7.16 *New VTC Lease and VTC Lease Appraisal*.

Delivery of the New VTC Lease and VTC Lease Appraisal in form acceptable to FAAC; or if either the New VTC Lease or VTC Lease Appraisal are not acceptable to FAAC, then documents acceptable to FAAC terminating the VTC Lease Commitment and the New VTC Lease.

7.17 *Further Instruments*.

Such further instruments of assignments, conveyance or transfer or other documents of further assurance as FAAC may reasonably request.

ARTICLE VIII

Deliveries by FAAC at Closing

On the Closing Date, FAAC shall deliver or cause to be delivered to the Members, or to the Escrow Agent, as applicable:

8.1 *Officer s Certificate*.

A certificate in the form attached hereto as *Exhibit O*, dated as of the Closing Date, signed by a senior officer of FAAC certifying that:

(a) FAAC has performed its obligations and complied to the extent applicable with all agreements, obligations, covenants and conditions required by this Agreement to be so performed or complied with by FAAC at or prior to the Closing;

(b) no suit, action, investigation or other proceeding is pending or threatened before any Governmental Authority that seeks to restrain, prohibit or obtain damages or other relief in connection with this Agreement or consummation of the Contemplated Transactions or that questions the validity or legality of such transactions;

(c) this Agreement, the execution and delivery of all of the Transaction Documents and the consummation of the Contemplated Transactions have been approved by FAAC s board of directors (with copies of all resolutions to be attached to the certificate and to be certified as true and correct in the certificate); and

(d) the representations and warranties of FAAC set forth in this Agreement are true and correct as of the Closing Date (unless the representation or warranty is made as of a specific date).

8.2 *Closing Consideration and Escrow Deposits*.

Pursuant to Section 2.2, the Closing Consideration shall be delivered to the Members Representative and the Escrow Deposits shall be delivered to the Escrow Agent.

8.3 *Stock Consideration Documents*.

Delivery of the following documents fully executed by FAAC: Acquisition Agreements; Registration Rights Agreement; and Lock Up Agreement.

8.4 *Senior Executive Employment Agreement*.

Delivery of the Senior Executive Employment Agreement fully executed by FAAC.

8.5 *Key Employee Employment Agreements*.

Delivery of the Key Employee Employment Agreements fully executed by FAAC.

8.6 *Management of FAAC*.

Delivery by FAAC of Amended and Restated Bylaws and various resolutions of FAAC s Board of Directors implementing the provisions of Sections 5.15(a).

8.7 *Escrow Agreements*.

Delivery of the Escrow Agreements fully executed by FAAC.

8.8 *Employee Stock Grants*.

Delivery of the Employee Stock Grants.

8.9 *Further Instruments*.

Such documents of further assurance as the Members may reasonably request.

ARTICLE IX

Survival and Indemnification

9.1 *Survival of Representations and Warranties*.

(a) Except for the Surviving Representations, the representations and warranties of the Members and the Companies on the one hand, and FAAC, on the other hand, in this Agreement or in any certificate or document delivered on or before the Closing Date, and subsections (a), (b) and (c) of Section 5.16, shall survive any due diligence investigation by or on behalf of the parties hereto and the Closing and shall remain effective until eighteen (18) months following the Closing Date (the *Survival Date*). After the expiration of such period, the representations and warranties shall expire and be of no further force and effect except to the extent that a claim or claims shall have been asserted by FAAC or the Members, as the case may be, with respect thereto on or before the expiration of such period, provided however that the following representations and warranties (collectively the *Surviving Representations*) shall survive the Survival Date until the date specified below.

(i) Claims for indemnification based on breaches of representations and warranties of the Members in Section 3.11(a) (Title to Membership Interests) shall survive the Survival Date and claims for indemnification based on breaches of such representations and warranties may be made at any time following the Closing.

(ii) Claims for indemnification based on breaches of representations and warranties of the Members and the Companies in Sections 3.21 (Compliance with Laws), 3.22 (Environmental Matters), 3.24 (Absence of Certain Business Practices), 3.28 (ERISA) and 3.29 (Tax Matters) shall survive the Survival Date and claims for indemnification based on breaches of such representations and warranties may be made up to the date that is three (3) months after the expiration of the applicable statute of limitations.

(iii) Claims for indemnification based on breaches of representations and warranties of the Members and the Companies in Section 3.18 (Federal and State Government Contracts) with respect to cost reimbursable Government Contracts shall survive the Survival Date and claims based on breaches of such representations and warranties may be made up to the date thirty (30) days after the applicable Governmental Authority has agreed on final indirect cost rates for any fiscal year that began prior to the Closing Date.

(b) The undersigned acknowledge and agree that the covenants contained in this Agreement, including, but not limited to the covenants contained in ARTICLE V above shall survive Closing and are unaffected by this Section 9.1.

9.2 *Indemnification*.

(a) *By FAAC*.

(i) Subject to Section 9.2(g), FAAC shall protect, defend, indemnify and hold harmless the Members and their respective agents, representatives, successors and assigns, estates and heirs (*Members Indemnitees*) from and against any losses, damages and expenses (including, without limitation, except as provided in Section 9.2(d), reasonable counsel fees, costs and expenses incurred in investigating and defending against the assertion of such liabilities (collectively *Losses*)) that may be sustained, suffered or incurred by the Members Indemnities, and that are related to (A) any breach by FAAC of its representations and warranties in this Agreement, (B) any breach by FAAC of its covenants, agreements or obligations in, or under, this Agreement, (C) Taxes as provided in paragraph (ii) of this Section 9.2(a) or (D) any liabilities of the Companies following the Closing other than those liabilities for which the Members have agreed to indemnify FAAC pursuant to Section 9.2(b) of this Agreement.

(ii) The obligations of FAAC under paragraph (i) of this Section 9.2(a) shall extend to (A) all Taxes with respect to taxable periods beginning after the Closing Date (including any Taxes with respect to transactions properly treated as

occurring on the day after the Closing Date pursuant to Treasury Regulations Section 1.1502-76(b)(1)(ii)(B) or any similar provision of state, local or foreign law) and (B) all Taxes (other than federal income Taxes) with respect to Straddle Periods.

(b) *By the Members*.

(i) Subject to Sections 9.2(e), 9.2(f), 9.2(h), 9.2(i) and 9.3 the Members jointly and severally shall protect, defend, indemnify and hold harmless FAAC, and the Companies and their respective Affiliates, and their officers, directors, employees, agents, representatives, successors and assigns (*FAAC Indemnitees*) from and against any Losses that may be sustained, suffered or incurred by FAAC Indemnitees and that are related to (A) any breach by the Members or the Companies of their respective representations and warranties in this Agreement (including Disclosure Schedule Update Losses), (B) any breach by the Members or the Companies of covenants and obligations in or under this Agreement, including, but not limited to the Members obligations to make payments to FAAC pursuant to Sections 2.2 and 2.4(e) and the Members or the Companies obligations pursuant to ARTICLE V (including but not limited to Members obligations under Sections 5.7, 5.8, 5.11(b), 5.11(c) and 5.14) (C) Taxes as provided in paragraph (ii) of this Section 9.2(b), to the extent such Taxes have not been accrued or otherwise reserved for on the Closing Balance Sheet (it being the intent of the parties that all of the provisions of this Agreement shall be interpreted to avoid requiring the Members to pay (or receive a reduction in the Purchase Consideration) twice for the same Tax).

(ii) The obligations of the Members under paragraph (i) of this Section 9.2(b) shall extend to (A) all Taxes with respect to taxable periods ending on or prior to the Closing Date and (B) all Taxes with respect to Straddle Periods to the extent that such Taxes (1) are allocable to the period prior to Closing pursuant to Section 5.11(c) and (2) have not been accrued or otherwise reserved for on the Closing Balance Sheet. Such obligations shall be without regard to whether there was any breach of any representation or warranty under ARTICLE III with respect to such Tax or any disclosures that may have been made with respect to ARTICLE III or otherwise. The indemnification obligations under this paragraph (ii) shall apply even if the additional Tax liability results from the filing of a return or amended return with respect to a pre-Closing Date transaction or period (or portion of a period) by FAAC. FAAC shall not cause or permit the Companies to file an amended Tax Return with respect to any taxable period ending on or prior to the Closing Date or any Straddle Period unless (y) the Members Representative consents in its sole discretion or (z) FAAC obtains a legal opinion (in form and content reasonably acceptable to the Members Representative) from counsel reasonably acceptable to the Members Representative that such amendment is legally required to be filed (provided, further, that such legal opinion may not assume any facts that are disputed in good faith by the Members Representative). In the event of any conflict between the provisions of this Section 9.2(b)(ii) and any other provision of this Agreement, the provisions of this Section shall control.

(c) *Procedure for Third-Party Claims*.

(i) If any Third-Party Claims shall be commenced, or any claim or demand shall be asserted (other than audits or contests with Taxing Authorities relating to Taxes), in respect of which the Indemnified Party proposes to demand indemnification by Indemnifying Party under Sections 9.2(a) or 9.2(b), the Indemnified Party shall notify the Indemnifying Party in writing of such demand and the Indemnifying Party shall have the right to assume the entire control of the defense, compromise or settlement thereof (including the selection of counsel), subject to the right of the Indemnified Party to participate (with counsel of its choice), but the fees and expenses of such additional counsel shall be at the expense of the Indemnified Party. The Indemnifying Party will not compromise or settle any such action, suit, proceeding, claim or demand (other than, after consultation with Indemnified Party, an action, suit, proceeding, claim or demand to be settled by the payment of money damages and/or the granting of releases, *provided* that no such settlement or release shall acknowledge the Indemnified Party s liability for future acts or obligate FAAC with respect to activities of the Companies or the Members) without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld, or delayed.

(ii) Notwithstanding anything to the contrary contained in this Section 9.2(c), FAAC at its expense shall have the sole right to control and make all decisions regarding interests in any Tax audit or administrative or court proceeding relating to Taxes, including selection of counsel and selection of a forum for such contest, *provided, however*, that in the event such audit or proceeding relates to Taxes for which the Members are responsible and have agreed to indemnify FAAC, (A) FAAC, the Companies, and the Members shall cooperate in the conduct of any audit or proceeding relating to such period, (B) the Members, acting through the Members Representative, shall have the right (but not the obligation) to participate in all facets of such audit or proceeding at the Members expense (including, but

not limited to, the right to be present at all meetings and on all telephone conversations and to receive copies of all

correspondence, emails and other forms of nonverbal communications related to the Taxes in question), (C) FAAC shall not enter into any agreement with the relevant taxing authority pertaining to such Taxes without the written consent of the Members Representative, which consent shall not unreasonably be withheld, and (D) FAAC may, without the written consent of the Members, enter into such an agreement provided that FAAC shall have agreed in writing to accept responsibility and liability for the payment of such Taxes and to forego any indemnification under this Agreement with respect to such Taxes.

(iii) The parties will keep each other informed as to matters related to any audit or judicial or administrative proceedings involving Taxes for which indemnification may be sought hereunder, including, without limitation, any settlement negotiations. Refunds of Tax relating to periods ending prior to the Closing Date (or to that portion of a Straddle Period that is prior to Closing under the principles of Section 5.11(c)) shall be the property of the Members, but only to the extent that such refunds are not attributable to (A) net operating loss or other carrybacks from periods ending after the Closing Date, or (B) refund claims that are initiated by FAAC (*provided* that FAAC gives the Members Representative prior notice of such possible claim and the Members decline to pursue such refund at its or their own expense); *provided, however*, that FAAC shall in no event have an obligation to file or cause to be filed a claim for refund with respect to any Taxes relating to any period.

(iv) Any indemnity payment or payment of Tax by the Members or its or their Affiliates as a result of any audit or contest shall be reduced by the present value of the correlative amount, if any, by which any Tax of FAAC or its Affiliates is or will be reduced for periods ending after the Closing Date as a result thereof.

(v) The Indemnified Party shall cooperate fully in all respects with the Indemnifying Party in any defense, compromise or settlement, subject to this Section 9.2(c) including, without limitation, by making available all pertinent books, records and other information and personnel under its control to the Indemnifying Party.

(d) *Procedure for Direct Claims*.

(i) Any Direct Claim shall be asserted by written notice given by the Indemnified Party to the Indemnifying Party (each a *Direct Claim Notice*). The Indemnifying Party shall have a period of twenty (20) Business Days from the date of receipt (the *Direct Claim Notice Period*) within which to respond to a Direct Claim Notice. If the Indemnifying Party does not respond in writing within the Direct Claim Notice Period, then the Indemnifying Party shall be deemed to have accepted responsibility for the claimed indemnification and shall have no further right to contest the validity of that claim. If the Indemnifying Party does respond in writing within the Direct Claim Notice Period, and rejects the claim in whole or in part, the Indemnified Party shall be free to pursue all remedies under Section 11.11. To the extent that any FAAC Indemnitees prevail in a Direct Claim (or the Members Representative concedes (on behalf of the Members), or otherwise does not timely respond to a Direct Claim Notice made by FAAC) then the Direct Claim shall be satisfied from the General Indemnity Escrow (and the Escrow Agent shall pay to FAAC from the General Indemnity Escrow the amount of the Direct Claim) with no further action required by the Members, or the Members Representative. Direct Claims shall be satisfied from the General Indemnity Escrow Property in the General Indemnity Escrow with the FAAC stock then in the General Indemnity Escrow valued at the Average Share Value.

(ii) *Costs Related to Direct Claims*. Notwithstanding anything in this Section 9.2 to the contrary, except as otherwise may be ordered by a court of competent jurisdiction, the Members Indemnitees and FAAC Indemnitees shall each bear their own costs, including counsel fees and expenses, incurred in connection with Direct Claims against FAAC and the Members, respectively hereunder that are not based upon claims asserted by third parties.

(e) *Calculation of Amount of Claims and Losses*. The amount of any claims or losses subject to indemnification under Section 9.2(b) shall be calculated net of any amounts recovered by FAAC or its Affiliates (including the Companies after the Closing) under applicable insurance policies held by FAAC or its Affiliates, and FAAC agrees to make or cause to be made all reasonable claims for insurance under such policies that may be applicable to the matter giving rise to the indemnification claim hereunder. The amount of any claims or losses subject to indemnification under

Section 9.2(b) shall be calculated net of the present value of any Tax benefits to FAAC or its Affiliates (including the Companies after the Closing) resulting from the matter giving

rise to the indemnification claim hereunder (computed at the highest effective marginal tax rates at which FAAC is then paying Taxes and limited to the extent that the Tax Benefits can be utilized by FAAC).

(f) *Limitations on Rights of FAAC Indemnitees*.

(i) Subject to the provisions of Section 9.2(f)(ii) below the rights of FAAC Indemnitees to indemnification by the Members for breaches of representations and warranties hereunder shall be subject to the limitations:

(A) The FAAC Indemnitees shall not be entitled to indemnification with respect to a claim or claims of breach of representation and warranty by the Members or the Companies unless (1) the particular claim exceeds Eight Thousand Dollars ($8,000) and (2) the aggregate amount of all such claims made thereunder exceed One Hundred Seventy Five Thousand Dollars ($175,000), in which event the indemnity provided for in this Section 9.2 shall be effective with respect to the total amount of such damages in excess of $175,000; and

(B) the Members aggregate maximum liability to FAAC Indemnitees under this ARTICLE IX shall not exceed and be limited to the General Indemnity Escrow;

(ii) The limitation in Section 9.2(f)(i)(A) above shall not apply to the *Uncapped Non-Threshold Indemnifications* as hereinafter defined and the Members shall be jointly and severally liable for Uncapped Non-Threshold Indemnifications up to an aggregate amount of Five Million Dollars ($5,000,000) separate and apart from the General Indemnity. Notwithstanding the previous sentence, the limitation in Section 9.2(f)(i)(B) shall in all events apply. For purposes of this Agreement, the term *Uncapped Non-Threshold Indemnifications* shall mean and refer collectively to indemnification liabilities of the Members pursuant to claims based (A) on the breach of Sections 2.4(e), 5.7, 5.8, 5.11(b), 5.11(c), 5.14, 5.16, 5.18, or 5.20; or (B) the representations and warranties of the Members and the Companies pursuant to Section 3.11 (Title), Section 3.28 (ERISA), Section 3.29 (Taxes), D & O Indemnification Claims (but only the D & O Indemnification Claims) pursuant to Section 3.25 or clause (C) of Section 9.2(b)(i); or (C) claims based on fraud, intentional misrepresentation or criminal acts on the part of the Members and the Companies and their respective officers, directors, agents, representative and trustees.

(iii) The rights of the FAAC Indemnitees to indemnification by the Members for Disclosure Schedule Update Losses shall be subject to the limitations of Section 9.2(f)(i) and (ii) above.

(g) *Limitations on Rights of Members Indemnitees*. The rights of Members Indemnitees to indemnification by FAAC for breaches of representations and warranties hereunder shall be subject to the limitation that Members Indemnitees shall not be entitled to indemnification with respect to a claim or claims for a breach of representation and warranty by FAAC unless the aggregate of damages with respect to all such claims exceeds $100,000, in which event the indemnity provided for in this Section 9.2 shall be effective with respect to the amount of such damages. The aforementioned limitations shall not apply to the indemnification liabilities of FAAC with respect to claims based on fraud, intentional misrepresentation, or criminal acts on the part of FAAC.

(h) *Limitation on Rights of Members*. Notwithstanding anything to the contrary, the Members each acknowledge and agree that that they shall have no right to make a claim against the Companies pursuant to any indemnity provision or agreement or otherwise in respect of Claims of FAAC Indemnitees pursuant to Section 9.2(b).

(i) *Limitations on Remedies*. No party hereto shall be liable to the other for indirect, special, incidental, consequential or punitive damages claimed by such other party resulting from such first party s breach of its obligations, agreements, representations or warranties hereunder, provided that nothing hereunder shall preclude any recovery by an Indemnitee against an Indemnitor for third party claims.

9.3 *General Indemnity Escrow Account*.

(a) Pursuant to Section 2 and the General Indemnity Escrow Agreement, at the Closing, FAAC shall deliver to the Escrow Agent the General Indemnity Escrow Property and the Escrow Agent shall set up an escrow account pursuant to the terms of the General Indemnity Escrow Agreement to secure the Members indemnification obligations under this ARTICLE IX. The remaining property of the General Indemnity Escrow,

if any, less the sum of the total of all then outstanding indemnity claims by FAAC Indemnitees (including amounts offset pursuant to Section 9.4 that have not been resolved) shall be delivered by the Escrow Agent to the Members Representative within five (5) Business Days after the Survival Date the accounts designated by the Members Representative in accordance with the terms of the General Indemnity Escrow Agreement. The Members Representative shall be responsible for directing the distribution of the General Indemnity Escrow (60% to Rosato and 40% to Gallagher (after taking into consideration any FAAC common stock forfeited by Rosato or Gallagher pursuant to Section 2.2(d)(v)) and the Escrow Agent shall be entitled to fully rely on such directions. Each of the parties hereto agrees that they shall promptly sign joint instructions authorizing the Escrow Agent to release funds subject to outstanding claims (including funds held as a result of offsets under Section 9.4) as those claims are resolved pursuant to Section 11.11.

(b) Any earnings on the General Indemnity Escrow Property, net of escrow expenses and taxes, shall be paid, pro rata, to the parties receiving distributions from General Indemnity Escrow Account.

9.4 *Effect of Investigation*.

The right to indemnification or other remedies based on any representation, warranty, covenant or obligation of the Members or the Companies contained in or made pursuant to this Agreement or the Transaction Documents shall not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date occurs, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation. The waiver of any condition to the obligation of FAAC to consummate the Contemplated Transactions, where such condition is based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, shall not affect the right to indemnification or other remedies based on such representation, warranty, covenant or obligation.

ARTICLE X

Termination

10.1 *Termination*.

This Agreement may be terminated and the transactions contemplated hereby may be abandoned:

(a) at any time, by mutual written agreement of the Members and FAAC;

(b) at any time after January 20, 2007, by either the Members or FAAC upon five (5) business days prior written notice to the other party, if the Closing shall not have occurred for any reason other than a breach of this Agreement by the terminating party;

(c) by FAAC, if there has been a material violation or breach by the Members of any agreement, representation or warranty contained in the Agreement, that has rendered the satisfaction of any condition to the obligations of FAAC impossible and such violation or breach has not been waived by FAAC;

(d) by the Members, if there has been a material violation or breach by FAAC of any agreement, representation or warranty contained in the Agreement, that has rendered the satisfaction of any condition to the obligations of the Members impossible and such violation or breach has not been waived by the Members; or

(e) by either FAAC or the Members if a court of competent jurisdiction shall have issued an order permanently restraining or prohibiting the transactions contemplated by the Agreement, and such order shall have become final and nonappealable.

10.2 *Procedure and Effect of Termination*.

In the event of the termination of this Agreement and the abandonment of the transactions contemplated hereby, written notice thereof shall be given by a terminating party to the other parties and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned without further action by the Members or FAAC. If this Agreement is terminated pursuant to Section 10.1:

(a) FAAC shall upon written request from the Members return all documents, work papers and other materials (and all copies thereof) obtained from the Members or the Companies relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same, and all confidential information received by FAAC with respect to the Companies shall be treated in accordance with Section 5.2 and the Confidentiality Agreement referred to in such Section;

(b) At the option of the Members, all filings, applications and other submissions made pursuant to Sections 5.3 and 5.4 shall, to the extent practicable, be withdrawn from the agency or other Person to which made;

(c) The obligations provided for in this Section 10.2, Sections 5.2 and 5.7, and in the Confidentiality Agreement shall survive any such termination of this Agreement; and

(d) Notwithstanding anything in this Agreement to the contrary, the termination of this Agreement shall not relieve any party from liability for willful breach of this Agreement.

ARTICLE XI

Miscellaneous

11.1 *Further Assurances*.

At any time and from time to time after the Closing Date, the Members, the Members Representative, and the Companies will, upon the request of FAAC, and FAAC will, upon the request of the Members or the Members Representative perform, execute, acknowledge and deliver all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may be reasonably required by any of them, to effect or evidence the Contemplated Transactions.

11.2 *Notices*.

All necessary notices, demands and requests required or permitted to be given hereunder shall be in writing and addressed as follows:

If to Members Representative: Thomas P. Rosato
11850 Baltimore Avenue
Beltsville, Maryland 20705
Fax: _____

With a copy to: William M. Davidow, Esquire
210 West Pennsylvania Avenue
Suite 400
Towson, Maryland 21204-4515
Fax: (410) 832-2015

If to FAAC: Fortress America Acquisition Corporation
Attn: Harvey L. Weiss, Chairman of the Board
4100 North Fairfax Drive
Suite 1150

Arlington, Virginia 22203

With a copy to: James J. Maiwurm

Squire, Sanders & Dempsey L.L.P.
8000 Towers Crescent Drive, Suite 1400
Tysons Corner, VA 22182-2700
Fax: (703) 720-7801

Notices shall be delivered by a recognized courier service or by facsimile transmission and shall be effective upon receipt, provided that notices shall be presumed to have been received:

(a) if given by courier service, on the second Business Day following delivery of the notice to a recognized courier service before the deadline for delivery on or before the second Business Day following delivery to such service, delivery costs prepaid, addressed as aforesaid; and

(b) if given by facsimile transmission, on the next Business Day, *provided* that the facsimile transmission is confirmed by answer back, written evidence of electronic confirmation of delivery, or oral or written acknowledgment of receipt thereof by the addressee.

From time to time, either party may designate a new address or facsimile number for the purpose of notice hereunder by notice to the other party in accordance with the provisions of this Section 11.2.

11.3 *Governing Law*.

This Agreement shall in all respects be governed by, and construed in accordance with, the laws (excluding conflict of laws rules and principles) of the State of Maryland applicable to agreements made and to be performed entirely within the State of Maryland, including all matters of construction, validity and performance.

11.4 *Entire Agreement*.

This Agreement, together with the Exhibits and Schedules hereto and the other Transaction Documents, constitutes the entire agreement of the parties relating to the subject matter hereof and supersedes all prior contracts or agreements, whether oral or written. There are no representations, agreements, arrangements or understandings, oral or written, between or among the parties relating to the subject matter of this Agreement that are not fully expressed in this Agreement.

11.5 *Severability*.

Should any provision of this Agreement or the application thereof to any person or circumstance be held invalid or unenforceable to any extent: (a) such provision shall be ineffective to the extent, and only to the extent, of such unenforceability or prohibition and shall be enforced to the greatest extent permitted by Law; (b) such unenforceability or prohibition in any jurisdiction shall not invalidate or render unenforceable such provision as applied (i) to other persons or circumstances or (ii) in any other jurisdiction; and (c) such unenforceability or prohibition shall not affect or invalidate any other provision of this Agreement.

11.6 *Amendment*.

Neither this Agreement nor any of the terms hereof may be terminated, amended, supplemented or modified orally, but only by an instrument in writing signed by the party against which the enforcement of the termination, amendment, supplement, or modification shall be sought.

11.7 *Effect of Waiver or Consent*.

No waiver or consent, express or implied, by any person to or of any breach or default by any party in the performance by such party of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such party of the same or any other obligations of such party hereunder. No single or partial exercise of any right or power, or any abandonment or discontinuance of steps to enforce any right or power, shall preclude any other or further exercise thereof or the exercise of any other right or power. Failure on the part of a party to complain of any act of any party or to declare any party in default, irrespective of how long such failure continues, shall not constitute a waiver by such person of its rights hereunder until the applicable statute of limitation period has run.

11.8 *Rights and Remedies Cumulative*.

Except where other remedies are expressly provided herein, indemnifications under ARTICLE IX shall constitute the sole remedy for Losses identifiable pursuant to Sections 9.2(a)(i), 9.2(b)(i), or 9.2(b)(iii) except with respect to fraud or intentional misconduct by a party. To the extent this Agreement provides for other remedies in addition to the indemnifications under ARTICLE IX, then such other remedies together with indemnifications under ARTICLE IX shall be remedies.

11.9 *Parties in Interest; Limitation on Rights of Others*.

The terms of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective legal representatives, successors and assigns. Nothing in this Agreement, whether express or implied, shall be construed to give any person (other than the parties hereto and their respective legal representatives, successors and assigns and as expressly provided herein and to the extent provided in ARTICLE IX, the Indemnified Parties) any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenants, conditions or provisions contained herein, as a third party beneficiary or otherwise.

11.10 *Assignability*.

This Agreement shall not be assigned by any party hereto without the prior written consent of the other party hereto, *provided, however*, that the prior written consent of the Members Representative shall not be required with respect to (a) any assignment by FAAC of its rights and obligations under this Agreement to an Affiliate of FAAC so long as such assignment does not relieve FAAC of its obligations hereunder; or (b) any collateral assignment of FAAC s rights and remedies under this Agreement to any lender under credit and collateral agreements, as such agreements may be amended, modified or replaced from time to time, so long as such lender does not have the right to exercise any of FAAC s rights and remedies under this Agreement in the absence a default by FAAC under the applicable credit and collateral documents. Each of the Members hereby agrees to execute and deliver (and authorize the Members Representative to execute and deliver) such documents, instruments and agreements as such lender may reasonably require to confirm, reaffirm or perfect such collateral assignment. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.11 *Dispute Resolution and Arbitration*.

In the event that any dispute arises among the parties pertaining to the subject matter of this Agreement, and the parties, through the senior management of FAAC and the Members Representative, are unable to resolve such dispute within a reasonable time through negotiations and mediation efforts, such dispute shall be resolved as set forth in this Section 11.11.

(a) The procedures of this Section 11.11 may be initiated by a written notice (*Dispute Notice*) given by one party (*Claimant*) to the other, but not before thirty (30) days have passed during which the parties have been unable to reach a resolution as described (unless any party would be materially prejudiced by such delay). The Dispute Notice shall be accompanied by (i) a statement of the Claimant describing the dispute in reasonable detail and (ii) documentation, if any, supporting the Claimant s position on the dispute. Within twenty (20) days after the other party s (*Respondent*) receipt of the Dispute Notice and accompanying materials, the parties shall submit the dispute to mediation in the Washington, D.C. area under the rules of the American Arbitration Association. All negotiations and mediation procedures pursuant to this paragraph (a) shall be confidential and treated as compromise and settlement negotiations and shall not be admissible in any arbitration or other proceeding.

(b) If the dispute is not resolved as provided in paragraph (a) within sixty (60) days after the Respondent s receipt of the Dispute Notice, the dispute shall be resolved by binding arbitration. Within the sixty-day period referred to in the immediately preceding sentence, the parties shall agree on a single arbitrator to resolve the dispute. If the parties fail to agree on the designation of an arbitrator within said sixty-day period, the American Arbitration Association in the Washington, D.C. area shall be requested to designate the single arbitrator. If the arbitrator becomes disabled, resigns or is otherwise unable to discharge the arbitrator s duties, the arbitrator s successor shall be appointed in the same manner as the arbitrator was appointed.

(c) Except as otherwise provided in this Section 11.11, the arbitration shall be conducted in accordance with the Commercial Rules of the American Arbitration Association, which shall be governed by the United States Arbitration Act.

(d) Any resolution reached through mediation and any award arising out of arbitration (i) shall be binding and conclusive upon the parties; (ii) shall be limited to a holding for or against a party, and affording such monetary remedy as is deemed equitable, just and within the scope of this Agreement; (iii) may not include special, incidental, consequential or punitive damages; (iv) may in appropriate circumstances include injunctive relief; and (v) may be entered in court in accordance with the United States Arbitration Act.

(e) Arbitration shall not be deemed a waiver of any right of termination under this Agreement, and the arbitrator is not empowered to act or make any award other than based solely on the rights and obligations of the parties prior to termination in accordance with this Agreement.

(f) The arbitrator may not limit, expand, or otherwise modify the terms of this Agreement.

(g) The laws of the State of Maryland shall apply to any mediation, arbitration, or litigation arising under this Agreement.

(h) Each party shall bear its own expenses incurred in any mediation, arbitration or litigation, but any expenses related to the compensation and the costs of any mediator or arbitrator shall be borne equally by the parties to the dispute.

(i) A request by a party to a court for interim measures necessary to preserve a party s rights and remedies for resolution pursuant to this Section 11.11 shall not be deemed a waiver of the obligation to mediate or of the agreement to arbitrate.

(j) The parties, their representatives, other participants and the mediator or arbitrator shall hold the existence, content and result of mediation or arbitration in confidence.

11.12 *Jurisdiction; Court Proceedings; Waiver of Jury Trial.*

Subject to the provisions of Section 11.11, any suit, action or proceeding against any party to this Agreement arising out of or relating to this Agreement shall be brought in any Federal or state court located in the Commonwealth of Virginia and each of the parties hereby submits to the exclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding. A final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. To the extent that service of process by mail is permitted by applicable Law, each party irrevocably consents to the service of process in any such suit, action or proceeding in such courts by the mailing of such process by registered or certified mail, postage prepaid, at its address for notices provided for herein. Each party irrevocably agrees not to assert (a) any objection that it may ever have to the laying of venue of any such suit, action or proceeding in any Federal or state court located in the Commonwealth of Virginia and (b) any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Each party waives any right to a trial by jury, to the extent lawful.

11.13 *No Other Duties.*

The only duties and obligations of the parties are as specifically set forth in this Agreement, and no other duties or obligations shall be implied in fact, law or equity, or under any principle of fiduciary obligation.

11.14 *Reliance on Counsel and Other Advisors.*

Each party has consulted such legal, financial, technical or other expert as it deems necessary or desirable before entering into this Agreement. Each party represents and warrants that it has read, knows, understands and agrees with the terms and conditions of this Agreement.

11.15 *Waiver of Rights Against Company s Trust Fund.*

The Companies and each of the Members acknowledges that they have read FAAC s Final Prospectus, dated July 13, 2005 (Prospectus) and understands that FAAC has established a trust fund for the benefit of FAAC s public shareholders and that FAAC may disburse monies from the trust fund only (a) to FAAC s public shareholders in the event such shareholders elect to convert their shares, (b) to FAAC s public shareholders upon its liquidation if FAAC fails to consummate a business combination or (c) after or concurrently with the consummation of a business

combination. Each of the Companies and each of the Members (i) hereby agrees that from the period commencing from the Effective Date through the Closing he, she or it do not have any right, title, interest or claim of any kind in or to any monies in the trust fund for so long as they have not been distributed or required to be distributed and (ii) will not seek recourse against monies in the trust fund consistent with clause (i) of this sentence. This Section shall survive the termination of this Agreement but shall terminate and be of no further force and effect upon Closing.

11.16 *Counterparts*.

This Agreement may be executed in several counterparts, all of which taken together shall be deemed one and constitute a single instrument. Any manual signature upon this Agreement that is faxed, scanned or photocopied shall for all purposes have the same validity effect and admissibility in evidence as an original signature and the parties hereby waive any objection to the contrary.

[Signatures on Following Page]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed and delivered in its name and on its behalf, all as of the day and year first above written.

FORTRESS AMERICA
ACQUISITION CORPORATION,
a Delaware corporation

By: /s/ Harvey L. Weiss
Name: Harvey L. Weiss
Title: Chief Executive Officer

VTC, L.L.C.,
a Maryland limited liability company

By: /s/ Thomas P. Rosato
Name: Thomas P. Rosato
Title: Managing Member

VORTECH, LLC,
a Maryland limited liability company

By: /s/ Thomas P. Rosato
Name: Thomas P. Rosato
Title: Managing Member

MEMBERS:

/s/ Thomas P. Rosato
Thomas P. Rosato

/s/ Gerald J Gallagher
Gerard J. Gallagher

MEMBERS REPRESENTATIVE:

/s/ Thomas P. Rosato
Name: Thomas P Rosato

Annex B-1

ESCROW AGREEMENT
(Balance Sheet Escrow)

ESCROW AGREEMENT (*Agreement*), dated as of _____, 2006, by and among (a) Fortress International Group, Inc., formerly Fortress America Acquisition Corporation, a Delaware corporation (FIG); (b) VTC, L.L.C., a Maryland limited liability company (VTC); (c) Vortech, LLC, a Maryland limited liability company (Vortech); (d) Thomas P. Rosato (Rosato) and Gerard J. Gallagher (Gallagher who together with Rosato owns all of the outstanding membership interests of both VTC and Vortech (each a Member and jointly the Members); (e) Thomas P. Rosato in his capacity as the Members Representative; and (f) SunTrust Bank, a Georgia banking corporation (the *Escrow Agent*).

RECITALS:

WHEREAS, pursuant to that certain Second Amended and Restated Membership Interest Purchase Agreement, a copy of which without schedules or exhibits is attached hereto *as Exhibit 1* (*Membership Interest Purchase Agreement*), dated as of July , 2006, by and among FIG, VTC, Vortech and the Members, that is hereby incorporated by reference, FIG will acquire all of the outstanding membership interests of each VTC and Vortech;

WHEREAS, pursuant to Section 2.6 of the Membership Interest Purchase Agreement, the Members designated Thomas P. Rosato as their representative, agent and attorney-in-fact for purposes of this Agreement and other various matters described therein (the *Members Representative*);

WHEREAS, as partial consideration for their respective membership interests in VTC and Vortech, each of the Members has received from FIG pursuant to the terms of the Membership Interest Purchase Agreement and Stock Acquistion Agreements, copies of which (without schedules or exhibits) are attached as *Exhibit 2* (jointly the *Stock Purchase Agreements*) in the aggregate **[2,531,257]** shares of FIG common stock of which 73,260 shares are hereby delivered by FIG and the Members to the Escrow Agent (the *Escrow Deposit*) to hold in escrow pursuant to ther terms of this Agreement;

WHEREAS, the parties desire to specify and clarify their rights and responsibilities with respect to the Escrow Deposit; and

WHEREAS, the Escrow Agent is willing to serve in such capacity, but only pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. *Definitions*.

1.1. As used in this Agreement, the following terms shall have the meanings set forth below:

Agreed Share Value has the meaning set forth in Section 5.3.

Agreement means this Escrow Agreement.

Business Day shall mean any day other than a Saturday, Sunday, or any Federal or Commonwealth of Virginia holiday. If any period expires on a day that is not a Business Day or any event or condition is required by the terms of this Agreement to occur or be fulfilled on a day that is not a Business Day, such period shall expire or such event or condition shall occur or be fulfilled, as the case may be, on the next succeeding Business Day.

Escrow Account has the meaning set forth in Section 4.1.

Escrow Agent has the meaning set forth in the Preamble.

Escrow Property has the meaning set forth in Section 4.1.

Escrow Deposit has the meaning set forth in the Recitals.

Final Determination has the meaning set forth in Section 5.1(b).

FIG has the meaning set forth in the Preamble.

Indemnity Claim has the meaning set forth in Section 5.2.

Indemnity Claim Notice has the meaning set forth in Section 5.2.

Members has the meaning set forth in the Preamble.

Members Representative has the meaning set forth in the Recitals.

Membership Interest Purchase Agreement has the meaning set forth in the Recitals.

1.2. Capitalized terms used but not defined in this Agreement have the meanings ascribed to such terms in the Membership Interest Purchase Agreement.

2. *Appointment of Escrow Agent*. FIG, the Members, and the Members Representative hereby appoint the Escrow Agent to act as an escrow agent as provided herein, and the Escrow Agent hereby accepts such appointment.

3. *Members Representative*.

3.1. The parties acknowledge that, pursuant to the Membership Interest Purchase Agreement, the Members Representative is authorized to act as the agent and attorney-in-fact on behalf of all of the Members in all matters necessary to carry out the terms and conditions of this Agreement.

3.2. The Members Representative represents and warrants to the Escrow Agent that he has the irrevocable right, power and authority with respect to all of the Members (a) to give and receive directions and notices hereunder, (b) to make all determinations that may be required or that he deems appropriate under this Agreement, and (c) to execute and deliver all documents that may be required or that he deems appropriate under this Agreement. The Escrow Agent may act upon the directions, instructions and notices of the Members Representative named above and thereafter upon the directions and instructions of the successor Members Representative named in a writing executed by a majority-in-interest of the Members (pursuant to the provisions of Section 2.6 of the Membership Interest Purchase Agreement) filed with the Escrow Agent.

4. *Delivery of Escrow Deposit*.

4.1. FIG acknowledges that it deposited the Escrow Deposit in an account (the *Escrow Account*) with the Escrow Agent. The FIG common stock in the Escrow Account, together with any dividends (and any interest or other net income received from or earned thereon) is hereinafter collectively referred to as the *Escrow Property*.

4.2. If, during the term of this Agreement, there is Escrow Property other than the FIG common shares, the Escrow Agent will invest the Escrow Property (other than the FIG common stock) as provided in Section 11.

5. *Disbursement of the Escrow Property*. The Escrow Agent will hold the Escrow Property and, subject to the Escrow Agent s right in Section 9 to withhold disbursements when the Escrow Agent is uncertain as to what action to take, make disbursements therefrom as follows.

5.1. Escrow Agent shall disburse all or a portion of the Escrow Property on deposit in the Escrow Account to FIG, the Members or both, as the case may be, upon receipt of:

(a) one or more fully executed Payment Request Forms in substantially the form attached hereto as *Exhibit 3*, executed by FIG and the Members Representative on behalf of the Members, and otherwise pursuant to the terms hereof. Upon receipt of a Payment Request Form, the shares and amounts specified therein shall be promptly delivered or paid directly to the party or parties entitled to payment as specified in the Payment Request Form; or

(b) a copy of a Final Determination (as defined below) establishing a party s right to the Escrow Property. A *Final Determination* shall mean (i) with respect to an Indemnity Claim (or any other dispute between the Members Representative and FIG with respect to whether either party is entitled to some portion, or all of the Escrow Property), a final determination stating that it is being provided under the

procedures of Section 11.11 of the Membership Interest Purchase Agreement; or (ii) otherwise a final judgment of an arbitrator, arbitration panel or court of competent jurisdiction and shall in all cases be accompanied by a certificate of the presenting party to the effect that such judgment is a final judgment of an arbitrator, arbitration panel or court of competent jurisdiction, as applicable, and indicating the party, address, accounts or other information as necessary to process payments.

5.2. If FIG asserts in good faith a claim (an *Indemnity Claim*) against the Members pursuant to the Membership Interest Purchase Agreement, FIG shall send written notice of such Indemnity Claim (an *Indemnity Claim Notice*) to the Escrow Agent and to the Members Representative. Such Indemnity Claim Notice shall set forth in reasonable detail the basis for such Indemnity Claim and a good faith, non-binding estimate of the amount of such Indemnity Claim. In submitting such Indemnity Claim to the Escrow Agent, FIG shall account for any applicable threshold, exclusion or cap provided for in the Membership Interest Purchase Agreement. Whenever FIG sends such an Indemnity Claim Notice, the parties shall comply with the procedures set forth herein.

(a) If the Members Representative decides, in his sole and absolute discretion, to dispute the Indemnity Claim described in the Indemnity Claim Notice, the Members Representative shall, on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of such notice, send to the Escrow Agent and FIG a written objection to such Indemnity Claim.

(b) If the Escrow Agent receives from the Members Representative a written objection to such Indemnity Claim on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of the Indemnity Claim Notice describing such Indemnity Claim, and if that Indemnity Claim cannot be settled through negotiation within twenty (20) days of receipt of the written objection, then the dispute shall be resolved in accordance with Section 11.11 of the Membership Interest Purchase Agreement and Escrow Agent shall hold the funds subject to such dispute until a Final Determination is delivered with respect thereto.

(c) If the Escrow Agent does not receive from the Members Representative a written objection to such Indemnity Claim Notice on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of the Indemnity Claim Notice describing such Indemnity Claim, then the Escrow Agent shall make a disbursement to FIG from the Escrow Property in the amount of the Indemnity Claim described in such Indemnity Claim Notice.

5.3. To the extent that a Payment Request Form, Final Determination, or Indemnity Claim (made and not timely answered pursuant to Section 5.2(c) above) specifies a dollar amount (rather than a share amount) payable thereunder or in satisfaction thereof, the amount specified or claimed shall be satisfied by the delivery from the Escrow Property to FIG or the Members Representative, as the case may be, of certificates for FIG common stock equal in value to the amount specified or claimed (with the FIG common stock valued at Five and 46/100 Dollars ($5.46) per share (the *Agreed Share Value*)

6. *Payments from the Escrow Property*.

6.1. The Escrow Agent shall make no payments from the Escrow Property unless permitted pursuant to Sections 5, 7, 9, 10 and 13.

6.2. Any cash amounts payable by the Escrow Agent under this Agreement shall be paid by bank check or by wire transfer, as specified in the Payment Request Form or Final Determination received by the Escrow Agent.

6.3. Any amounts payable in FIG common stock under this Agreement shall be payable by the delivery of stock certificates for FIG common stock valued at the Agreed Share Value. To the extent that the number of shares deliverable by the Escrow Agent does not correspond with stock certificates then held by the Escrow Agent, the Escrow Agent shall deliver to FIG one or more share certificates evidencing shares in excess of the number of FIG common shares then deliverable with instructions to FIG (i) to retain and cancel a specified number of shares (if

shares are deliverable to FIG hereunder) or issue to the Members Representative, or to whomever the Members Representative directs FIG (if shares are deliverable to the Members Representative hereunder), a certificate or certificates for FIG common shares in the amount deliverable by the Escrow Agent to FIG or the Members Representative as applicable and (ii) to issue to the Escrow Agent a certificate for the

residual balance, if any, of those FIG common shares evidenced the share certificate(s) delivered by the Escrow Agent to FIG.

6.4. All interest and other income, if any, received from or earned on the Escrow Property net of distributions paid or to be paid pursuant to Section 7.3 (Earnings) shall be applied first to pay any Escrow Fees then due under Section 13, with any remaining Earnings to become a part of the Escrow Property and be paid in accordance with the other terms of this Agreement.

6.5. The parties hereto (other than the Escrow Agent) each warrant to and agree with the Escrow Agent that, unless otherwise expressly set forth in this Agreement, there is no security interest in the Escrow Property or any part of the Escrow Property; no financing statement under the Uniform Commercial Code of any jurisdiction is on file in any jurisdiction claiming a security interest in or describing, whether specifically or generally, the Escrow Property or any part of the Escrow Property. Notwithstanding anything to the contrary herein provided, the Escrow Agent shall in no event be deemed to be a collateral agent or agent for any pledge or purported pledge of property held under this Agreement. The Escrow Agent makes no representation concerning whether or not any security interest exists with respect to any property held under the terms of this Agreement and the Escrow Agent shall have no duty or obligation with respect to the creation, perfection or continuation of any such security interest, it being understood that the duties of the Escrow Agent with respect to any property held pursuant to this Agreement are limited and confined exclusively to the duties and responsibilities expressly set forth herein. This Agreement shall not be deemed or construed to be a security agreement or to grant a security interest in any property held in escrow hereunder.

7. *Tax Matters.*

7.1. The parties agree that the Escrow Property is intended to consist only of FIG common shares and that no taxable income is anticipated. Notwithstanding the previous sentence, for tax reporting purposes in each calendar year (other than the calendar year in which this Agreement is terminated pursuant to Section 14 below), all interest or other income earned from the investment of the Escrow Property together with all fees and expenses pursuant to Section 13 below (or that may otherwise be taken into consideration for purposes of calculating and reporting taxes due on earnings with respect to the Escrow Account and Funds) shall be allocable to FIG and so reported to the Internal Revenue Service and any other applicable taxing authority, except to the extent that any law or regulation should otherwise require, as provided in a written notice from FIG to the Escrow Agent. Notwithstanding anything to the contrary contained herein, for the calendar year during which this Agreement is terminated pursuant to Section 14 below, all income, fees and expenses shall be allocated pro rata to the persons receiving payments of the Escrow Property during that year.

7.2. Each of the parties agrees to provide the Escrow Agent with a certified tax identification number by signing and returning a Form W-9 (or Form W-8, in the case of non-U.S. persons) to the Escrow Agent within 30 days from the date hereof. The parties understand that, in the event their tax identification numbers are not certified to the Escrow Agent, the Internal Revenue Code may require withholding of a portion of any interest or other income earned on the investment of the Escrow Property, in accordance with the Internal Revenue Code, as amended from time to time.

7.3. The Escrow Agent shall distribute quarterly to FIG amounts when and in the amounts requested in writing in good faith by FIG to cover the potential federal, state or local tax obligations of FIG on account of the cumulative allocation to FIG of taxable income attributable to the interest and other income earned on the Escrow Property. Such distributions shall be requested and made with respect to each quarter as early as fifteen (15) days prior to the date that United States taxpayers are required to make estimated federal tax payments with respect to such quarter. For purposes of the foregoing, such federal, state and local tax obligations of FIG initially shall be assumed to equal an effective combined federal and state income tax rate equal to forty-two percent (42%) (but in no event lower than the highest Federal marginal income tax rate plus seven percent (7%)).

7.4. The Escrow Agent shall report to the Internal Revenue Service, as of each calendar year-end, all income earned from the Escrow Property, whether or not such income has been distributed during such year, as and to the extent required by law; and, the Escrow Agent shall prepare and file any tax returns required to be filed with respect to the Escrow Account.

7.5. The persons to whom income is allocable for each year shall pay all taxes payable on income earned from the investment of the Escrow Property, whether or not the Escrow Agent distributed the income during any particular year.

8. *Escrow Agent s Duties*.

8.1. The Escrow Agent s duties are entirely ministerial and not discretionary, and the Escrow Agent will be under no duty or obligation to give any notice, or to do or to omit the doing of any action with respect to the Escrow Property, except to give notice, make disbursements and invest the Escrow Property in accordance with the terms of this Agreement.

8.2. The Escrow Agent will neither be responsible for, nor chargeable with, knowledge of the terms and conditions of any other agreement, instrument or document among the other parties hereto, in connection herewith, including the Membership Interest Purchase Agreement, and will be required to act only pursuant to the terms and provisions of this Agreement. This Agreement sets forth all matters pertinent to the escrow contemplated hereunder, and no additional obligations of the Escrow Agent will be inferred from the terms of this Agreement, the Membership Interest Purchase Agreement or any other agreement.

8.3. The Escrow Agent will not be liable for any error in judgment or any act or steps taken or permitted to be taken in good faith, or for any mistake of law or fact, or for anything it may do or refrain from doing in connection with this Agreement, except for its own willful misconduct or gross negligence. As to any legal questions arising in connection with the administration of this Agreement, the Escrow Agent may consult with and rely absolutely upon the opinions given to it by counsel (including internal counsel) and shall be free of liability for acting in reliance on such opinions. In no event shall the Escrow Agent be liable for incidental, indirect, special, consequential or punitive damages.

8.4. The Escrow Agent will not be required in any way to determine the validity, genuineness, authenticity or sufficiency, whether in form or substance, of any instrument, document, certificate, statement or notice referred to in this Agreement or contemplated by this Agreement, or the identity or authority of the persons executing it, and it will be sufficient if any writing purporting to be such instrument, document, certificate, statement or notice is delivered to the Escrow Agent and purports to be correct in form and signed or otherwise executed by the party or parties required to sign or execute it under this Agreement. The Escrow Agent reserves the right, but shall in no way be obligated, to call upon the parties, or any of them, for written instructions before taking any actions hereunder.

8.5. During the term of this Agreement, the Escrow Agent shall not exercise on its own behalf any right of set-off against, or enforce any lien on, the Escrow Property, except such right or lien as may arise in connection with this Agreement.

8.6. The parties to this Agreement agree to make modifications to this Section upon the reasonable request of the Escrow Agent.

8.7. In the event of a shareholder vote, the Escrow Agent shall have the right to exercise all voting rights with respect to the FIG common stock held by the Escrow Agent as part of the Escrow Property; provided, however, that the Escrow Agent shall have no discretion as to voting the shares of FIG common stock except in a fashion that is in all respects proportional to the manner in which the FIG common stock not held as part of the Escrowed Property is voted (as certified by FIG s Secretary). FIG, Rosato, Gallagher and the Members Representative each hereby (i) instruct the Escrow Agent to vote all of the FIG common shares held as Escrow Property in the manner described in this Section 8.7 and (ii) agree that the Escrow Agent shall have no liability with respect to voting the FIG common stock held as Escrow Property in the manner described in this Section 8.7. This Section 8.7 shall constitute an irrevocable proxy, coupled with an interest, with respect to any shares of FIG common stock (or other FIG securities) that Escrow Agent holds pursuant to this Agreement.

9. *Disputes*.

9.1. It is understood and agreed that should any dispute arise with respect to the payment and/or ownership or right of possession of the Escrow Property, or should the Escrow Agent be uncertain as to what action to take with respect to the Escrow Property, the Escrow Agent is authorized and directed to retain in its possession, without liability to anyone, all or any part of the Escrow Property until such dispute or uncertainty shall have

been settled either by mutual agreement by the parties concerned (as evidenced by a written agreement among them) or by a Final Determination.

9.2. If the Escrow Agent becomes involved in litigation by reason of this Agreement, or if the Escrow Agent reasonably believes, in its sole discretion, that it may become involved in litigation, the Escrow Agent is authorized to institute a bill of interpleader in a court in the Commonwealth of Virginia to determine the rights of the parties and to deposit the Escrow Property with the court in accordance with the Commonwealth of Virginia law. Upon deposit of the Escrow Property with the court, the Escrow Agent shall stand fully relieved and discharged of any further duties as Escrow Agent. The filing of any such legal proceedings shall not deprive the Escrow Agent of its compensation hereunder earned prior to such filing and discharge of the Escrow Agent of its duties hereunder.

9.3. If a bill of interpleader is instituted, or if the Escrow Agent is threatened with litigation or becomes involved in litigation in any manner whichever on account of this Agreement or the Escrow Property, FIG and the Members, jointly and severally, shall pay the Escrow Agent its reasonable attorneys fees and any other disbursements, expenses, losses, costs and damages incurred by the Escrow Agent in connection with or resulting from such threatened or actual litigation. All costs and expenses of such dispute will be charged to the non-prevailing party in such dispute, unless such non-prevailing party is a third party, in which case the Escrow Agent s costs and expenses will be charged to and paid out of the Escrow Property, and to the extent the Escrow Property are insufficient, will be charged equally to FIG and the Members.

9.4. In the event that the Escrow Agent proposes to disburse to the Members any portion of the Escrow Property, the disbursement of which the Escrow Agent had previously withheld pursuant to this Section, the Escrow Agent shall disburse such amount to the Member s Representative.

10. *Indemnity*. FIG and the Members jointly and severally agree to hold the Escrow Agent harmless and to indemnify the Escrow Agent against any loss, liability, expenses (including reasonable attorney s fees and expenses), claim, or demand arising out of or in connection with the performance of its obligations in accordance with the provisions of this Agreement, except for willful misconduct or gross negligence of the Escrow Agent. Notwithstanding anything in this Agreement to the contrary, the Escrow Agent shall be entitled to set-off against the Escrow Property and apply such set-off to payment of such fees and disbursements and other liabilities and obligations hereunder. Upon the written request of the Escrow Agent, FIG and the Members jointly and severally agree to assume the investigation and defense of any such claim, including the employment of counsel acceptable to the Escrow Agent and the payment of all expenses related thereto and, notwithstanding any such assumption, the Escrow Agent shall have the right, and FIG and the Members jointly and severally agree to pay the cost and expense thereof, to employ separate counsel with respect to any such claim and participate in the investigation and defense thereof in the event that the Escrow Agent shall have been advised by counsel that there may be one or more legal defenses available to the Escrow Agent which are different from or in addition to those available to FIG or the Members. FIG and the Members agree that all references in this Section to the Escrow Agent shall be deemed to include references to its directors, officers, employees and agents. The foregoing indemnities in this paragraph shall survive the resignation or removal of the Escrow Agent or the termination of this Agreement.

11. *Investment*.

11.1. As used in this Section, *Eligible Investments* include one or more of the following obligations or securities, but only to the extent that such obligations or securities mature within thirty (30) calendar days or such longer time as the Members Representative and FIG shall determine, such longer maturities not to exceed eighteen (18) months from the Closing Date: (a) direct obligations of, or obligations fully guaranteed by, the United States of America or any agency thereof, and (b) money market funds investing primarily in the obligations or securities listed in clause (a) above or repurchase agreements fully collateralized by direct obligations of the United States of America.

11.2. The Escrow Agent will invest the Escrow Property in such Eligible Investments as the Members Representative and FIG, from time to time, shall jointly instruct the Escrow Agent in writing. Notwithstanding the foregoing, in no event shall the FIG common stock held as part of the Escrow Property be invested. Earnings upon Eligible Investments shall be deemed part of the Escrow Property, shall be deposited in the Escrow Account and shall be disbursed in accordance with the terms of this Agreement. Any loss or expense incurred from an Eligible Investment shall be borne by the Escrow Property. The Escrow Agent shall have no

responsibility or liability for any diminution which may result from any investments or reinvestments made in accordance with this Agreement.

11.3. The parties acknowledge and agree that the Escrow Agent will not provide supervision, recommendations or advice relative to either the investment of the Escrow Property or the purchase, sale, retention or other disposition of any Eligible Investment.

11.4. The Escrow Agent is hereby authorized to execute purchases and sales of Eligible Investments through its own trading or capital markets operations. The Escrow Agent shall send statements to FIG and the Members Representative reflecting activity for the Escrow Account for the preceding quarter within fifteen (15) days after the last day of each calendar quarter. Although the parties acknowledge that they may obtain a broker confirmation or written statement containing comparable information at no additional cost, each party hereby agrees that confirmations of Eligible Investments are not required to be issued by the Escrow Agent for each period in which a statement is provided.

12. *Resignation*.

12.1. The Escrow Agent may resign upon thirty (30) calendar days prior written notice to the Members Representative and FIG, and, upon joint instructions from the Members Representative and FIG, will deliver the Escrow Property to any designated substitute Escrow Agent selected by the Members Representative and FIG. If the Members Representative and FIG fail to designate a substitute Escrow Agent within 15 calendar days after receipt of such notice, the Escrow Agent may, at its sole discretion, institute a bill of interpleader as contemplated by Section 9 above for the purpose of having an appropriate court designate a substitute Escrow Agent. The Escrow Agent shall have no responsibility for the appointment of a successor Escrow Agent hereunder.

12.2. Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Escrow Agent without the execution or filing of any paper or the performance of any further act, notwithstanding anything herein to the contrary.

13. *Compensation*. FIG and Members agree that the fees and expenses of the Escrow Agent, including any investment fees and other investment-related charges, for services rendered, including the basic fees set forth in *Exhibit 4* attached hereto, shall be paid out of the Earnings; *provided, however*, that if the Earnings are less than the fees then due, then the balance of the fees due to the Escrow Agent shall be paid equally by the Members and FIG. Upon any withdrawal from the Escrow Property to pay such fees and expenses, the Escrow Agent shall provide written notification of such withdrawal to FIG and the Members Representative, detailing such fees and expenses. The Escrow Agent shall have, and is hereby granted, a prior lien upon any property, cash, or assets hereunder, with respect to its unpaid fees and nonreimbursed expenses, superior to the interests of any other person.

14. *Termination*. Upon delivery of all amounts constituting the Escrow Property as provided in Sections 5 and 7 and the resolution of all disputes, if any, covered by Section 9, this Agreement shall terminate except for the provisions of Section 9 (with respect to payment of the Escrow Agent s expenses), Section 10 and Section 13.

15. *Notices*.

15.1. All necessary notices, demands and requests required or permitted to be given hereunder shall be in writing and addressed as follows:

If to the Members: c/o Thomas P. Rosato

Members Representative
9841 Broken Land Parkway
Columbia, Maryland [Zip Code]
Fax: _____

With a copy to: William M. Davidow, Esquire

Whiteford Taylor & Preston L.L.P.
7 St. Paul Street
Baltimore, Maryland 21202-1626
Fax: (410) 223-4367

If to FIG: Fortress International Group, Inc.

4100 North Fairfax Drive
Suite 1150
Arlington, Virginia 22203
Attn: Harvey L. Weiss, Chairman of the Board

and

James J. Maiwurm
Squire, Sanders & Dempsey L.L.P.
8000 Towers Crescent Drive, Suite 1400
Tysons Corner, VA 22182-2700
Fax: (703) 720-7801

If to the Escrow Agent: SunTrust Bank

919 East Main Street, 10th Floor
Richmond, Virginia 23219
Attn: E. Carl Thompson, Jr.
Fax: (804) 782-7855

15.2. Notices shall be delivered by a recognized courier service or by facsimile transmission and shall be effective upon receipt, provided that notices shall be presumed to have been received:

(a) if given by courier service, on the second Business Day following delivery of the notice to a recognized courier service for delivery on or before the second Business Day following delivery to such service, delivery costs prepaid, addressed as aforesaid; and

(b) if given by facsimile transmission, on the next Business Day, provided that the facsimile transmission is confirmed by answer back, written evidence of electronic confirmation of delivery, or oral or written acknowledgment of receipt thereof by the addressee.

15.3. From time to time either party may designate a new address or facsimile number for the purpose of notice hereunder by notice to the other party in accordance with the provisions of this Section 15.

15.4. Notwithstanding anything to the contrary herein provided, the Escrow Agent shall not be deemed to have received any notice prior to the Escrow Agent s actual receipt thereof.

16. *Choice of Laws; Cumulative Rights*. This Agreement shall be construed in accordance with and governed by the laws of the Commonwealth of Virginia without regard to the choice of law provisions thereof. The rights and remedies provided to each party hereunder are cumulative and will be in addition to the rights and remedies otherwise available to such party under this Agreement, any other agreement or applicable law.

17. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and such counterparts together will constitute an original.

18. *Successors and Assigns*. This Agreement will bind and inure to the benefit of the parties and their respective successors and permitted assigns. Except as provided in Section 12.2, this Agreement may not be assigned by operation of law or otherwise without the prior written consent of each of the parties hereto.

19. *Severability*. The provisions of this Agreement will be deemed severable, and if any provision or part of this Agreement is held illegal, void or invalid under applicable law, such provision or part may be changed to the extent reasonably necessary to make the provision or part, as so changed, legal, valid and binding. If any provision of this

Agreement is held illegal, void or invalid in its entirety, the remaining provisions of this Agreement will not in any way be affected or impaired but will remain binding in accordance with their terms.

20. *Headings*. The Section headings in this Agreement are for convenience of reference only and will not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

21. *Waiver*. No failure on the part of any party to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any party in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or any other power, right, privilege or remedy. No party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such party; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

22. *Amendments*. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of each of the parties hereto.

23. *Parties in Interest*. None of the provisions of this Agreement is intended to provide any rights or remedies to any Person other than the parties hereto and their respective successors and permitted assigns, if any.

24. *Entire Agreement*. This Agreement sets forth the entire understanding of the parties hereto relating to the subject matter hereof and supersedes all prior agreements and understandings among or between any of the parties relating to the subject matter hereof.

25. *Escrow Agent Documentation*. In order to maintain compliance with the Patriot Act, prior to the effective date of this Agreement, FIG and the Members Representative shall provide to the Escrow Agent a completed Form W-9, Certificate of Incumbency, and a copy of the corporate document (i.e., Corporate Resolution, Articles of Incorporation, Bylaws, Partnership Agreement, etc.) that would show proper authorization for such parties to enter into this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

FIG:

FORTRESS INTERNATIONAL GROUP, INC.,
a Delaware corporation

By:

Name:

Title:

MEMBERS:

Thomas P. Rosato

Gerard J. Gallagher

MEMBERS REPRESENTATIVE:

Thomas P. Rosato as the representative for those
Members pursuant to Section 2.6 of the Membership
Interest Purchase Agreement.

ESCROW AGENT:

SUNTRUST BANK,
a Georgia banking corporation

By:

Name:

Title:

Annex B-2

ESCROW AGREEMENT
(General Indemnity Escrow)

ESCROW AGREEMENT (*Agreement*), dated as of _____, 2006, by and among (a) Fortress International Group, Inc., formerly Fortress America Acquisition Corporation, a Delaware corporation (FIG); (b) VTC, L.L.C., a Maryland limited liability company (VTC); (c) Vortech, LLC, a Maryland limited liability company (Vortech); (d) Thomas P. Rosato (Rosato) and Gerard J. Gallagher (Gallagher who together with Rosato owns all of the outstanding membership interests of both VTC and Vortech (each a Member and jointly the Members); (e) Thomas P. Rosato in his capacity as the Members Representative; and (f) SunTrust Bank, a Georgia banking corporation (the *Escrow Agent*).

RECITALS:

WHEREAS, pursuant to that certain Second Amended and Restated Membership Interest Purchase Agreement, a copy of which without schedules or exhibits is attached hereto as *Exhibit 1* (*Membership Interest Purchase Agreement*), dated as of July , 2006, by and among FIG, VTC, Vortech and the Members, that is hereby incorporated by reference, FIG will acquire all of the outstanding membership interests of each VTC and Vortech;

WHEREAS, pursuant to Section 2.6 of the Membership Interest Purchase Agreement, the Members designated Thomas P. Rosato as their representative, agent and attorney-in-fact for purposes of this Agreement and other various matters described therein (the *Members Representative*);

WHEREAS, as partial consideration for their respective membership interests in VTC and Vortech, each of the Members has received from FIG pursuant to the terms of the Membership Interest Purchase Agreement and Stock Acquistion Agreements, copies of which (without schedules or exhibits) are attached as *Exhibit 2* (jointly the *Stock Purchase Agreements*) in the aggregate **[2,531,257]** shares of FIG common stock of which **[2,487,484]** shares are hereby delivered by FIG and the Members to the Escrow Agent (the *Escrow Deposit*) to hold in escrow pursuant to ther terms of this Agreement;

WHEREAS, the parties desire to specify and clarify their rights and responsibilities with respect to the Escrow Deposit; and

WHEREAS, the Escrow Agent is willing to serve in such capacity, but only pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. *Definitions*.

1.1. As used in this Agreement, the following terms shall have the meanings set forth below:

Agreed Share Value has the meaning set forth in Section 5.3.

Agreement means this Escrow Agreement.

Business Day shall mean any day other than a Saturday, Sunday, or any Federal or Commonwealth of Virginia holiday. If any period expires on a day that is not a Business Day or any event or condition is required by the terms of this Agreement to occur or be fulfilled on a day that is not a Business Day, such period shall expire or such event or condition shall occur or be fulfilled, as the case may be, on the next succeeding Business Day.

Escrow Account has the meaning set forth in Section 4.1.

Escrow Agent has the meaning set forth in the Preamble.

Escrow Property has the meaning set forth in Section 4.1.

Escrow Deposit has the meaning set forth in the Recitals.

Final Determination has the meaning set forth in Section 5.1(b).

FIG has the meaning set forth in the Preamble.

Indemnity Claim has the meaning set forth in Section 5.2.

Indemnity Claim Notice has the meaning set forth in Section 5.2.

Members has the meaning set forth in the Preamble.

Members Representative has the meaning set forth in the Recitals.

Membership Interest Purchase Agreement has the meaning set forth in the Recitals.

1.2. Capitalized terms used but not defined in this Agreement have the meanings ascribed to such terms in the Membership Interest Purchase Agreement.

2. *Appointment of Escrow Agent*. FIG, the Members, and the Members Representative hereby appoint the Escrow Agent to act as an escrow agent as provided herein, and the Escrow Agent hereby accepts such appointment.

3. *Members Representative*.

3.1. The parties acknowledge that, pursuant to the Membership Interest Purchase Agreement, the Members Representative is authorized to act as the agent and attorney-in-fact on behalf of all of the Members in all matters necessary to carry out the terms and conditions of this Agreement.

3.2. The Members Representative represents and warrants to the Escrow Agent that he has the irrevocable right, power and authority with respect to all of the Members (a) to give and receive directions and notices hereunder, (b) to make all determinations that may be required or that he deems appropriate under this Agreement, and (c) to execute and deliver all documents that may be required or that he deems appropriate under this Agreement. The Escrow Agent may act upon the directions, instructions and notices of the Members Representative named above and thereafter upon the directions and instructions of the successor Members Representative named in a writing executed by a majority-in-interest of the Members (pursuant to the provisions of Section 2.6 of the Membership Interest Purchase Agreement) filed with the Escrow Agent.

4. *Delivery of Escrow Deposit*.

4.1. FIG acknowledges that it deposited the Escrow Deposit in an account (the *Escrow Account*) with the Escrow Agent. The FIG common stock in the Escrow Account, together with any dividends (and any interest or other net income received from or earned thereon) is hereinafter collectively referred to as the *Escrow Property*.

4.2. If, during the term of this Agreement, there is Escrow Property other than the FIG common shares, the Escrow Agent will invest the Escrow Property (other than the FIG common stock) as provided in Section 11.

5. *Disbursement of the Escrow Property*. The Escrow Agent will hold the Escrow Property and, subject to the Escrow Agent s right in Section 9 to withhold disbursements when the Escrow Agent is uncertain as to what action to take, make disbursements therefrom as follows.

5.1. Escrow Agent shall disburse all or a portion of the Escrow Property on deposit in the Escrow Account to FIG, the Members or both, as the case may be, upon receipt of:

(a) one or more fully executed Payment Request Forms in substantially the form attached hereto as *Exhibit 3*, executed by FIG and the Members Representative on behalf of the Members, and otherwise pursuant to the terms hereof. Upon receipt of a Payment Request Form, the shares and amounts specified therein shall be promptly delivered or paid directly to the party or parties entitled to payment as specified in the Payment Request Form; or

(b) a copy of a Final Determination (as defined below) establishing a party s right to the Escrow Property. A *Final Determination* shall mean (i) with respect to an Indemnity Claim (or any other dispute between the Members Representative and FIG with respect to whether either party is entitled to some portion, or all of the Escrow Property), a final determination stating that it is being provided under the

procedures of Section 11.11 of the Membership Interest Purchase Agreement; or (ii) otherwise a final judgment of an arbitrator, arbitration panel or court of competent jurisdiction and shall in all cases be accompanied by a certificate of the presenting party to the effect that such judgment is a final judgment of an arbitrator, arbitration panel or court of competent jurisdiction, as applicable, and indicating the party, address, accounts or other information as necessary to process payments.

5.2. If FIG asserts in good faith a claim (an *Indemnity Claim*) against the Members pursuant to the Membership Interest Purchase Agreement, FIG shall send written notice of such Indemnity Claim (an *Indemnity Claim Notice*) to the Escrow Agent and to the Members Representative. Such Indemnity Claim Notice shall set forth in reasonable detail the basis for such Indemnity Claim and a good faith, non-binding estimate of the amount of such Indemnity Claim. In submitting such Indemnity Claim to the Escrow Agent, FIG shall account for any applicable threshold, exclusion or cap provided for in the Membership Interest Purchase Agreement. Whenever FIG sends such an Indemnity Claim Notice, the parties shall comply with the procedures set forth herein.

(a) If the Members Representative decides, in his sole and absolute discretion, to dispute the Indemnity Claim described in the Indemnity Claim Notice, the Members Representative shall, on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of such notice, send to the Escrow Agent and FIG a written objection to such Indemnity Claim.

(b) If the Escrow Agent receives from the Members Representative a written objection to such Indemnity Claim on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of the Indemnity Claim Notice describing such Indemnity Claim, and if that Indemnity Claim cannot be settled through negotiation within twenty (20) days of receipt of the written objection, then the dispute shall be resolved in accordance with Section 11.11 of the Membership Interest Purchase Agreement and Escrow Agent shall hold the funds subject to such dispute until a Final Determination is delivered with respect thereto.

(c) If the Escrow Agent does not receive from the Members Representative a written objection to such Indemnity Claim Notice on or before the twentieth (20th) Business Day following the Escrow Agent s receipt of the Indemnity Claim Notice describing such Indemnity Claim, then the Escrow Agent shall make a disbursement to FIG from the Escrow Property in the amount of the Indemnity Claim described in such Indemnity Claim Notice.

5.3. To the extent that a Payment Request Form, Final Determination, or Indemnity Claim (made and not timely answered pursuant to Section 5.2(c) above) specifies a dollar amount (rather than a share amount) payable thereunder or in satisfaction thereof, the amount specified or claimed shall be satisfied by the delivery from the Escrow Property to FIG or the Members Representative, as the case may be, of certificates for FIG common stock equal in value to the amount specified or claimed (with the FIG common stock valued at Five and 46/100 Dollars ($5.46) per share (the *Agreed Share Value*)

6. *Payments from the Escrow Property*.

6.1. The Escrow Agent shall make no payments from the Escrow Property unless permitted pursuant to Sections 5, 7, 9, 10 and 13.

6.2. Any cash amounts payable by the Escrow Agent under this Agreement shall be paid by bank check or by wire transfer, as specified in the Payment Request Form or Final Determination received by the Escrow Agent.

6.3. Any amounts payable in FIG common stock under this Agreement shall be payable by the delivery of stock certificates for FIG common stock valued at the Agreed Share Value. To the extent that the number of shares deliverable by the Escrow Agent does not correspond with stock certificates then held by the Escrow Agent, the Escrow Agent shall deliver to FIG one or more share certificates evidencing shares in excess of the number of FIG common shares then deliverable with instructions to FIG (i) to retain and cancel a specified number of shares (if

shares are deliverable to FIG hereunder) or issue to the Members Representative, or to whomever the Members Representative directs FIG (if shares are deliverable to the Members Representative hereunder), a certificate or certificates for FIG common shares in the amount deliverable by the Escrow Agent to FIG or the Members Representative as applicable and (ii) to issue to the Escrow Agent a certificate for the

residual balance, if any, of those FIG common shares evidenced the share certificate(s) delivered by the Escrow Agent to FIG.

6.4. All interest and other income, if any, received from or earned on the Escrow Property net of distributions paid or to be paid pursuant to Section 7.3 (Earnings) shall be applied first to pay any Escrow Fees then due under Section 13, with any remaining Earnings to become a part of the Escrow Property and be paid in accordance with the other terms of this Agreement.

6.5. The parties hereto (other than the Escrow Agent) each warrant to and agree with the Escrow Agent that, unless otherwise expressly set forth in this Agreement, there is no security interest in the Escrow Property or any part of the Escrow Property; no financing statement under the Uniform Commercial Code of any jurisdiction is on file in any jurisdiction claiming a security interest in or describing, whether specifically or generally, the Escrow Property or any part of the Escrow Property. Notwithstanding anything to the contrary herein provided, the Escrow Agent shall in no event be deemed to be a collateral agent or agent for any pledge or purported pledge of property held under this Agreement. The Escrow Agent makes no representation concerning whether or not any security interest exists with respect to any property held under the terms of this Agreement and the Escrow Agent shall have no duty or obligation with respect to the creation, perfection or continuation of any such security interest, it being understood that the duties of the Escrow Agent with respect to any property held pursuant to this Agreement are limited and confined exclusively to the duties and responsibilities expressly set forth herein. This Agreement shall not be deemed or construed to be a security agreement or to grant a security interest in any property held in escrow hereunder.

7. *Tax Matters.*

7.1. The parties agree that the Escrow Property is intended to consist only of FIG common shares and that no taxable income is anticipated. Notwithstanding the previous sentence, for tax reporting purposes in each calendar year (other than the calendar year in which this Agreement is terminated pursuant to Section 14 below), all interest or other income earned from the investment of the Escrow Property together with all fees and expenses pursuant to Section 13 below (or that may otherwise be taken into consideration for purposes of calculating and reporting taxes due on earnings with respect to the Escrow Account and Funds) shall be allocable to FIG and so reported to the Internal Revenue Service and any other applicable taxing authority, except to the extent that any law or regulation should otherwise require, as provided in a written notice from FIG to the Escrow Agent. Notwithstanding anything to the contrary contained herein, for the calendar year during which this Agreement is terminated pursuant to Section 14 below, all income, fees and expenses shall be allocated pro rata to the persons receiving payments of the Escrow Property during that year.

7.2. Each of the parties agrees to provide the Escrow Agent with a certified tax identification number by signing and returning a Form W-9 (or Form W-8, in the case of non-U.S. persons) to the Escrow Agent within 30 days from the date hereof. The parties understand that, in the event their tax identification numbers are not certified to the Escrow Agent, the Internal Revenue Code may require withholding of a portion of any interest or other income earned on the investment of the Escrow Property, in accordance with the Internal Revenue Code, as amended from time to time.

7.3. The Escrow Agent shall distribute quarterly to FIG amounts when and in the amounts requested in writing in good faith by FIG to cover the potential federal, state or local tax obligations of FIG on account of the cumulative allocation to FIG of taxable income attributable to the interest and other income earned on the Escrow Property. Such distributions shall be requested and made with respect to each quarter as early as fifteen (15) days prior to the date that United States taxpayers are required to make estimated federal tax payments with respect to such quarter. For purposes of the foregoing, such federal, state and local tax obligations of FIG initially shall be assumed to equal an effective combined federal and state income tax rate equal to forty-two percent (42%) (but in no event lower than the highest Federal marginal income tax rate plus seven percent (7%)).

7.4. The Escrow Agent shall report to the Internal Revenue Service, as of each calendar year-end, all income earned from the Escrow Property, whether or not such income has been distributed during such year, as and to the extent required by law; and, the Escrow Agent shall prepare and file any tax returns required to be filed with respect to the Escrow Account.

7.5. The persons to whom income is allocable for each year shall pay all taxes payable on income earned from the investment of the Escrow Property, whether or not the Escrow Agent distributed the income during any particular year.

8. *Escrow Agent s Duties*.

8.1. The Escrow Agent s duties are entirely ministerial and not discretionary, and the Escrow Agent will be under no duty or obligation to give any notice, or to do or to omit the doing of any action with respect to the Escrow Property, except to give notice, make disbursements and invest the Escrow Property in accordance with the terms of this Agreement.

8.2. The Escrow Agent will neither be responsible for, nor chargeable with, knowledge of the terms and conditions of any other agreement, instrument or document among the other parties hereto, in connection herewith, including the Membership Interest Purchase Agreement, and will be required to act only pursuant to the terms and provisions of this Agreement. This Agreement sets forth all matters pertinent to the escrow contemplated hereunder, and no additional obligations of the Escrow Agent will be inferred from the terms of this Agreement, the Membership Interest Purchase Agreement or any other agreement.

8.3. The Escrow Agent will not be liable for any error in judgment or any act or steps taken or permitted to be taken in good faith, or for any mistake of law or fact, or for anything it may do or refrain from doing in connection with this Agreement, except for its own willful misconduct or gross negligence. As to any legal questions arising in connection with the administration of this Agreement, the Escrow Agent may consult with and rely absolutely upon the opinions given to it by counsel (including internal counsel) and shall be free of liability for acting in reliance on such opinions. In no event shall the Escrow Agent be liable for incidental, indirect, special, consequential or punitive damages.

8.4. The Escrow Agent will not be required in any way to determine the validity, genuineness, authenticity or sufficiency, whether in form or substance, of any instrument, document, certificate, statement or notice referred to in this Agreement or contemplated by this Agreement, or the identity or authority of the persons executing it, and it will be sufficient if any writing purporting to be such instrument, document, certificate, statement or notice is delivered to the Escrow Agent and purports to be correct in form and signed or otherwise executed by the party or parties required to sign or execute it under this Agreement. The Escrow Agent reserves the right, but shall in no way be obligated, to call upon the parties, or any of them, for written instructions before taking any actions hereunder.

8.5. During the term of this Agreement, the Escrow Agent shall not exercise on its own behalf any right of set-off against, or enforce any lien on, the Escrow Property, except such right or lien as may arise in connection with this Agreement.

8.6. The parties to this Agreement agree to make modifications to this Section upon the reasonable request of the Escrow Agent.

8.7. In the event of a shareholder vote, the Escrow Agent shall have the right to exercise all voting rights with respect to the FIG common stock held by the Escrow Agent as part of the Escrow Property; provided, however, that the Escrow Agent shall have no discretion as to voting the shares of FIG common stock except in a fashion that is in all respects proportional to the manner in which the FIG common stock not held as part of the Escrowed Property is voted (as certified by FIG s Secretary). FIG, Rosato, Gallagher and the Members Representative each hereby (i) instruct the Escrow Agent to vote all of the FIG common shares held as Escrow Property in the manner described in this Section 8.7 and (ii) agree that the Escrow Agent shall have no liability with respect to voting the FIG common stock held as Escrow Property in the manner described in this Section 8.7. This Section 8.7 shall constitute an irrevocable proxy, coupled with an interest, with respect to any shares of FIG common stock (or other FIG securities) that Escrow Agent holds pursuant to this Agreement.

9. *Disputes*.

9.1. It is understood and agreed that should any dispute arise with respect to the payment and/or ownership or right of possession of the Escrow Property, or should the Escrow Agent be uncertain as to what action to take with respect to the Escrow Property, the Escrow Agent is authorized and directed to retain in its possession, without liability to anyone, all or any part of the Escrow Property until such dispute or uncertainty shall have

been settled either by mutual agreement by the parties concerned (as evidenced by a written agreement among them) or by a Final Determination.

9.2. If the Escrow Agent becomes involved in litigation by reason of this Agreement, or if the Escrow Agent reasonably believes, in its sole discretion, that it may become involved in litigation, the Escrow Agent is authorized to institute a bill of interpleader in a court in the Commonwealth of Virginia to determine the rights of the parties and to deposit the Escrow Property with the court in accordance with the Commonwealth of Virginia law. Upon deposit of the Escrow Property with the court, the Escrow Agent shall stand fully relieved and discharged of any further duties as Escrow Agent. The filing of any such legal proceedings shall not deprive the Escrow Agent of its compensation hereunder earned prior to such filing and discharge of the Escrow Agent of its duties hereunder.

9.3. If a bill of interpleader is instituted, or if the Escrow Agent is threatened with litigation or becomes involved in litigation in any manner whichever on account of this Agreement or the Escrow Property, FIG and the Members, jointly and severally, shall pay the Escrow Agent its reasonable attorneys fees and any other disbursements, expenses, losses, costs and damages incurred by the Escrow Agent in connection with or resulting from such threatened or actual litigation. All costs and expenses of such dispute will be charged to the non-prevailing party in such dispute, unless such non-prevailing party is a third party, in which case the Escrow Agent s costs and expenses will be charged to and paid out of the Escrow Property, and to the extent the Escrow Property are insufficient, will be charged equally to FIG and the Members.

9.4. In the event that the Escrow Agent proposes to disburse to the Members any portion of the Escrow Property, the disbursement of which the Escrow Agent had previously withheld pursuant to this Section, the Escrow Agent shall disburse such amount to the Member s Representative.

10. *Indemnity*. FIG and the Members jointly and severally agree to hold the Escrow Agent harmless and to indemnify the Escrow Agent against any loss, liability, expenses (including reasonable attorney s fees and expenses), claim, or demand arising out of or in connection with the performance of its obligations in accordance with the provisions of this Agreement, except for willful misconduct or gross negligence of the Escrow Agent. Notwithstanding anything in this Agreement to the contrary, the Escrow Agent shall be entitled to set-off against the Escrow Property and apply such set-off to payment of such fees and disbursements and other liabilities and obligations hereunder. Upon the written request of the Escrow Agent, FIG and the Members jointly and severally agree to assume the investigation and defense of any such claim, including the employment of counsel acceptable to the Escrow Agent and the payment of all expenses related thereto and, notwithstanding any such assumption, the Escrow Agent shall have the right, and FIG and the Members jointly and severally agree to pay the cost and expense thereof, to employ separate counsel with respect to any such claim and participate in the investigation and defense thereof in the event that the Escrow Agent shall have been advised by counsel that there may be one or more legal defenses available to the Escrow Agent which are different from or in addition to those available to FIG or the Members. FIG and the Members agree that all references in this Section to the Escrow Agent shall be deemed to include references to its directors, officers, employees and agents. The foregoing indemnities in this paragraph shall survive the resignation or removal of the Escrow Agent or the termination of this Agreement.

11. *Investment*.

11.1. As used in this Section, *Eligible Investments* include one or more of the following obligations or securities, but only to the extent that such obligations or securities mature within thirty (30) calendar days or such longer time as the Members Representative and FIG shall determine, such longer maturities not to exceed eighteen (18) months from the Closing Date: (a) direct obligations of, or obligations fully guaranteed by, the United States of America or any agency thereof, and (b) money market funds investing primarily in the obligations or securities listed in clause (a) above or repurchase agreements fully collateralized by direct obligations of the United States of America.

11.2. The Escrow Agent will invest the Escrow Property in such Eligible Investments as the Members Representative and FIG, from time to time, shall jointly instruct the Escrow Agent in writing. Notwithstanding the foregoing, in no event shall the FIG common stock held as part of the Escrow Property be invested. Earnings upon Eligible Investments shall be deemed part of the Escrow Property, shall be deposited in the Escrow Account and shall be disbursed in accordance with the terms of this Agreement. Any loss or expense incurred from an Eligible Investment shall be borne by the Escrow Property. The Escrow Agent shall have no

responsibility or liability for any diminution which may result from any investments or reinvestments made in accordance with this Agreement.

11.3. The parties acknowledge and agree that the Escrow Agent will not provide supervision, recommendations or advice relative to either the investment of the Escrow Property or the purchase, sale, retention or other disposition of any Eligible Investment.

11.4. The Escrow Agent is hereby authorized to execute purchases and sales of Eligible Investments through its own trading or capital markets operations. The Escrow Agent shall send statements to FIG and the Members Representative reflecting activity for the Escrow Account for the preceding quarter within fifteen (15) days after the last day of each calendar quarter. Although the parties acknowledge that they may obtain a broker confirmation or written statement containing comparable information at no additional cost, each party hereby agrees that confirmations of Eligible Investments are not required to be issued by the Escrow Agent for each period in which a statement is provided.

12. *Resignation*.

12.1. The Escrow Agent may resign upon thirty (30) calendar days prior written notice to the Members Representative and FIG, and, upon joint instructions from the Members Representative and FIG, will deliver the Escrow Property to any designated substitute Escrow Agent selected by the Members Representative and FIG. If the Members Representative and FIG fail to designate a substitute Escrow Agent within 15 calendar days after receipt of such notice, the Escrow Agent may, at its sole discretion, institute a bill of interpleader as contemplated by Section 9 above for the purpose of having an appropriate court designate a substitute Escrow Agent. The Escrow Agent shall have no responsibility for the appointment of a successor Escrow Agent hereunder.

12.2. Any company into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Escrow Agent may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Escrow Agent without the execution or filing of any paper or the performance of any further act, notwithstanding anything herein to the contrary.

13. *Compensation*. FIG and Members agree that the fees and expenses of the Escrow Agent, including any investment fees and other investment-related charges, for services rendered, including the basic fees set forth in *Exhibit 4* attached hereto, shall be paid out of the Earnings; *provided, however*, that if the Earnings are less than the fees then due, then the balance of the fees due to the Escrow Agent shall be paid equally by the Members and FIG. Upon any withdrawal from the Escrow Property to pay such fees and expenses, the Escrow Agent shall provide written notification of such withdrawal to FIG and the Members Representative, detailing such fees and expenses. The Escrow Agent shall have, and is hereby granted, a prior lien upon any property, cash, or assets hereunder, with respect to its unpaid fees and nonreimbursed expenses, superior to the interests of any other person.

14. *Termination*. Upon delivery of all amounts constituting the Escrow Property as provided in Sections 5 and 7 and the resolution of all disputes, if any, covered by Section 9, this Agreement shall terminate except for the provisions of Section 9 (with respect to payment of the Escrow Agent s expenses), Section 10 and Section 13.

15. *Notices*.

15.1. All necessary notices, demands and requests required or permitted to be given hereunder shall be in writing and addressed as follows:

If to the Members: c/o Thomas P. Rosato

Members Representative
9841 Broken Land Parkway
Columbia, Maryland [Zip Code]
Fax: _____

With a copy to: William M. Davidow, Esquire

Whiteford Taylor & Preston L.L.P.
7 St. Paul Street
Baltimore, Maryland 21202-1626
Fax: (410) 223-4367

If to FIG: Fortress International Group, Inc.

4100 North Fairfax Drive
Suite 1150
Arlington, Virginia 22203
Attn: Harvey L. Weiss, Chairman of the Board

and

James J. Maiwurm
Squire, Sanders & Dempsey L.L.P.
8000 Towers Crescent Drive, Suite 1400
Tysons Corner, VA 22182-2700
Fax: (703) 720-7801

If to the Escrow Agent: SunTrust Bank

919 East Main Street, 10th Floor
Richmond, Virginia 23219
Attn: E. Carl Thompson, Jr.
Fax: (804) 782-7855

15.2. Notices shall be delivered by a recognized courier service or by facsimile transmission and shall be effective upon receipt, provided that notices shall be presumed to have been received:

(a) if given by courier service, on the second Business Day following delivery of the notice to a recognized courier service for delivery on or before the second Business Day following delivery to such service, delivery costs prepaid, addressed as aforesaid; and

(b) if given by facsimile transmission, on the next Business Day, provided that the facsimile transmission is confirmed by answer back, written evidence of electronic confirmation of delivery, or oral or written acknowledgment of receipt thereof by the addressee.

15.3. From time to time either party may designate a new address or facsimile number for the purpose of notice hereunder by notice to the other party in accordance with the provisions of this Section 15.

15.4. Notwithstanding anything to the contrary herein provided, the Escrow Agent shall not be deemed to have received any notice prior to the Escrow Agent s actual receipt thereof.

16. *Choice of Laws; Cumulative Rights*. This Agreement shall be construed in accordance with and governed by the laws of the Commonwealth of Virginia without regard to the choice of law provisions thereof. The rights and remedies provided to each party hereunder are cumulative and will be in addition to the rights and remedies otherwise available to such party under this Agreement, any other agreement or applicable law.

17. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and such counterparts together will constitute an original.

18. *Successors and Assigns*. This Agreement will bind and inure to the benefit of the parties and their respective successors and permitted assigns. Except as provided in Section 12.2, this Agreement may not be assigned by operation of law or otherwise without the prior written consent of each of the parties hereto.

19. *Severability*. The provisions of this Agreement will be deemed severable, and if any provision or part of this Agreement is held illegal, void or invalid under applicable law, such provision or part may be changed to the extent reasonably necessary to make the provision or part, as so changed, legal, valid and binding. If any provision of this

Agreement is held illegal, void or invalid in its entirety, the remaining provisions of this Agreement will not in any way be affected or impaired but will remain binding in accordance with their terms.

20. *Headings*. The Section headings in this Agreement are for convenience of reference only and will not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

21. *Waiver*. No failure on the part of any party to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any party in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or any other power, right, privilege or remedy. No party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such party; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

22. *Amendments*. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of each of the parties hereto.

23. *Parties in Interest*. None of the provisions of this Agreement is intended to provide any rights or remedies to any Person other than the parties hereto and their respective successors and permitted assigns, if any.

24. *Entire Agreement*. This Agreement sets forth the entire understanding of the parties hereto relating to the subject matter hereof and supersedes all prior agreements and understandings among or between any of the parties relating to the subject matter hereof.

25. *Escrow Agent Documentation*. In order to maintain compliance with the Patriot Act, prior to the effective date of this Agreement, FIG and the Members Representative shall provide to the Escrow Agent a completed Form W-9, Certificate of Incumbency, and a copy of the corporate document (i.e., Corporate Resolution, Articles of Incorporation, Bylaws, Partnership Agreement, etc.) that would show proper authorization for such parties to enter into this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

FIG:

FORTRESS INTERNATIONAL GROUP, INC.,
a Delaware corporation

By:

Name:
Title:

MEMBERS:

Thomas P. Rosato

Gerard J. Gallagher

MEMBERS REPRESENTATIVE:

Thomas P. Rosato as the representative for those
Members pursuant to Section 2.6 of the Membership
Interest Purchase Agreement.

ESCROW AGENT:

SUNTRUST BANK,
a Georgia banking corporation

By:

Name:
Title:

Annex C

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this Agreement) is entered into as of the ___ day of _____, 2006, by and among Fortress America Acquisition Corporation, a Delaware corporation (the Company) and the undersigned parties listed under Stockholders on the signature page hereto (each, a Stockholder and collectively, the Stockholders).

WHEREAS, the Stockholders are parties to the Second Amended and Restated Membership Interest Purchase Agreement by and among the Company, VTC, L.L.C., Vortech, LLC, Thomas P. Rosato and Gerard J. Gallagher, dated dated July , 2006 (the Purchase Agreement); and

WHEREAS, pursuant to the Purchase Agreement, the Stockholders and the Company desire to enter into this Agreement to provide the Stockholders with certain rights relating to the registration of shares of Common Stock issued to the Stockholders pursuant to the terms and conditions of the Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. The following capitalized terms used herein have the following meanings:

Agreement means this Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

Commission means the Securities and Exchange Commission, or any other federal agency then administering the Securities Act or the Exchange Act.

Common Stock means the common stock, par value $0.0001 per share, of the Company.

Company is defined in the preamble to this Agreement.

Demand Registration is defined in Section 2.1.1.

Demanding Holder is defined in Section 2.1.1.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

Form S-3 is defined in Section 2.3.

Founding Investor Registration Rights Agreement means that certain Registration Rights Agreement dated as of July 13, 2005 by and among the Company and the investors listed on the signature page thereto.

Indemnified Party is defined in Section 4.3.

Indemnifying Party is defined in Section 4.3.

Maximum Number of Shares is defined in Section 2.1.4.

Notices is defined in Section 6.3.

Piggy-Back Registration is defined in Section 2.2.1.

Register, *registered* and *registration* each means a registration effected by preparing and filing a registration statement or similar document in compliance with the requirements of the Securities Act, and the applicable rules and regulations promulgated thereunder, and such registration statement becoming effective.

Registrable Securities mean all of the shares of Common Stock owned or held by Stockholders. Registrable Securities include any warrants, shares of capital stock or other securities of the Company issued as a dividend or other distribution with respect to or in exchange for or in replacement of such shares of Common Stock. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when: (a) a Registration

Statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been sold, transferred, disposed of or exchanged in accordance with such Registration Statement; (b) such securities shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent public distribution of them shall not require registration under the Securities Act; (c) such securities shall have ceased to be outstanding, or (d) the Securities and Exchange Commission makes a definitive determination to the Company that the Registrable Securities are salable under Rule 144(k).

Registration Statement means a registration statement filed by the Company with the Commission in compliance with the Securities Act and the rules and regulations promulgated thereunder for a public offering and sale of Common Stock (other than a registration statement on Form S-4 or Form S-8, or their successors, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another entity).

Release Date means July 13, 2008.

Securities Act means the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

Stockholder is defined in the preamble to this Agreement.

Stockholder Indemnified Party is defined in Section 4.1.

Underwriter means a securities dealer who purchases any Registrable Securities as principal in an underwritten offering and not as part of such dealer s market-making activities.

2. REGISTRATION RIGHTS.

2.1 *Demand Registration*.

2.1.1. *Request for Registration*. At any time and from time to time on or after the Release Date, the holders of a majority-in-interest of the Registrable Securities held by the Stockholders or the transferees of the Stockholders, may make a written demand for registration under the Securities Act of all or part of their Registrable Securities (a *Demand Registration*). Any demand for a Demand Registration shall specify the number of shares of Registrable Securities proposed to be sold and the intended method(s) of distribution thereof. The Company will notify all holders of Registrable Securities of the demand, and each holder of Registrable Securities who wishes to include all or a portion of such holder s Registrable Securities in the Demand Registration (each such holder including shares of Registrable Securities in such registration, a *Demanding Holder*) shall so notify the Company within fifteen (15) days after the receipt by the holder of the notice from the Company. Upon any such request, the Demanding Holders shall be entitled to have their Registrable Securities included in the Demand Registration, subject to Section 2.1.4 and the provisos set forth in Section 3.1.1. The Company shall not be obligated to effect more than an aggregate of two (2) Demand Registrations under this Section 2.1.1 in respect of Registrable Securities.

2.1.2. *Effective Registration*. A registration will not count as a Demand Registration until the Registration Statement filed with the Commission with respect to such Demand Registration has been declared effective and the Company has complied with all of its obligations under this Agreement with respect thereto; *provided, however*, that if, after such Registration Statement has been declared effective, the offering of Registrable Securities pursuant to a Demand Registration is interfered with by any stop order or injunction of the Commission or any other governmental agency or court, the Registration Statement with respect to such Demand Registration will be deemed not to have been declared effective, unless and until, (i) such stop order or injunction is removed, rescinded or otherwise terminated, and (ii) a majority-in-interest of the Demanding Holders thereafter elect to continue the offering; *provided, further*, that the Company shall not be obligated to file a second Registration Statement until a Registration Statement that has been

filed is counted as a Demand Registration or is terminated.

2.1.3. *Underwritten Offering*. If a majority-in-interest of the Demanding Holders so elect and such holders so advise the Company as part of their written demand for a Demand Registration, the offering of such Registrable Securities pursuant to such Demand Registration shall be in the form of an underwritten offering. In such event, the right of any holder to include its Registrable Securities in such registration shall be conditioned

upon such holder s participation in such underwriting and the inclusion of such holder s Registrable Securities in the underwriting to the extent provided herein. All Demanding Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the Underwriter or Underwriters selected for such underwriting by a majority-in-interest of the holders initiating the Demand Registration.

2.1.4. *Reduction of Offering*. If the managing Underwriter or Underwriters for a Demand Registration that is to be an underwritten offering advises the Company and the Demanding Holders in writing that the dollar amount or number of shares of Registrable Securities which the Demanding Holders desire to sell, taken together with all other shares of Common Stock or other securities which the Company desires to sell and the shares of Common Stock, if any, as to which registration has been requested pursuant to written contractual piggy-back registration rights held by other shareholders of the Company who desire to sell, exceeds the maximum dollar amount or maximum number of shares that can be sold in such offering without adversely affecting the proposed offering price, the timing, the distribution method, or the probability of success of such offering (such maximum dollar amount or maximum number of shares, as applicable, the *Maximum Number of Shares*), then the Company shall include in such registration: (i) first, the Registrable Securities as to which Demand Registration has been requested by the Demanding Holders (*pro rata* in accordance with the number of shares of Registrable Securities which such Demanding Holder has requested be included in such registration, regardless of the number of shares of Registrable Securities held by each Demanding Holder) that can be sold without exceeding the Maximum Number of Shares; (ii) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (i), the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (iii) third, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock for the account of other persons that the Company is obligated to register pursuant to written contractual arrangements with such persons and that can be sold without exceeding the Maximum Number of Shares; and (iv) fourth, to the extent that the Maximum Number of Shares have not been reached under the foregoing clauses (i), (ii), and (iii), the shares of Common Stock that other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

2.1.5. *Withdrawal*. If a majority-in-interest of the Demanding Holders disapprove of the terms of any underwriting or are not entitled to include all of their Registrable Securities in any offering, such majority-in-interest of the Demanding Holders may elect to withdraw from such offering by giving written notice to the Company and the Underwriter or Underwriters of their request to withdraw prior to the effectiveness of the Registration Statement filed with the Commission with respect to such Demand Registration. If the majority-in-interest of the Demanding Holders withdraws from a proposed offering relating to a Demand Registration, then such registration shall not count as a Demand Registration provided for in Section 2.1.1.

2.2 *Piggy-Back Registration*.

2.2.1. *Piggy-Back Rights*. If at any time on or after the Release Date the Company proposes to file a Registration Statement under the Securities Act with respect to an offering of equity securities, or securities or other obligations exercisable or exchangeable for, or convertible into, equity securities, by the Company for its own account or for shareholders of the Company for their account (or by the Company and by shareholders of the Company including, without limitation, pursuant to Section 2.1), other than a Registration Statement (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to the Company s existing shareholders, (iii) for an offering of debt that is convertible into equity securities of the Company or (iv) for a dividend reinvestment plan, then the Company shall (x) give written notice of such proposed filing to the holders of Registrable Securities as soon as practicable but in no event less than ten (10) days before the anticipated filing date, which notice shall describe the amount and type of securities to be included in such offering, the intended method(s) of distribution, and the name of the proposed managing Underwriter or Underwriters, if any, of the offering, and (y) offer to the holders of Registrable Securities in such notice the opportunity to register the sale of such number of shares of Registrable Securities as such holders may request in writing within fifteen (15) days following receipt of such notice (a *Piggy-Back Registration*). The Company shall cause such Registrable Securities to be included in such

registration and shall use its best efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of the Company and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method(s) of distribution

thereof. All holders of Registrable Securities proposing to distribute their securities through a Piggy-Back Registration that involves an Underwriter or Underwriters shall enter into an underwriting agreement in customary form with the Underwriter or Underwriters selected for such Piggy-Back Registration.

2.2.2. *Reduction of Offering*. If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which the Company desires to sell, taken together with shares of Common Stock, if any, as to which registration has been demanded pursuant to written contractual arrangements with persons other than the holders of Registrable Securities hereunder, the Registrable Securities as to which registration has been requested under this Section 2.2, and the shares of Common Stock, if any, as to which registration has been requested pursuant to the written contractual piggy-back registration rights of other shareholders of the Company, exceeds the Maximum Number of Shares, then the Company shall include in any such registration:

(i) If the registration is undertaken for the Company s account: (A) first, the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock, if any, including the Registrable Securities, as to which registration has been requested pursuant to written contractual piggy-back registration rights of security holders (pro rata in accordance with the number of shares of Common Stock which each such person has actually requested to be included in such registration, regardless of the number of shares of Common Stock with respect to which such persons have the right to request such inclusion) that can be sold without exceeding the Maximum Number of Shares; and

(ii) If the registration is a demand registration undertaken at the demand of persons other than the holders of Registrable Securities pursuant to written contractual arrangements with such persons, (A) first, the shares of Common Stock for the account of the demanding persons that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (C) third, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A) and (B), the shares of Common Stock as to which registration has been requested pursuant to written contractual piggy-back registration rights under the Founding Investor Registration Rights Agreement that can be sold without exceeding the Maximum Number of Shares; (D) fourth, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A), (B) and (C), the Registrable Securities as to which registration has been requested under this Section 2.2 (pro rata in accordance with the number of shares of Registrable Securities held by each such holder) that can be sold without exceeding the Maximum Number of Shares; and (E) fifth, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A), (B), (C) and (D), the shares of Common Stock, if any, as to which registration has been requested pursuant to written contractual piggy-back registration rights which other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

2.2.3. *Withdrawal*. Any holder of Registrable Securities may elect to withdraw such holder s request for inclusion of Registrable Securities in any Piggy-Back Registration by giving written notice to the Company of such request to withdraw prior to the effectiveness of the Registration Statement. The Company may also elect to withdraw a registration statement at any time prior to the effectiveness of the Registration Statement. Notwithstanding any such withdrawal, the Company shall pay all expenses incurred by the holders of Registrable Securities in connection with such Piggy-Back Registration as provided in Section 3.3.

2.3 *Registrations on Form S-3*. The holders of Registrable Securities may at any time and from time to time, request in writing that the Company register the resale of any or all of such Registrable Securities on Form S-3 or any similar short-form registration which may be available at such time (*Form S-3*); *provided, however*, that the Company shall not be obligated to effect such request through an underwritten offering. Upon receipt of such written request, the Company will promptly give written notice of the proposed registration to all other holders of Registrable Securities,

and, as soon as practicable thereafter, effect the registration of all or such portion of such holder s or holders Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other holder or holders joining in such request as are specified in a written request

given within fifteen (15) days after receipt of such written notice from the Company; *provided, however*, that the Company shall not be obligated to effect any such registration pursuant to this Section 2.3: (i) if Form S-3 is not available for such offering; or (ii) if the holders of the Registrable Securities, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at any aggregate price to the public of less than $500,000. Registrations effected pursuant to this Section 2.3 shall not be counted as Demand Registrations effected pursuant to Section 2.1.

3. REGISTRATION PROCEDURES.

3.1 *Filings; Information*. Whenever the Company is required to effect the registration of any Registrable Securities pursuant to Section 2, the Company shall use its best efforts to effect the registration and sale of such Registrable Securities in accordance with the intended method(s) of distribution thereof as expeditiously as practicable, and in connection with any such request:

3.1.1. *Filing Registration Statement*. The Company shall, as expeditiously as possible and in any event within sixty (60) days after receipt of a request for a Demand Registration pursuant to Section 2.1, prepare and file with the Commission a Registration Statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of all Registrable Securities to be registered thereunder in accordance with the intended method(s) of distribution thereof, and shall use its best efforts to cause such Registration Statement to become and remain effective for the period required by Section 3.1.3; *provided, however*, that the Company shall have the right to defer any Demand Registration for up to thirty (30) days, and any Piggy-Back Registration for such period as may be applicable to deferment of any demand registration to which such Piggy-Back Registration relates, in each case if the Company shall furnish to the holders a certificate signed by the Chief Executive Officer of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be materially detrimental to the Company and its shareholders for such Registration Statement to be effected at such time; *provided further, however*, that the Company shall not have the right to exercise the right set forth in the immediately preceding proviso more than once in any 365-day period in respect of a Demand Registration hereunder.

3.1.2. *Copies*. The Company shall, prior to filing a Registration Statement or prospectus, or any amendment or supplement thereto, furnish without charge to the holders of Registrable Securities included in such registration, and such holders legal counsel, copies of such Registration Statement as proposed to be filed, each amendment and supplement to such Registration Statement (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such Registration Statement (including each preliminary prospectus), and such other documents as the holders of Registrable Securities included in such registration or legal counsel for any such holders may request in order to facilitate the disposition of the Registrable Securities owned by such holders.

3.1.3. *Amendments and Supplements*. The Company shall prepare and file with the Commission such amendments, including post-effective amendments, and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and in compliance with the provisions of the Securities Act until all Registrable Securities and other securities covered by such Registration Statement have been disposed of in accordance with the intended method(s) of distribution set forth in such Registration Statement (which period shall not exceed the sum of one hundred eighty (180) days plus any period during which any such disposition is interfered with by any stop order or injunction of the Commission or any governmental agency or court) or such securities have been withdrawn.

3.1.4. *Notification*. After the filing of a Registration Statement, the Company shall promptly, and in no event more than two (2) business days after such filing, notify the holders of Registrable Securities included in such Registration Statement of such filing, and shall further notify such holders promptly and confirm such advice in writing in all events within two (2) business days of the occurrence of any of the following: (i) when such Registration Statement becomes effective; (ii) when any post-effective amendment to such Registration Statement becomes effective; (iii) the

issuance or threatened issuance by the Commission of any stop order (and the Company shall take all actions required to prevent the entry of such stop order or to remove it if entered); and (iv) any request by the Commission for any amendment or supplement to such Registration Statement or any prospectus relating thereto or for additional information or of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers

of the securities covered by such Registration Statement, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and promptly make available to the holders of Registrable Securities included in such Registration Statement any such supplement or amendment; except that before filing with the Commission a Registration Statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference, the Company shall furnish to the holders of Registrable Securities included in such Registration Statement and to the legal counsel for any such holders, copies of all such documents proposed to be filed sufficiently in advance of filing to provide such holders and legal counsel with a reasonable opportunity to review such documents and comment thereon, and the Company shall not file any Registration Statement or prospectus or amendment or supplement thereto, including documents incorporated by reference, to which such holders or their legal counsel shall object.

3.1.5. *State Securities Laws Compliance*. The Company shall use its best efforts to (i) register or qualify the Registrable Securities covered by the Registration Statement under such securities or blue sky laws of such jurisdictions in the United States as the holders of Registrable Securities included in such Registration Statement (in light of their intended plan of distribution) may request and (ii) take such action necessary to cause such Registrable Securities covered by the Registration Statement to be registered with or approved by such other governmental authorities as may be necessary by virtue of the business and operations of the Company and do any and all other acts and things that may be necessary or advisable to enable the holders of Registrable Securities included in such Registration Statement to consummate the disposition of such Registrable Securities in such jurisdictions; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3.1.5 or subject itself to taxation in any such jurisdiction.

3.1.6. *Agreements for Disposition*. The Company shall enter into customary agreements (including, if applicable, an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities. The representations, warranties and covenants of the Company in any underwriting agreement which are made to or for the benefit of any Underwriters, to the extent applicable, shall also be made to and for the benefit of the holders of Registrable Securities included in such registration statement. No holder of Registrable Securities included in such registration statement shall be required to make any representations or warranties in the underwriting agreement except, if applicable, with respect to such holder s organization, good standing, authority, title to Registrable Securities, lack of conflict of such sale with such holder s material agreements and organizational documents, and with respect to written information relating to such holder that such holder has furnished in writing expressly for inclusion in such Registration Statement.

3.1.7. *Cooperation*. The principal executive officer of the Company, the principal financial officer of the Company, the principal accounting officer of the Company and all other officers and members of the management of the Company shall cooperate fully in any offering of Registrable Securities hereunder, which cooperation shall include, without limitation, the preparation of the Registration Statement with respect to such offering and all other offering materials and related documents, and participation in meetings with Underwriters, attorneys, accountants and potential Stockholders.

3.1.8. *Records*. The Company shall make available for inspection by the holders of Registrable Securities included in such Registration Statement, any Underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by any holder of Registrable Securities included in such Registration Statement or any Underwriter, all financial and other records, pertinent corporate documents and properties of the Company, as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company s officers, directors and employees to supply all information requested by any of them in connection with such Registration Statement.

3.1.9. *Opinions and Comfort Letters*. The Company shall furnish to each holder of Registrable Securities included in any Registration Statement a signed counterpart, addressed to such holder, of (i) any opinion of counsel to the Company delivered to any Underwriter and (ii) any comfort letter from the Company s independent public accountants

delivered to any Underwriter. In the event no legal opinion is delivered to any Underwriter, the Company shall furnish to each holder of Registrable Securities included in such Registration Statement, at any time that such holder elects to use a prospectus, an opinion of counsel to the Company to the

effect that the Registration Statement containing such prospectus has been declared effective and that no stop order is in effect.

3.1.10. *Earnings Statement*. The Company shall comply with all applicable rules and regulations of the Commission and the Securities Act, and make available to its shareholders, as soon as practicable, an earnings statement covering a period of twelve (12) months, beginning within three (3) months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

3.1.11. *Listing*. The Company shall use its best efforts to cause all Registrable Securities included in any registration to be listed on such exchanges or otherwise designated for trading in the same manner as similar securities issued by the Company are then listed or designated or, if no such similar securities are then listed or designated, in a manner satisfactory to the holders of a majority of the Registrable Securities included in such registration.

3.2 *Obligation to Suspend Distribution*. Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.1.4(iii), or, in the case of a resale registration on Form S-3 pursuant to Section 2.3 hereof, upon any suspension by the Company, pursuant to a written insider trading compliance program adopted by the Company s Board of Directors, of the ability of all insiders covered by such program to transact in the Company s securities because of the existence of material non-public information and holder would be deemed an insider under such program, each holder of Registrable Securities included in any registration shall immediately discontinue disposition of such Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such holder receives the supplemented or amended prospectus contemplated by Section 3.1.4(iv) or the restriction on the ability of insiders to transact in the Company s securities is removed or is inapplicable to such holder, as applicable, and, if so directed by the Company, each such holder will deliver to the Company all copies, other than permanent file copies then in such holder s possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice.

3.3 *Registration Expenses*. The Company shall bear all costs and expenses incurred in connection with any Demand Registration pursuant to Section 2.1, any Piggy-Back Registration pursuant to Section 2.2, and any registration on Form S-3 effected pursuant to Section 2.3, and all expenses incurred in performing or complying with its other obligations under this Agreement, whether or not the Registration Statement becomes effective, including, without limitation: (i) all registration and filing fees; (ii) fees and expenses of compliance with securities or blue sky laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities); (iii) printing expenses; (iv) the Company s internal expenses (including, without limitation, all salaries and expenses of its officers and employees); (v) the fees and expenses incurred in connection with the listing of the Registrable Securities as required by Section 3.1.11; (vi) National Association of Securities Dealers, Inc. fees; (vii) fees and disbursements of counsel for the Company and fees and expenses for independent certified public accountants retained by the Company (including the expenses or costs associated with the delivery of any opinions or comfort letters requested pursuant to Section 3.1.9); (viii) the fees and expenses of any special experts retained by the Company in connection with such registration and (ix) the fees and expenses of one legal counsel selected by the holders of a majority-in-interest of the Registrable Securities included in such registration. The Company shall have no obligation to pay any underwriting discounts or selling commissions or transfer taxes, if any, attributable to the Registrable Securities being sold by the holders thereof, which underwriting discounts or selling commissions or transfer taxes, if any, shall be borne by such holders. Additionally, in an underwritten offering, all selling shareholders and the Company shall bear the expenses of the underwriter pro rata in proportion to the respective amount of shares each is selling in such offering.

3.4 *Information*. The holders of Registrable Securities shall provide such information as may reasonably be requested by the Company, or the managing Underwriter, if any, in connection with the preparation of any Registration Statement, including amendments and supplements thereto, in order to effect the registration of any Registrable Securities under the Securities Act pursuant to Section 2 and in connection with the Company s obligation to comply with federal and applicable state securities laws.

4. INDEMNIFICATION AND CONTRIBUTION.

4.1 *Indemnification by the Company*. The Company agrees to indemnify and hold harmless each Stockholder and each other holder of Registrable Securities, and each of their respective officers, employees, affiliates, directors, partners, members and agents, and each person, if any, who controls a Stockholder and each other holder of

Registrable Securities (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) (each, a *Stockholder Indemnified Party*), from and against any expenses, losses, judgments, claims, damages or liabilities, whether joint or several, arising out of or based upon any untrue statement (or allegedly untrue statement) of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement, or arising out of or based upon any omission (or alleged omission) to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration; and the Company shall promptly reimburse the Stockholder Indemnified Party for any legal and any other expenses reasonably incurred by such Stockholder Indemnified Party in connection with investigating and defending any such expense, loss, judgment, claim, damage, liability or action; *provided, however*, that the Company will not be liable in any such case to the extent that any such expense, loss, claim, damage or liability arises out of or is based upon any untrue statement or allegedly untrue statement or omission or alleged omission made in such Registration Statement, preliminary prospectus, final prospectus, or summary prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Company, in writing, by such selling holder expressly for use therein. The Company also shall indemnify any Underwriter of the Registrable Securities, their officers, affiliates, directors, partners, members and agents and each person who controls such Underwriter on substantially the same basis as that of the indemnification provided above in this Section 4.1.

4.2 *Indemnification by Holders of Registrable Securities*. Each selling holder of Registrable Securities will, in the event that any registration is being effected under the Securities Act pursuant to this Agreement of any Registrable Securities held by such selling holder, indemnify and hold harmless the Company, each of its directors and officers and each underwriter (if any), and each other person, if any, who controls such selling holder or such underwriter within the meaning of the Securities Act, against any losses, claims, judgments, damages or liabilities, whether joint or several, insofar as such losses, claims, judgments, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or allegedly untrue statement of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or arise out of or are based upon any omission or the alleged omission to state a material fact required to be stated therein or necessary to make the statement therein not misleading, if the statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such selling holder expressly for use therein, and shall reimburse the Company, its directors and officers, and each such controlling person for any legal or other expenses reasonably incurred by any of them in connection with investigation or defending any such loss, claim, damage, liability or action. Each selling holder s indemnification obligations hereunder shall be several and not joint and shall be limited to the amount of any net proceeds (after payment of all underwriting fees, discounts, commissions and taxes) actually received by such selling holder from the sale of Registrable Securities which gave rise to such indemnification obligation.

4.3 *Conduct of Indemnification Proceedings*. Promptly after receipt by any person of any notice of any loss, claim, damage or liability or any action in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (the *Indemnified Party*) shall, if a claim in respect thereof is to be made against any other person for indemnification hereunder, notify such other person (the *Indemnifying Party*) in writing of the loss, claim, judgment, damage, liability or action; *provided, however*, that the failure by the Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which the Indemnifying Party may have to such Indemnified Party hereunder, except and solely to the extent the Indemnifying Party is actually prejudiced by such failure. If the Indemnified Party is seeking indemnification with respect to any claim or action brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in such claim or action, and, to the extent that it wishes, jointly with all other Indemnifying Parties, to assume control of the defense thereof with counsel reasonably satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of such claim or action, the Indemnifying Party shall not be liable to the

Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; *provided, however*, that in any action in which both the Indemnified Party and the Indemnifying Party are named as defendants, the Indemnified Party shall have the right to employ separate counsel (but no more than one such separate counsel) to

represent the Indemnified Party and its controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Indemnifying Party, with the fees and expenses of such counsel to be paid by such Indemnifying Party if, based upon the written opinion of counsel of such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, consent to entry of judgment or effect any settlement of any claim or pending or threatened proceeding in respect of which the Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such judgment or settlement includes an unconditional release of such Indemnified Party from all liability arising out of such claim or proceeding.

4.4 *Contribution*.

4.4.1. If the indemnification provided for in the foregoing Sections 4.1, 4.2 and 4.3 is unavailable to any Indemnified Party in respect of any loss, claim, damage, liability or action referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the Indemnified Parties and the Indemnifying Parties in connection with the actions or omissions which resulted in such loss, claim, damage, liability or action, as well as any other relevant equitable considerations. The relative fault of any Indemnified Party and any Indemnifying Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such Indemnified Party or such Indemnifying Party and the parties relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

4.4.2. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding Section 4.4.1. The amount paid or payable by an Indemnified Party as a result of any loss, claim, damage, liability or action referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no holder of Registrable Securities shall be required to contribute any amount in excess of the dollar amount of the net proceeds (after payment of all underwriting fees, discounts, commissions and taxes) actually received by such holder from the sale of Registrable Securities which gave rise to such contribution obligation. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. UNDERWRITING AND DISTRIBUTION.

5.1 *Rule 144*. The Company covenants that it shall file any reports required to be filed by it under the Securities Act and the Exchange Act and shall take such further action as the holders of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holders to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act, as such Rules may be amended from time to time, or any similar Rule or regulation hereafter adopted by the Commission.

6. MISCELLANEOUS.

6.1 *Other Registration Rights*. The Company represents and warrants that no person, other than a holder of the Registrable Securities and the parties to the Founding Investor Registration Rights Agreement, has any right to require the Company to register any shares of the Company s capital stock for sale or to include shares of the Company s capital stock in any registration filed by the Company for the sale of shares of capital stock for its own account or for the account of any other person.

6.2 *Assignment; No Third-Party Beneficiaries*. This Agreement and the rights, duties and obligations of the Company hereunder may not be assigned or delegated by the Company in whole or in part. This Agreement and the rights, duties and obligations of the holders of Registrable Securities hereunder may be freely assigned or delegated by such holder of Registrable Securities in conjunction with and to the extent of any transfer of Registrable Securities by any such holder. This Agreement and the provisions hereof shall be binding upon and shall inure to the

benefit of each of the parties and their respective successors and the permitted assigns of the Stockholder or holder of Registrable Securities or of any assignee of the Stockholder or holder of Registrable Securities. This Agreement is not intended to confer any rights or benefits on any persons that are not a party hereto other than as expressly set forth in Section 4 and this Section 6.2.

6.3 *Notices*. All notices, demands, requests, consents, approvals or other communications (collectively, *Notices*) required or permitted to be given hereunder or which are given with respect to this Agreement shall be in writing and shall be personally served, delivered by reputable air courier service with charges prepaid, or transmitted by hand delivery, telegram, telex or facsimile, addressed as set forth below, or to such other address as such party shall have specified most recently by written notice. Notice shall be deemed given on the date of service or transmission if personally served or transmitted by telegram, telex or facsimile; *provided*, that if such service or transmission is not on a business day or is after normal business hours, then such notice shall be deemed given on the next business day. Notice otherwise sent as provided herein shall be deemed given on the next business day following timely delivery of such notice to a reputable air courier service with an order for next-day delivery.

To the Company:

Fortress America Acquisition Corporation
4100 North Fairfax Drive, #1150
Arlington, Virginia 22203
Attention: Chairman

with a copy to:

Squire, Sanders & Dempsey L.L.P.
8000 Towers Crescent Drive, 14th Floor
Tysons Corner, Virginia 22182
Attn: James J. Maiwurm, Esq.; and

To a Stockholder,:

to the addresses listed on Exhibit A hereto.

6.4 *Severability*. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

6.5 *Counterparts*. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

6.6 *Entire Agreement*. This Agreement (including all agreements entered into pursuant hereto and all certificates and instruments delivered pursuant hereto and thereto) constitute the entire agreement of the parties with respect to the subject matter hereof and supersede all prior and contemporaneous agreements, representations, understandings, negotiations and discussions between the parties, whether oral or written.

6.7 *Modifications and Amendments*. No amendment, modification or termination of this Agreement shall be binding upon any party unless executed in writing by such party.

6.8 *Titles and Headings*. Titles and headings of sections of this Agreement are for convenience only and shall not affect the construction of any provision of this Agreement.

6.9 *Waivers and Extensions*. Any party to this Agreement may waive any right, breach or default which such party has the right to waive, *provided* that such waiver will not be effective against the waiving party unless it is in writing, is signed by such party, and specifically refers to this Agreement. Waivers may be made in advance or after the right waived has arisen or the breach or default waived has occurred. Any waiver may be conditional. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof or of any other agreement or provision herein contained. No waiver or extension of time for performance of any obligations or acts shall be deemed a waiver or extension of the time for performance of any other obligations or acts.

6.10 *Remedies Cumulative*. In the event that the Company fails to observe or perform any covenant or agreement to be observed or performed under this Agreement, the Stockholder or any other holder of Registrable Securities may proceed to protect and enforce its rights by suit in equity or action at law, whether for specific performance of any term contained in this Agreement or for an injunction against the breach of any such term or in aid of the exercise of any power granted in this Agreement or to enforce any other legal or equitable right, or to take any one or more of such actions, without being required to post a bond. None of the rights, powers or remedies conferred under this Agreement shall be mutually exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy, whether conferred by this Agreement or now or hereafter available at law, in equity, by statute or otherwise.

6.11 *Governing Law*. This Agreement shall be governed by, interpreted under, and construed in accordance with the internal laws of the State of Delaware applicable to agreements made and to be performed within the State of Delaware, without giving effect to any choice-of-law provisions thereof that would compel the application of the substantive laws of any other jurisdiction.

6.12 *Waiver of Trial by Jury*. Each party hereby irrevocably and unconditionally waives the right to a trial by jury in any action, suit, counterclaim or other proceeding (whether based on contract, tort or otherwise) arising out of, connected with or relating to this Agreement, the transactions contemplated hereby, or the actions of any Stockholder in the negotiation, administration, performance or enforcement hereof.

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IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be executed and delivered by their duly authorized representatives as of the date first written above.

FORTRESS AMERICA ACQUISITION CORPORATION
A Delaware corporation

By:

Name:
Title:

STOCKHOLDERS:

Thomas P. Rosato

Gerard J. Gallagher

Exhibit A

Stockholders:

Thomas P. Rosato

Gerard J. Gallagher

Annex D

SECOND AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
FORTRESS AMERICA ACQUISITION CORPORATION

FIRST: *Name*. The name of this corporation is Fortress America Acquisition Corporation (the Corporation).

SECOND: *Registered Office and Agent*. The address of the Corporation s registered office in the State of Delaware is to be located at 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, State of Delaware 19808. Its registered agent at such address is Corporation Service Company.

THIRD: *Purpose*. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law, as amended from time to time (the DGCL).

FOURTH: *Capital Stock*.

Section 4.1. *Authorized Shares*. The total number of shares of stock which the Corporation shall have authority to issue is fifty-one million (51,000,000), fifty million (50,000,000) of which shall be shares of Common Stock with a par value of $0.0001 per share and one million (1,000,000) of which shall be shares of Preferred Stock with a par value of $0.0001 per share.

Section 4.2. *Common Stock*. Except as otherwise required by law or as otherwise provided in the terms of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, the holders of the Common Stock shall exclusively possess all voting power, and each share of Common Stock shall have one vote.

Section 4.3. *Preferred Stock*.

(a) *Board Authorized to Fix Terms*. The Board of Directors is authorized, subject to limitations prescribed by law, by resolution or resolutions to provide for the issuance of shares of preferred stock in one or more series, and, by filing a certificate when required by the DGCL, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

(i) the number of shares constituting that series, including the authority to increase or decrease such number, and the distinctive designation of that series;

(ii) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, the date or dates from which they shall be cumulative and the relative rights of priority, if any, in the payment of dividends on shares of that series;

(iii) the voting rights, if any, of the shares of that series in addition to the voting rights provided by law and the terms of any such voting rights;

(iv) the terms and conditions, if any, upon which shares of that series shall be convertible or exchangeable for shares of any other class or classes of stock of the Corporation or other entity, including provision for adjustment of the conversion or exchange rate upon the occurrence of such events as the Board of Directors shall determine;

(v) the right, if any, of the Corporation to redeem shares of that series and the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary according to different conditions and different redemption dates;

(vi) the obligation, if any, of the Corporation to retire shares of that series pursuant to a retirement or sinking fund or fund of a similar nature for the redemption or purchase of shares of that series and the terms and conditions of such obligation;

(vii) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, in the payment of shares of that series; and

(viii) any other rights, preferences and limitations of the shares of that series as may be permitted by law.

(b) *Dividend Preference*. Dividends on outstanding shares of preferred stock shall be paid or declared and set apart for payment before any dividends shall be paid or declared and set apart for payment on shares of common stock with respect to the same dividend period.

(c) *Relative Liquidation Preference*. If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the assets available for distribution to holders of shares of preferred stock of all series shall be insufficient to pay such holders the full preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series of preferred stock in accordance with their respective priorities and preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto.

(d) *Reissuance of Preferred Stock*. Subject to the conditions or restrictions on issuance set forth in the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of shares of Preferred Stock, shares of Preferred Stock of any series that have been redeemed or repurchased by the Corporation (whether through the operation of a sinking fund or otherwise) or that, if convertible or exchangeable, have been converted or exchanged in accordance with their terms, shall be retired and have the status of authorized and unissued shares of Preferred Stock of the same series and may be reissued as a part of the series of which they were originally a part or may, upon the filing of an appropriate certificate with the Delaware Secretary of State, be reissued as part of a new series of shares of Preferred Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of shares of Preferred Stock.

FIFTH: *Elimination of Certain Liability of Directors*. No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except (a) for any breach of the director s duty of loyalty to the Corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL or (d) for any transaction from which the director derived an improper personal benefit. If the DGCL is hereafter amended to permit a corporation to further eliminate or limit the liability of a director of a corporation, then the liability of a director of the Corporation, in addition to the circumstances in which a director is not personally liable as set forth in the preceding sentence, shall, without further action of the directors or stockholders, be further eliminated or limited to the fullest extent permitted by the DGCL as so amended. Neither any amendment, repeal, or modification of this Article Fifth, nor the adoption or amendment of any other provision of this Certificate of Incorporation or the bylaws of the Corporation inconsistent with this Article Fifth, shall adversely affect any right or protection provided hereby with respect to any act or omission occurring prior to the date when such amendment, repeal, modification, or adoption became effective.

SIXTH: *Indemnification*.

Section 6.1. *Right to Indemnification*. Each person who was or is a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit, proceeding or alternative dispute resolution procedure, whether (a) civil, criminal, administrative, investigative or otherwise, (b) formal or informal or (c) by or in the right of the Corporation (collectively, a proceeding), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, manager, officer, partner, trustee, employee or agent of another foreign or domestic corporation or of a foreign or domestic limited liability company, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as such a director, officer, employee or agent of the Corporation or in any other capacity while serving as such other director, manager, officer, partner, trustee, employee or agent, shall be indemnified and

held harmless by the Corporation against all judgments, penalties and fines incurred or paid, and against all expenses (including attorneys fees) and settlement amounts incurred or paid, in connection with any such proceeding, except in relation to matters as to which the person did not act in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful.

Until such time as there has been a final judgment to the contrary, a person shall be presumed to be entitled to be indemnified under this Section 6.1. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, either rebut such presumption or create a presumption that (a) the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, (b) with respect to any criminal action or proceeding, the person had reasonable cause to believe that the person s conduct was unlawful or (c) the person was not successful on the merits or otherwise in defense of the proceeding or of any claim, issue or matter therein. If the DGCL is hereafter amended to provide for indemnification rights broader than those provided by this Section 6.1, then the persons referred to in this Section 6.1 shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the DGCL as so amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior to such amendment).

Section 6.2. *Determination of Entitlement to Indemnification*. A determination as to whether a person who is a director or officer of the Corporation at the time of the determination is entitled to be indemnified and held harmless under Section 6.1 shall be made (a) a majority vote of the directors who are not parties to such proceeding, even though less than a quorum, (b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders. A determination as to whether a person who is not a director or officer of the Corporation at the time of the determination is entitled to be indemnified and held harmless under Section 6.1 shall be made by or as directed by the Board of Directors of the Corporation.

Section 6.3. *Mandatory Advancement of Expenses*. The right to indemnification conferred in this Article Sixth shall include the right to require the Corporation to pay the expenses (including attorneys fees) incurred in defending any such proceeding in advance of its final disposition; *provided, however*, that, if the Board of Directors so determines, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer of the Corporation (but not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall be finally determined that such indemnitee is not entitled to be indemnified for such expenses under Section 6.1 or otherwise.

Section 6.4. *Non-Exclusivity of Rights*. The right to indemnification and the advancement of expenses conferred in this Article Sixth shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, any provision of this Certificate of Incorporation or of any bylaw, agreement, or insurance policy or arrangement, or any vote of stockholders or disinterested directors, or otherwise. The Board of Directors is expressly authorized to adopt and enter into indemnification agreements with, and obtain insurance for, directors and officers.

Section 6.5. *Effect of Amendment*. Neither any amendment, repeal, or modification of this Article Sixth, nor the adoption or amendment of any other provision of this Certificate of Incorporation or the bylaws of the Corporation inconsistent with this Article Sixth, shall adversely affect any right or protection provided hereby with respect to any act or omission occurring prior to the date when such amendment, repeal, modification, or adoption became effective.

SEVENTH: *Miscellaneous*. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for the purpose of creating, defining, limiting and regulating powers of the Corporation and its directors and stockholders:

Section 7.1 *Classification, Election and Term of Office of Directors*. The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible. At the first election of directors by the incorporator, the incorporator shall elect a director for a term expiring at the Corporation s third annual meeting of stockholders. That director shall then elect additional directors to serve in the other classes of directors with terms expiring at the first and second annual

meetings of stockholders. At each succeeding annual meeting of stockholders successors to the class of directors whose term expires at that meeting shall be elected by plurality vote of all votes cast at such meeting to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election, subject, however, to their prior death, resignation or removal from office as provided by law. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain a number of

directors in each class as nearly equal as possible. Any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of such class. No decrease in the number of directors shall change the term of any director in office at the time of such decrease. A director shall hold office until the annual meeting for the year in which the director s term expires and such director s successor shall be elected and qualified, subject, however, to such director s prior death, resignation or removal from office.

Section 7.2 *Manner of Election of Directors*. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

Section 7.3 *Adoption and Amendment of Bylaws*. The Board of Directors shall have power to make and adopt bylaws with respect to the organization, operation and government of the Corporation and, subject to such restrictions as may be set forth in the bylaws, from time to time to change, alter, amend or repeal the same, but the stockholders of the Corporation may make and adopt additional bylaws and, subject to such restrictions as may be set forth in the bylaws, may change, alter, amend or repeal any bylaw whether adopted by them or otherwise.

Section 7.4 *Vote Required to Amend Certain Provisions of Certificate of Incorporation*. Notwithstanding any other provision of this Certificate of Incorporation or the bylaws of the Corporation or any provision of law which might otherwise permit a lesser vote, but in addition to any affirmative vote of the holders of any particular class or series of stock required by law, this Certificate of Incorporation, or the bylaws, the affirmative vote of the holders of at least 66 % of the Corporation's capital stock entitled to vote generally in the election of directors, voting as a single class, shall be required to alter, amend, or adopt any provision inconsistent with or repeal Articles Fifth, Sixth and Seventh of this Certificate of Incorporation.

Section 7.5 *Severability*. In the event any provision (or portion thereof) of this Certificate of Incorporation shall be found to be invalid, prohibited, or unenforceable for any reason, the remaining provisions (or portions thereof) of this Certificate of Incorporation shall be deemed to remain in full force and effect, and shall be construed as if such invalid, prohibited, or unenforceable provision had been stricken herefrom or otherwise rendered inapplicable, it being the intent of the Corporation and its stockholders that each such remaining provision (or portion thereof) of this Certificate of Incorporation remain, to the fullest extent permitted by law, applicable and enforceable as to all stockholders, notwithstanding any such finding.

Section 7.6 *Reservation of Right to Amend Certificate of Incorporation*. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute or herein, and all rights conferred upon stockholders herein are granted subject to this reservation.

Annex E

FORTRESS AMERICA ACQUISITION CORPORATION

2006 OMNIBUS INCENTIVE COMPENSATION PLAN

ARTICLE ONE

ESTABLISHMENT, OBJECTIVES AND DURATION

1.1 ESTABLISHMENT OF THE PLAN. Fortress America Acquisition Corporation, a Delaware corporation (the *Company*), hereby adopts, effective upon the later of stockholder approval of the Plan and the consummation of the Company s acquisition of VTC, L.L.C. and Vortech, LLC (the *Effective Date*), the Fortress America Acquisition Corporation 2006 Omnibus Incentive Compensation Plan as set forth in this document. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares and Performance Units, and Other Incentive Awards.

1.2 OBJECTIVES OF THE PLAN. The objectives of the Plan are to optimize the profitability and growth of the Company through incentives which are consistent with the Company s goals and which link and align the personal interests of Participants with an incentive for excellence in individual performance, and to promote teamwork.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of Participants who make significant contributions to the Company s success and to allow Participants to share in the success of the Company.

1.3 DURATION OF THE PLAN. The Plan shall commence on the Effective Date, as described in Section 1.1 hereof, and shall remain in effect, subject to the right of the Board of Directors to amend or terminate the Plan at any time pursuant to Article 15 hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan s provisions. However, in no event may an Award be granted under the Plan on or after June 30, 2016.

ARTICLE TWO

DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized:

Award means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares or Performance Units, or Other Incentive Awards.

Award Agreement means an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to Awards granted under this Plan.

Beneficial Owner or *Beneficial Ownership* shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

Board or *Board of Directors* means the Board of Directors of the Company.

Change in Control of the Company means any one or more of the following:

(a) The Company is merged, consolidated or reorganized into or with another corporation, partnership, limited liability company, trust, or other legal person (collectively referred herein as a *Business Entity*), and immediately after such merger, consolidation, or reorganization less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such Business Entity immediately after such transaction are held in the aggregate by the holders of voting stock of the Company immediately prior to such transaction;

(b) The Company sells all or substantially all of its assets to any other Business Entity, and less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such Business Entity immediately after such sale are held in the aggregate by the holders of voting stock of the Company immediately prior to such sale; or

(c) Any person (as the term person is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) or group of persons acting in concert has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing fifty percent (50%) or more of the voting stock of the Company.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Committee means the Compensation Committee of the Board, as specified in Article 3 herein, or such other Committee appointed by the Board to administer the Plan with respect to grants of Awards.

Common Stock means the common stock of the Company.

Company means Fortress America Acquisition Corporation, a Delaware corporation, as well as any successor to the Company as provided in Article 18 herein.

Director means any individual who is a member of the Board of Directors of the Company.

Disability means the inability of a Participant to engage in any substantially gainful activity by reason of any medically determinable physical or mental impairment that is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more. A determination that a Participant is disabled shall be made by the Committee on the basis of such medical evidence as the Committee deems warranted under the circumstances.

Effective Date shall have the meaning ascribed to such term in Section 1.1 hereof.

Employee means any employee of the Company or any Subsidiary. Nonemployee Directors shall not be considered Employees under this Plan unless specifically designated otherwise.

Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

Fair Market Value shall be the fair market value of a share of Common Stock, as determined in good faith by the Committee.

Freestanding SAR means an SAR that is granted independently of any Options, as described in Article 7 herein.

Incentive Stock Option or *ISO* means an option to purchase Shares granted under Article 6 herein and which is designated as an Incentive Stock Option and which is intended to meet the requirements of Code Section 422.

Nonemployee Director means an individual who is a member of the Board of Directors of the Company but who is not an Employee of the Company or a Subsidiary.

Nonqualified Stock Option or *NQSO* means an option to purchase Shares granted under Article 6 herein and which is not intended to meet the requirements of Code Section 422.

Option means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6 herein.

Option Price means the price at which a Share may be purchased by a Participant pursuant to an Option.

Other Incentive Award means an award granted pursuant to Article 10 hereof.

Participant means an Employee or Nonemployee Director who has outstanding an Award granted under the Plan.

Performance Period means the time period during which performance goals must be achieved with respect to an Award, as determined by the Committee.

Performance Share means an Award granted to a Participant, as described in Article 9 herein.

Performance Unit means an Award granted to a Participant, as described in Article 9 herein.

Period of Restriction means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance goals, and/or upon the occurrence of other events as determined by the Committee at its discretion), and the Shares are subject to a substantial risk of forfeiture, as provided in Article 8 herein.

Person shall have the meaning ascribed to such term in Section 3(a) (9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) thereof.

Restricted Stock means an Award granted to a Participant pursuant to Article 8 herein.

Shares means the shares of common stock of the Company.

Share Pool means the number of shares authorized for issuance under Section 4.1, as adjusted for awards and payouts under Section 4.2 and as adjusted for changes in corporate capitalization under Section 4.3.

Stock Appreciation Right or *SAR* means an Award, granted alone or in connection with a related Option, designated as an SAR, pursuant to the terms of Article 7 herein.

Subsidiary means any corporation, partnership, joint venture, affiliate or other entity in which the Company has a majority voting interest, and which the Committee designates as a participating entity in the Plan.

Tandem SAR means an SAR that is granted in connection with a related Option pursuant to Article 7 herein, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be canceled).

ARTICLE THREE

ADMINISTRATION

3.1 THE COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board or by any other Committee appointed by the Board. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2 AUTHORITY OF THE COMMITTEE. Except as limited by law or by the Articles of Incorporation or Bylaws. of the Company, and subject to the provisions herein, the Committee shall have full power to select Employees and Nonemployee Directors who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the plan; establish, amend or waive rules and regulations for the Plan s administration; and (subject to the provisions of Article 15 herein) amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authority as identified herein.

3.3 DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants and their estates and beneficiaries.

ARTICLE FOUR

SHARES SUBJECT TO THE PLAN AND MAXIMUM AWARDS

4.1 NUMBER OF SHARES AVAILABLE FOR GRANTS. Subject to adjustment as provided in Section 4.3 herein, the number of Shares hereby reserved for issuance under the Plan shall be 2,100,000. The Committee shall determine the appropriate methodology for calculating the number of Shares issued pursuant to the Plan.

4.2 LAPSED AWARDS. If any Award granted under this Plan is canceled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option, or the termination of a related Option upon exercise of the corresponding Tandem SAR), any Shares subject to such Award shall again be available for the grant of an Award under the Plan.

4.3 ADJUSTMENTS IN AUTHORIZED SHARES. In the event of any change following Board adoption of the Plan (including any such change prior to the Effective Date) in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368), or any partial or complete liquidation of the Company, such adjustment shall be made in the number and class of Shares available in the Share Pool and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; *provided, however*, that the number of Shares subject to any Award shall always be a whole number.

ARTICLE FIVE

ELIGIBILITY AND PARTICIPATION

5.1 ELIGIBILITY. Persons eligible to participate in this Plan include (a) all officers and key employees of the Company, as determined by the Committee, including Employees who are members of the Board and (b) all Nonemployee Directors.

5.2 ACTUAL PARTICIPATION. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees and Nonemployee Directors those to whom Awards shall be granted and shall determine the nature and amount of each Award.

ARTICLE SIX

STOCK OPTIONS

6.1 GRANT OF OPTIONS. Subject to the terms and provisions of the Plan, Options may be granted, either by the Committee or the Board, to one or more Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee. The Committee or the Board shall have the authority to grant Incentive Stock Options or to grant Nonqualified Stock Options or to grant both types of Options. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to, and comply with, such rules as may be prescribed by Section 422 of the Code, as from time to time amended, and any regulations implementing such statute, including, without limitation, the requirements of Code Section 422(d) which limit the aggregate Fair Market Value of Shares (determined at the time that such Option is granted) for which Incentive Stock Options are exercisable for the first time to $100,000 per calendar year, and the requirement that Incentive Stock Options may only be granted to Employees. Each provision of the Plan and of each written Award Agreement relating to an Option designated as an Incentive Stock Option shall be construed so that such Option qualifies as an Incentive Stock Option, and any provision that cannot be so construed shall be disregarded.

6.2 AWARD AGREEMENT. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Award Agreement also shall specify whether the Option is intended to be an ISO or an NQSO.

6.3 OPTION PRICE. The Option Price for each grant of an Option under this Plan shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. Notwithstanding any

provision contained herein, in the case of an Incentive Stock Option, the exercise price at the time such Incentive Stock Option is granted to any Employee who, at the time of such grant, owns (within the meaning of Section 424(d) of the Code) more than ten percent of the voting power of all classes of stock of the Company or a Subsidiary, shall not be less than 110% of the per Share Fair Market Value on the date of grant.

6.4 DURATION OF OPTIONS. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that in the case of an Incentive Stock Option, an Employee may not exercise such Incentive Stock Option after the date which is ten years (five years in the case of a Participant who owns more than ten percent of the voting power of the Company or a Subsidiary) after the date on which such Incentive Stock Option is granted.

6.5 EXERCISE OF OPTIONS. Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.

6.6 PAYMENT. Options granted under this Article 6 shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, or (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares that are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), or (c) by a combination of (a) and (b).

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant s name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

6.7 RESTRICTIONS ON SHARE TRANSFERABILITY. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

6.8 TERMINATION OF EMPLOYMENT. Each Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant s employment with (or service to) the Company and/or its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment or service.

6.9 NONTRANSFERABILITY OF OPTIONS.

(a) INCENTIVE STOCK OPTIONS. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) NON-QUALIFIED STOCK OPTIONS. Except as otherwise provided in a Participant s Award Agreement, no NQSO granted under this Article 6 may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant s Award Agreement, all NQSOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant.

ARTICLE SEVEN

STOCK APPRECIATION RIGHTS

7.1 GRANT OF SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SAR.

The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

Unless otherwise designated by the Committee at the time of grant, the grant price of a Freestanding SAR shall equal the Fair Market Value of a Share on the date of grant of the SAR. The grant price of Tandem SARs shall equal the Option Price of the related Option.

7.2 EXERCISE OF TANDEM SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.3 EXERCISE OF FREESTANDING SARs. Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.4 SAR AGREEMENT. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine.

7.5 TERM OF SARs. The term of an SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that unless otherwise designated by the Committee, such term shall not exceed ten (10) years.

7.6 PAYMENT OF SAR AMOUNT. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) The difference between the Fair Market Value of a Share on the date of exercise over the grant price; by

(b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, in Restricted Shares of equivalent value, or in some combination thereof.

7.7 TERMINATION OF EMPLOYMENT. Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant s employment with (or service to) the Company and/or its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment or service.

7.8 NON-TRANSFERABILITY OF SARs. Except as otherwise provided in a Participant s Award Agreement, no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant s Award Agreement, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

ARTICLE EIGHT

RESTRICTED STOCK

8.1 GRANT OF RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Participants in such amounts as the Committee shall determine.

8.2 RESTRICTED STOCK AGREEMENT. Each Restricted Stock grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

8.3 TRANSFERABILITY. Except as provided in this Article 8, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

8.4 OTHER RESTRICTIONS. Subject to Article 11 herein, the Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, a requirement that Participants own a certain amount of Shares before vesting shall occur, restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual), time-based restrictions on vesting following the attainment of the performance goals, requirement and/or restrictions under applicable federal or state securities laws.

The Company shall retain the certificates representing Shares of Restricted Stock in the Company s possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

8.5 VOTING RIGHTS. Unless otherwise designated by the Committee at the time of grant, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.

8.6 DIVIDENDS AND OTHER DISTRIBUTIONS. Unless otherwise designated by the Committee at the time of grant, Participants holding Shares of Restricted Stock granted hereunder may be credited with regular cash dividends paid with respect to the underlying Shares while they are so held during the Period of Restriction. The Committee may apply any restrictions to the dividends that the Committee deems appropriate.

8.7 TERMINATION OF EMPLOYMENT. Each Restricted Stock Award Agreement shall set forth the extent to which the Participant shall have the right to receive unvested Restricted Shares following termination of the Participant s employment with (or service to) the Company and/or its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment or service.

ARTICLE NINE

PERFORMANCE UNITS AND PERFORMANCE SHARES

9.1 GRANT OF PERFORMANCE UNITS AND PERFORMANCE SHARES. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

9.2 VALUE OF PERFORMANCE UNITS/SHARES. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Shares that will be paid out to the Participant. For purposes of this Article 9, the time period during which the performance goals must be met shall be called a *Performance Period*.

9.3 EARNING OF PERFORMANCE UNITS/SHARES. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive payout on the

number and value of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved, as established by the Committee.

9.4 FORM AND TIMING OF PAYMENT OF PERFORMANCE UNITS/SHARES. Subject to the terms of this Plan, the Committee, in its sole discretion, may pay earned Performance Units/Shares in the form of cash or in Shares (or in a combination thereof) which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee.

At the discretion of the Committee, Participants may be entitled to receive any dividends declared with respect to Shares which have been earned in connection with grants of Performance Units and/or Performance Shares which have been earned, but not yet distributed to Participants (such dividends shall be subject to the same accrual, forfeiture, and payout restrictions as apply to dividends earned with respect to Shares of Restricted Stock, as set forth in Section 8.6 herein). In addition, Participants may, at the discretion of the Committee, be entitled to exercise their voting rights with respect to such Shares.

9.5 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY OR RETIREMENT. Unless otherwise designated by the Committee, and set forth in the Participant s Award Agreement, in the event the employment (or service) of a Participant is terminated due to death, Disability or retirement during a Performance Period, the Participant shall receive a prorated payout of the Performance Units/Shares. The prorated payout shall be determined by the Committee, shall be based upon the length of time that the Participant held the Performance Units/Shares during the Performance Period and shall further be adjusted based on the achievement of the preestablished performance goals. Payment of earned Performance Units/Shares shall be made at a time specified by the Committee in its sole discretion and set forth in the Participant s Award Agreement.

9.6 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. In the event that a Participant s employment (or service) terminates for any reason other than those reasons set forth in Section 9.5 herein, all Performance Units/Shares shall be forfeited by the Participant to the Company unless determined otherwise by the Committee, as set forth in the Participant s Award Agreement.

9.7 NONTRANSFERABILITY. Except as otherwise provided in a Participant s Award Agreement, Performance Units/Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant s Award Agreement, a Participant s rights under the Plan shall be exercisable during the Participant s lifetime only by the Participant or the Participant s legal representative.

ARTICLE TEN

OTHER INCENTIVE AWARDS

10.1 GRANT OF OTHER INCENTIVE AWARDS. Subject to the terms and provisions of the Plan, Other Incentive Awards may be granted to Participants in such amount, upon such terms, and at any time and from time to time as shall be determined by the Committee.

10.2 OTHER INCENTIVE AWARD AGREEMENT. Each Other Incentive Award grant shall be evidenced by an Award Agreement that shall specify the amount of the Other Incentive Award granted, the terms and conditions applicable to such grant, the applicable Performance Period and performance goals, and such other provisions as the Committee shall determine, subject to the terms and provisions of the Plan.

10.3 NONTRANSFERABILITY. Except as otherwise provided in a Participant s Award Agreement, Other Incentive Awards may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

10.4 FORM AND TIMING OF PAYMENT OF OTHER INCENTIVE AWARDS. Payment of Other Incentive Awards shall be made at such times and in such form, in cash, in Shares, or in Restricted Shares (or a combination thereof), as established by the Committee subject to the terms of the Plan. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee. Without limiting the generality of the foregoing, annual

incentive awards may be paid in the form of Shares and/or Other Incentive Awards (which may or may not be subject to restrictions, at the discretion of the Committee).

ARTICLE ELEVEN

BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant s lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant s death shall be paid to the Participant s estate.

ARTICLE TWELVE

DEFERRALS

The Committee may permit a Participant to defer such Participant s receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares or Other Incentive Awards. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals. Any such deferral shall be made in a manner consistent with the requirements of Section 409A of the Code.

ARTICLE THIRTEEN

RIGHTS OF EMPLOYEES AND NONEMPLOYEE DIRECTORS

13.1 EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant s employment at any time, nor confer upon any Participant any right to continue in the employ of the Company.

13.2 PARTICIPATION. No Employee or Nonemployee Director shall have the right to be selected to receive an Award under this Plan or, having been so selected, to be selected to receive a future Award.

ARTICLE FOURTEEN

CHANGE IN CONTROL

14.1 TREATMENT OF OUTSTANDING AWARDS. Upon the occurrence of a Change in Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable, and shall remain exercisable throughout their entire term, and any cash or property received upon exercise of any Option or SAR shall be free from further restriction;

(b) Any restriction periods and restrictions imposed on Restricted Shares shall lapse; and

(c) Unless otherwise specified in a Participant s Award Agreement at time of grant, the target payout opportunities attainable under all outstanding Awards of Performance Units and Performance Shares and Other Incentive Awards shall be deemed to have been fully earned for the entire Performance period(s) as of the effective date of the Change in Control. The vesting of all such Awards shall be accelerated as of the effective date of the Change in Control and, in full settlement of such Awards, there shall be paid out to Participants (in Shares for Awards normally paid in Shares and in cash for Awards normally paid in cash) within thirty (30) days following the

effective date of the Change in Control a pro rata portion of all targeted Award opportunities associated with such outstanding Awards, based on the number of complete and partial calendar months within the Performance Period which had elapsed as of such effective date.

14.2 TERMINATION, AMENDMENT AND MODIFICATIONS OF CHANGE IN CONTROL PROVISIONS. Notwithstanding any other provision of this Plan or any Award Agreement provision, the provisions of this Article 14 may not be terminated, amended or modified to affect adversely any Award theretofore granted under the Plan without the prior written consent of the Participant with respect to said Participant s outstanding Awards.

ARTICLE FIFTEEN

AMENDMENT, MODIFICATION AND TERMINATION

15.1 AMENDMENT, MODIFICATION AND TERMINATION. The Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part.

15.2 AWARDS PREVIOUSLY GRANTED. No termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

ARTICLE SIXTEEN

WITHHOLDING

16.1 TAX WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

16.2 SHARE WITHHOLDING. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All such elections shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

ARTICLE SEVENTEEN

INDEMNIFICATION

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan. Such person shall be indemnified by the Company for all amounts paid by him or her in settlement thereof, with the Company s approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company s Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE EIGHTEEN

SUCCESSORS

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE NINETEEN

LEGAL CONSTRUCTION

19.1 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein shall also include the feminine, the plural shall include the singular, and the singular shall include the plural.

19.2 SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.3 REQUIREMENTS OF LAW. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

19.4 GOVERNING LAW. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Delaware, without giving effect to the conflict of laws principles thereof.

ARTICLE TWENTY

TERMINATION

The Plan shall terminate on the tenth (10th) anniversary of the Effective Date or at such earlier time as the Committee, with the consent of the Board, may determine. No termination shall affect any Award then outstanding under the Plan.

* * * * * *

Annex F

July 31, 2006

The Board of Directors
Fortress America Acquisition Corporation
4100 North Fairfax Drive, Suite 1150
Arlington, VA 22203

Dear Members of the Board:

You have requested Business Valuation Center, Inc. (BVC) to render its opinion (the Opinion) as of the current date, as to the fairness, from a financial point of view, to the existing public stockholders of Fortress America Acquisition Corporation (FAAC or the Company) of the contemplated Acquisition Consideration offered to acquire the outstanding equity interests of VTC, LLC, and Vortech Consulting, LLC (hereinafter VTC or Sellers) pursuant to the executed Second Amended and Restated Membership Interest Purchase Agreement dated July 2006 by the Company and VTC.

The Acquisition Consideration, as defined by the Second Amended and Restated Membership Interest Purchase Agreement, is summarized as follows:

FAAC is to pay total aggregate consideration of $38,500,000 for 100% of the equity interests of VTC. The form of the consideration to be paid by FAAC is:

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At closing, FAAC will pay $11,000,000 in cash (the Cash Consideration).

•

FAAC will assume up to an aggregate of $161,000 in the form of long-term bank debt (the Assumed Debt).

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FAAC will pay $10,000,000 to Sellers in the form of two convertible notes (the Convertible Promissory Notes). The Convertible Notes shall bear interest only at 6% per annum for the first two years and thereafter be evenly amortized over the remaining three years. The Convertible Note shall be convertible, at any time 6 months after closing, by the Sellers into common stock of FAAC at a conversion price of $7.50 per share (the Conversion Price). The Convertible Note shall automatically convert into common stock of FAAC at the Conversion Price in the event that the average closing price of FAAC common stock equals or exceeds $7.50 per share for any 20 consecutive trading days from the period from 6 months to two years after closing.

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FAAC Common Stock equal to $17,500,000 less (1) the amount of the Assumed Debt and (2) the value of the FAAC Stock Grant Shares which is defined as 576,559 shares at the Average Share Value of $5.46, or $3,148,012. The FAAC Common Stock purchase consideration represents restricted securities as defined under the federal securities laws and these restricted securities are subject to an Acquisition Agreement, a Registration Rights Agreement and a Lock Up Agreement.

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The Stock Grant Shares totaling 576,559 of FAAC Common Stock which will be designated by Sellers to be distributed to certain employees of Seller as consideration for the execution of Key Employment Agreements. In the event that there is a forfeiture of such Stock Grant Shares to FAAC by the designated employees on or before the third anniversary of the Closing Date, FAAC shall issue the forfeited Stock Grant Shares to the Sellers as additional consideration for their respective Membership Interests.

The Opinion does not address the Company s underlying business decision to acquire VTC or any other alternative business strategies or acquisition plans that may have been considered by the Company. We have not been requested to, and did not, solicit third party indications of interest in acquiring all or part of VTC. In addition, BVC was not involved at any time in the negotiations between the Company and VTC and did not provide any advisory services to the Company regarding the contents of the Purchase Agreement.

As part of our financial advisory activities, BVC engages in the valuation of businesses and securities in connection with mergers and acquisitions, private placements, and valuations for estate, corporate and other purposes. We are experienced in these activities and have performed assignments similar in nature to that requested by you on numerous occasions.

In rendering its Opinion, BVC has reviewed and analyzed certain independently prepared information, as well as certain information furnished by the Company and VTC, including, but not limited to, the following:

- Audited financial statements for VTC for the fiscal periods ended December 31, 2003, 2004 and 2005.
- Financial projections prepared by VTC management.
- The Letter Agreement describing the terms and conditions of the acquisition which was executed by VTC and the Company on March 1, 2006.
- The value range associated with the Acquisition Consideration.
- The public filings of FAAC with the Securities and Exchange Commission and certain publicly available information regarding the trading activity and marketplace for the Company s common stock.
- The unaudited financial statements of VTC for the three-month period ending April 30, 2006.
- The historical and present financial performance and condition of both FAAC and VTC.
- An analysis of the projected future cash flows of VTC and related discounted cash flow models.
- A valuation analysis of public companies which operate in similar industry segments to VTC and have comparable operating and financial characteristics.
- A valuation analysis of merger and acquisition transactions of private companies which operate in similar industry sectors to VTC and have comparable operating and financial characteristics.
- Customer contract work in process (WIP) reports prepared by VTC management and related contract backlog information.

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An analysis prepared by VTC and the Company reflecting adjustments to normalize earnings before interest, taxes, depreciation and amortization (EBITDA) for nonrecurring expenses identified in the income statement for the year ending December 31, 2005.

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Conducted in-depth interviews with the officers and senior management of both FAAC and VTC regarding each company s operations, as well as historical and forecasted financial performance.

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Other reviews and analyses as we deemed appropriate and necessary in the formulation of our Opinion.

We have met with certain officers and employees of VTC and discussed with them the business, operations, assets, present condition and future prospects of VTC. We have visited VTC s headquarters facility in Columbia, Maryland, but have not conducted a physical inspection of fixed assets, nor have we made or obtained any independent evaluation or appraisal of any such fixed assets or any other assets of VTC. In addition, we undertook such other studies, analyses and due diligence investigations as we deemed appropriate.

In arriving at our Opinion, BVC assumed and relied upon the accuracy and completeness of the financial and other information provided to us and we have not and do not assume any responsibility for independent verification of such information. We have assumed that the financial pro forma statements and projections prepared by the management of VTC represents their best current judgment as to the future financial condition and results of operations of VTC and have assumed that the projections have been reasonably prepared based on such current judgment. We have also taken into account our assessment of general economic, market and financial conditions and our experience in similar transactions, as well as our experience in securities valuation in general. Our Opinion necessarily is based upon regulatory, economic, market and other conditions as they exist on the valuation date, and the information made available to us as of the date hereof. Subsequent developments may affect this Opinion, and we do not have any obligation to update, revise or reaffirm this Opinion. The officers and senior management of VTC have informed us that it knows of no additional information that would have a material effect on our valuation. The Opinion does not address the relative merits of the acquisition and any other transaction or business strategies discussed by the Board of the Company as alternatives to the acquisition of VTC, or the decision of the Company to proceed with the acquisition of VTC.

BVC assumed that there had been no material change in the Company s financial condition, results of operations, business or prospects since the date of the last financial statements made available to BVC. BVC relied on advice of counsel to the Company as to all legal matters with respect to the Company and its acquisition of VTC.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Furthermore, in arriving at its Opinion, BVC did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis or factor. Accordingly, BVC believes that its analysis must be considered as a whole and that considering any portion of such analysis and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying its Opinion. In its analyses, BVC made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Company and VTC. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values which may be significantly more or less favorable than as set forth therein. In addition, analyses relating to the value of the business do not purport to be an appraisal or to reflect the price at which the business might actually be sold.

Neither BVC nor its employees has any present, or contemplated future interest in the Company or VTC, which would prevent them from making a fair and unbiased opinion. BVC has received a retainer payment from the Company to prepare the Opinion and we will receive the balance of our fees upon the submission of this Opinion. BVC s fee for preparing the fairness opinion is not contingent on the completion of the acquisition of VTC.

The Opinion is to be used only by the Board of Directors in the course of its review of the acquisition of VTC and is not in any way provided as a recommendation to Company stockholders regarding their decision to vote or proceed with the acquisition. Neither the Opinion nor its contents or our name may be referred to or quoted in any registration statement, prospectus, offering memorandum, loan agreement or other agreement or document given to third parties, without our prior written consent with the exception of its use in a proxy statement or any other Company filings required by the rules of Securities and Exchange Commission in connection with the acquisition of VTC.

Based on the foregoing and such other factors as we consider relevant, and in reliance thereon, it is our opinion as of the date of this letter, that the Acquisition Consideration is fair to the existing stockholders of the Company from a financial point of view.

Sincerely,

/s/ Business Valuation Center,
Inc.

Business Valuation Center, Inc.

FOLD AND DETACH HERE AND READ THE REVERSE SIDE

PROXY

FORTRESS AMERICA ACQUISITION CORPORATION
4100 North Fairfax Drive, Suite 1150
Arlington, Virginia 22203

SPECIAL MEETING OF STOCKHOLDERS
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
OF FORTRESS AMERICA ACQUISITION CORPORATION

The undersigned appoints C. Thomas McMillen and Harvey L. Weiss, and each of them, with full power to act without the other, as proxies, each with the power to appoint a substitute, and hereby authorizes either of them to represent and to vote, as designated on the reverse side, all shares of common stock of Fortress America Acquisition Corporation (FAAC) held of record by the undersigned on _____, 2006, at the Special Meeting of Stockholders to be held on _____, 2006, or any postponement or adjournment thereof.

THIS PROXY REVOKES ALL PRIOR PROXIES GIVEN BY THE UNDERSIGNED. THIS PROXY WILL BE VOTED AS DIRECTED. IF NO DIRECTIONS ARE GIVEN, THIS PROXY WILL NOT BE VOTED FOR OR AGAINST PROPOSAL NUMBER 1, BUT WILL BE VOTED FOR PROPOSAL NUMBERS 2, 3, 4 AND 5.

THE FAAC BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH PROPOSAL SHOWN ON THE REVERSE SIDE.

(Continued and to be signed on reverse side)

FOLD AND DETACH HERE AND READ THE REVERSE SIDE

PROXY

THIS PROXY WILL BE VOTED AS DIRECTED. IF NO DIRECTIONS ARE GIVEN, THIS PROXY WILL NOT BE VOTED FOR OR AGAINST PROPOSAL NUMBER 1, BUT WILL BE VOTED FOR PROPOSAL NUMBERS 2, 3, 4 AND 5. THE BOARD OF DIRECTORS OF FAAC UNANIMOUSLY RECOMMENDS A VOTE FOR THE FOLLOWING PROPOSALS.

1. To approve the acquisition of VTC, L.L.C. (VTC) and Vortech, LLC (Vortech) substantially on the terms set forth in the Second Amended and Restated Membership Interest Purchase Agreement dated July __, 2006, by and among FAAC, VTC, Vortech, Thomas P. Rosato and Gerald J. Gallagher as selling members, and Thomas P. Rosato as the members representative.	FOR ¨	AGAINST ¨	ABSTAIN ¨
If you voted AGAINST Proposal Number 1 and you hold shares of FAAC common stock issued in FAAC s initial public offering, you may exercise your conversion rights and demand that FAAC convert your shares of common stock into a pro rata portion of the trust account by marking the Exercise My Conversion Rights box to the right. If you exercise your conversion rights, then you will be exchanging your shares of FAAC common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if the acquisition is completed and you continue to hold these shares through the effective time of the acquisition and tender your stock certificate to FAAC. Failure to (a) vote against proposal Number 1, (b) check the Exercise My Conversion Rights box to the right and (c) submit this proxy in a timely manner will result in the loss of your conversion rights.	I HEREBY EXERCISE MY CONVERSION RIGHTS ¨		
2. To amend and restate FAAC s Amended and Restated Certificate of Incorporation to change FAAC s name from Fortress America Acquisition Corporation to Fortress International Group, Inc. and to remove certain provisions only applicable to FAAC prior to its completion of a business combination	FOR ¨	AGAINST ¨	ABSTAIN ¨
3. To approve the 2006 Omnibus Incentive Compensation Plan	FOR ¨	AGAINST ¨	ABSTAIN ¨
4. Election of Class __ Director Nominee: David J. Mitchell	FOR nominee listed at left ¨	WITHHOLD authority to vote for nominee listed at left ¨	

5. To approve any adjournments or postponements of the special meeting for the purpose of soliciting additional proxies	FOR ¨	AGAINST ¨	ABSTAIN ¨

Signature **Signature** **Date**

Sign exactly as name appears on this proxy card. If shares are held jointly, each holder should sign. Executors, administrators, trustees, guardians, attorneys and agents should give their full titles. If stockholder is a corporation, sign in full name by an authorized officer.