

DRS TECHNOLOGIES INC  
Form 424B3  
December 23, 2005

[QuickLinks](#) -- Click here to rapidly navigate through this document

Filed pursuant to Rule 424(b)(3)  
Registration No. 333-129948

### MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The boards of directors of DRS Technologies, Inc., which we refer to as DRS, and Engineered Support Systems, Inc., which we refer to as ESSI, have each unanimously approved the merger of ESSI with a wholly-owned subsidiary of DRS pursuant to an Agreement and Plan of Merger dated as of September 21, 2005, whereby ESSI will become a wholly-owned subsidiary of DRS. We are proposing the merger because we believe that a combined company consisting of ESSI's support and services businesses and DRS's integrated hardware and software businesses will create more value for the stockholders of each company than either company could create individually.

If the proposed merger is completed, each share of ESSI common stock that you own at the time of the merger will be converted into the right to receive \$30.10, in cash, and a fraction of a share of DRS common stock based on the following formula. If the average closing sale price per share of DRS common stock on the New York Stock Exchange composite transactions reporting system for each of the ten consecutive trading days ending with the second complete trading day prior to completion of the merger is:

\$57.20 per share or greater, you will be entitled to receive 0.2255 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed;

less than \$57.20 per share but greater than \$46.80 per share, you will be entitled to receive that fraction of a share of DRS common stock having a value, based on the ten-day average closing sale price for the same period, of \$12.90 for each share of ESSI common stock owned at the time the merger is completed; or

\$46.80 per share or less, you will be entitled to receive 0.2756 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed.

The value of the aggregate merger consideration is expected to be \$43.00 for each share of ESSI common stock, but may be more or less based on the trading price of DRS common stock and as described in more detail in the joint proxy statement/prospectus. Based on the average closing sale price per share of DRS common stock of \$51.913 for each of the ten consecutive trading days ending with the second complete trading day prior to the date of the joint proxy statement/prospectus accompanying this letter, the exchange ratio in the merger would be 0.2485, representing approximately \$12.90 in market value for each share of ESSI common stock and aggregate merger consideration totaling \$43.00 per share.

DRS will issue a maximum of approximately 12.8 million shares of DRS common stock and spend approximately \$1.3 billion in cash in the merger based on the fully-diluted number of shares of ESSI common stock. Together with debt of ESSI to be refinanced in the merger, this represents a total acquisition value of approximately \$1.9 billion. DRS common stock trades on the New York Stock Exchange, which we refer to as the NYSE, under the symbol "DRS." DRS and ESSI encourage you to obtain current stock price quotations for DRS common stock from a newspaper, the Internet or your broker. The final calculation of the exchange ratio in the merger agreement will be determined as soon as practicable after the closing date, and DRS plans to issue a press release announcing the actual exchange ratio promptly after it is determined. DRS will pay ESSI shareholders the value of any fractional share in cash rather than issuing any fractional shares of DRS common stock.

We estimate that immediately after the merger, ESSI shareholders will hold a maximum of approximately 31.4% of the then-outstanding shares of DRS common stock. DRS stockholders will continue to own their existing shares, which will not be affected by the merger.

The merger cannot be completed unless and until DRS stockholders approve the issuance of shares of DRS common stock in the merger and ESSI's shareholders approve the merger agreement and the transactions contemplated by the merger agreement. The obligations of DRS and ESSI to complete the merger are also subject to the satisfaction or waiver of several other conditions to the merger, including receiving approval and/or clearance from regulatory agencies. More information about DRS, ESSI and the proposed merger is contained in this joint proxy statement/prospectus. **We encourage you to read carefully this joint proxy statement/prospectus before voting, including the section entitled "Risks Relating to the Merger" beginning on page 19.**

The boards of directors of DRS and ESSI have each carefully reviewed and considered the terms and conditions of the proposed merger agreement and merger. Based on its review, the board of directors of DRS has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of DRS and unanimously has approved the merger agreement and the issuance of shares of DRS common stock in the merger. Based on its review, the ESSI board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair to, and in the best interests of, ESSI and its shareholders and unanimously has approved the merger agreement and the transactions contemplated by the merger agreement.

In addition, in view of the limited number of shares of DRS common stock which will remain available for issuance after the merger, the board of directors of DRS has also approved the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock from 50 million to 100 million. The merger is not conditioned on the approval of the proposal to amend DRS's certificate of incorporation.

**The DRS board of directors unanimously recommends that DRS stockholders vote "FOR" the proposal to approve the issuance of shares of DRS common stock pursuant to the merger agreement and "FOR" the proposal to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock from 50 million to 100 million. The ESSI board of directors unanimously recommends that ESSI shareholders vote "FOR" the proposal to approve the merger agreement and the transactions contemplated by the merger agreement.**

The proposals are being presented to the respective stockholders of each company at their special meetings. The dates, times and places of the meetings are as follows:

**For DRS stockholders:**

January 30, 2006, 10:00 a.m., local time  
DRS Technologies, Inc.  
5 Sylvan Way, Floor 3  
Parsippany, NJ 07054  
(973) 898-1500

**For ESSI shareholders:**

January 30, 2006, 10:00 a.m., local time  
Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, Missouri 63121  
(314) 553-4000

**Your vote is very important.** Whether or not you plan to attend your respective company's special meeting, please take the time to vote by completing, signing, dating and returning the enclosed proxy card or, if the option is available to you, by granting your proxy electronically over the Internet or by telephone. If your shares are held in "street name," you must instruct your broker in order to vote.

Sincerely,

Mark S. Newman  
Chairman, President and Chief Executive Officer  
DRS Technologies, Inc.

Gerald A. Potthoff  
Vice Chairman and Chief Executive Officer  
Engineered Support Systems, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/prospectus or determined if this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

This joint proxy statement/prospectus is dated December 21, 2005, and is being mailed to stockholders of DRS and ESSI on or about December 23, 2005.

**DRS Technologies, Inc.**

5 Sylvan Way  
Parsippany, New Jersey 07054

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON JANUARY 30, 2006**

To the Stockholders of DRS Technologies, Inc.:

We will hold a special meeting of stockholders of DRS Technologies, Inc. at the headquarters of DRS Technologies, Inc., 5 Sylvan Way, Floor 3, Parsippany, New Jersey 07054 on January 30, 2006 at 10:00 a.m. local time for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of shares of DRS Technologies, Inc. common stock, pursuant to the Agreement and Plan of Merger, dated as of September 21, 2005, by and among DRS Technologies, Inc., Maxco, Inc., a wholly-owned subsidiary of DRS Technologies, Inc., and Engineered Support Systems, Inc.
2. To consider and vote upon a proposal to approve an amendment to the certificate of incorporation of DRS Technologies, Inc. to increase the number of authorized shares of DRS common stock from 50 million to 100 million.

These items of business are described in the attached joint proxy statement/prospectus. We will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement of the special meeting. Only DRS stockholders of record at the close of business on December 20, 2005, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

**The board of directors of DRS unanimously has approved the merger agreement, the issuance of shares of DRS common stock in the merger and the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock from 50 million to 100 million, and unanimously recommends that you vote "FOR" the proposal to approve of the issuance of shares of DRS common stock pursuant to the merger agreement and "FOR" the proposal to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock.** The merger is not conditioned on the approval of the proposal to amend DRS's certificate of incorporation.

A list of stockholders eligible to vote at the DRS special meeting will be available for inspection at the special meeting and at the offices of DRS during regular business hours for a period of no less than ten days prior to the special meeting for any purpose germane to the meeting.

**YOUR VOTE IS IMPORTANT**

Whether or not you plan to attend the meeting, please vote as soon as possible. To vote your shares, call the toll-free telephone number, use the Internet as described in the instructions on the enclosed proxy card, or complete, sign, date and return your proxy card in the envelope provided. Voting by telephone, over the Internet or by written proxy will assure that your vote is counted at the meeting if you do not attend in person.

By Order of the Board of Directors,  
DRS Technologies, Inc.

Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Nina Laserson Dunn  
*Secretary and General Counsel*

Parsippany, New Jersey  
December 21, 2005

---

**Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, Missouri 63121**

---

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON JANUARY 30, 2006**

To the Shareholders of Engineered Support Systems, Inc.:

We will hold a special meeting of shareholders of Engineered Support Systems, Inc. at the headquarters of Engineered Support Systems, Inc. 201 Evans Lane, St. Louis, Missouri 63121, on January 30, 2006 at 10:00 a.m. local time for the following purpose:

To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of September 21, 2005, by and among DRS Technologies, Inc., Maxco, Inc., a wholly-owned subsidiary of DRS Technologies, Inc., and Engineered Support Systems, Inc., and the transactions contemplated by the Agreement and Plan of Merger.

This item of business is described in the attached joint proxy statement/prospectus. We will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement of the special meeting. Only ESSI shareholders of record at the close of business on December 20, 2005, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

**The board of directors of ESSI unanimously has approved the merger agreement and the transactions contemplated by the merger agreement, and unanimously recommends that you vote "FOR" the proposal to approve the merger agreement and the transactions contemplated by the merger agreement, which are described in detail in this joint proxy statement/prospectus. The joint proxy statement/prospectus is deemed incorporated by reference into this notice.**

A list of shareholders eligible to vote at the ESSI special meeting will be available for inspection at the special meeting and at the registered offices of ESSI during regular business hours for a period of no less than ten days prior to the special meeting.

We encourage all shareholders to attend the special meeting at the headquarters of ESSI, 201 Evans Lane, St. Louis, Missouri 63121. For security purposes, if you plan to attend the ESSI special meeting, you must notify the Secretary of ESSI of your intent to do so by January 25, 2006.

**YOUR VOTE IS IMPORTANT**

Whether or not you plan to attend the meeting, please vote as soon as possible. To vote your shares, call the toll-free telephone number, use the Internet as described in the instructions on the enclosed proxy card, or complete, sign, date and return your proxy card in the envelope provided. Voting by telephone, over the Internet or by written proxy will assure that your vote is counted at the meeting if you do not attend in person.

By order of the Board of Directors,  
Engineered Support Systems, Inc.

David D. Mattern  
Secretary and General Counsel

St. Louis, Missouri  
December 21, 2005

---

**ADDITIONAL INFORMATION**

***DRS***

This joint proxy statement/prospectus incorporates by reference important business and financial information about DRS, but not ESSI, from documents filed with the Securities and Exchange Commission, which is referred to as the SEC, that are not included in or delivered with this joint proxy statement/prospectus. For a more detailed description of the information incorporated by reference into this joint proxy statement/prospectus and how you may obtain it, see "Additional Information Where You Can Find More Information" beginning on page 135.

Documents incorporated by reference are available from DRS without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference as an exhibit in this joint proxy statement/prospectus. You can obtain any of these documents from DRS or from the SEC through the SEC's web site at <http://www.sec.gov>. DRS stockholders may also request a copy of such documents in writing or by telephone by contacting DRS at:

DRS Technologies, Inc.  
5 Sylvan Way  
Parsippany, NJ 07054  
(973) 898-1500  
Attention: Investor Relations

In addition, you may obtain copies of the information relating to DRS, without charge, by sending an e-mail to [p.williamson@drs.com](mailto:p.williamson@drs.com) or by making a request through DRS's investor relations web site at <http://www.shareholder.com/drs/docreq.cfm>.

We are not incorporating the contents of the web sites of the SEC or DRS or any other person into this document. We are providing only the information about how you can obtain certain documents that are incorporated by reference into this joint proxy statement/prospectus at these web sites for your convenience.

***ESSI***

ESSI is an SEC reporting company and it files annual, quarterly, current reports and other information with the SEC. You can obtain any of these documents from ESSI or from the SEC through the SEC's web site at <http://www.sec.gov>. ESSI shareholders may also request a copy of such documents in writing or by telephone by contacting ESSI at:

Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, Missouri 63121  
(314) 553-4000  
Attention: Investor Relations

In addition, you may obtain copies of the information relating to ESSI, without charge, by sending an e-mail to [investor\\_relations@essihq.com](mailto:investor_relations@essihq.com). You may obtain copies of some of this information by making a request through ESSI's investor relations web site at <http://www.engineeredsupport.com/investor.htm>.

We are not incorporating the contents of the web sites of the SEC or ESSI or any other person into this document. We are providing only the information about how you can obtain certain documents at these web sites for your convenience.

**IN ORDER FOR YOU TO RECEIVE TIMELY DELIVERY OF THE DOCUMENTS IN ADVANCE OF THE DRS OR ESSI SPECIAL MEETINGS, DRS OR ESSI, AS APPLICABLE, SHOULD RECEIVE YOUR REQUEST NO LATER THAN JANUARY 23, 2006.**

---

## TABLE OF CONTENTS

	<b>Page</b>
QUESTIONS AND ANSWERS ABOUT THE MERGER	Q-1
SUMMARY	1
The Companies	1
The Merger	2
Exchange Ratio	3
Treatment of Stock Options	3
Amendment to DRS's Certificate of Incorporation	4
Recommendations of the Boards of Directors	4
Stockholders Entitled to Vote; Vote Required	4
Opinions of Financial Advisors	6
Ownership of DRS After the Merger	7
Share Ownership of Directors and Executive Officers	7
Interests of Certain Individuals in the Merger	7
Financing of the Merger	8
Listing of DRS Common Stock and Delisting of ESSi Common Stock	8
Dissenters' Rights in the Merger	8
Conditions to Completion of the Merger	9
Regulatory Approvals	9
No Solicitation by ESSi	9
Termination of the Merger Agreement; Termination Fee	10
Material U.S. Federal Income Tax Consequences of the Merger	11
Accounting Treatment	11
Risks Relating to the Merger	11
Dividend Policies	11
Material Differences in Rights of DRS Stockholders and ESSi Shareholders	12
Summary Selected Historical and Pro Forma Consolidated Financial Data	12
Comparative Historical and Pro Forma Per-Share Data	15
Comparative Stock Prices and Dividends	17
RISKS RELATING TO THE MERGER	19
DRS may not be able to obtain financing to pay the cash portion of the merger consideration	19
DRS's level of indebtedness following the merger could limit cash flow available and could adversely affect its operations or its ability to obtain additional financing, if necessary. DRS may incur substantial additional indebtedness in the future	20
ESSi currently is subject to an SEC investigation that could require significant management attention and legal resources and could have a material adverse effect on the combined company.	20
The value of the stock component of the merger consideration could vary based upon the price of DRS common stock	21
The revenues of the combined company depend on DRS's and ESSi's ability to maintain levels of government business. The loss of contracts with domestic and non-U.S. government agencies could adversely affect the combined company's revenues.	21
The price of DRS common stock may be affected by factors different from those affecting the price of ESSi common stock	22
The market price of DRS common stock may decrease as a result of the merger	23
Integration of DRS's and ESSi's operations will be complex, time-consuming and expensive and may adversely affect the results of operations of DRS after the merger	23



## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

If DRS is unable to successfully integrate ESSI into DRS's operations on a timely basis, DRS's profitability could be negatively affected	24
The merger may adversely affect the combined company's ability to attract and retain key ESSI employees	24
<b>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</b>	<b>25</b>
<b>THE DRS SPECIAL MEETING</b>	<b>26</b>
General	26
Date, Time, Place and Purpose of the DRS Special Meeting	26
Recommendation of the DRS Board of Directors	26
Record Date; Outstanding Shares; Shares Entitled to Vote	28
Quorum	28
Vote Required	28
Voting by DRS Directors and Executive Officers	29
Voting; Proxies; Revocation	29
Abstentions and Broker Non-Votes	30
Proxy Solicitation	31
Other Business; Adjournments	31
Assistance	31
<b>THE ESSI SPECIAL MEETING</b>	<b>32</b>
General	32
Date, Time, Place and Purpose of the ESSI Special Meeting	32
Recommendation of the ESSI Board of Directors	32
Record Date; Outstanding Shares; Shares Entitled to Vote	32
Quorum	32
Vote Required	33
Voting by ESSI Directors and Executive Officers	33
Voting; Proxies; Revocation	33
Proxy Solicitation	35
Other Business; Adjournments	35
Assistance	35
<b>THE MERGER</b>	<b>36</b>
General	36
Background of the Merger	36
Recommendation of the DRS Board of Directors and Its Reasons for the Merger	40
Recommendation of the ESSI Board of Directors and Its Reasons for the Merger	43
Opinion of Bear Stearns, Financial Advisor to DRS	45
Opinion of Merrill Lynch, Financial Advisor to DRS	51
Opinion of Lehman Brothers, Financial Advisor to ESSI	57
DRS Financing	64
Certain Legal Matters	66
Interests of Certain Individuals in the Merger	67
Regulatory Approvals Required for the Merger	71
Material U.S. Federal Income Tax Consequences	72
Accounting Treatment	74
Listing of DRS Common Stock	74
Dissenters' Rights of Appraisal	74
Delisting and Deregistration of ESSI Common Stock	76
Restrictions on Sales of Shares of DRS Common Stock Received in the Merger	76

THE MERGER AGREEMENT	77
Structure of the Merger	77
Completion and Effectiveness of the Merger	77
Merger Consideration	77
Exchange of ESSI Stock Certificates for DRS Stock Certificates	78
Treatment of Stock Options	79
Fractional Shares	79
Termination of Exchange Fund	80
No Liability	80
Distributions with Respect to Unexchanged Shares	80
Transfers of Ownership	80
Conditions to Completion of the Merger	80
Representations and Warranties	82
ESSI Prohibited from Soliciting Other Offers	82
Conduct of Business Before Completion of the Merger	84
Stockholders Meetings	85
Joint Proxy Statement and Registration Statement	85
Antitrust Approval; Further Action	85
Access to Information	86
Publicity	86
Directors' and Officers' Insurance; Indemnification	86
Employee Matters	86
Supplemental Disclosure	87
Stock Exchange Listing	87
Payment of Bank Debt	87
DRS Financing	87
Termination	87
Effect of Termination	89
Fees and Liquidated Damages	89
Amendment and Waiver	89
Extension and Waiver	90
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENT INFORMATION	91
INFORMATION REGARDING ESSI	107
Business of ESSI	107
Properties of ESSI	111
Legal Proceedings Relating to ESSI	112
BENEFICIAL OWNERSHIP OF THE COMMON STOCK OF ESSI	113
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ESSI	115
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK APPLICABLE TO ESSI	125
SUPPLEMENTARY FINANCIAL INFORMATION OF ESSI	125
COMPARISON OF STOCKHOLDER RIGHTS AND CORPORATE GOVERNANCE MATTERS	126

ADDITIONAL INFORMATION	134
Stockholder Proposals	134
Legal Matters	134
Experts	134
Where You Can Find More Information	135

CONSOLIDATED FINANCIAL STATEMENTS	F-1
-----------------------------------	-----

*Annexes*

Annex A	Agreement and Plan of Merger
Annex B	Opinion of Bear, Stearns & Co. Inc.
Annex C	Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated
Annex D	Opinion of Lehman Brothers Inc.
Annex E	Form of Certificate of Amendment to the Certificate of Incorporation of DRS Technologies, Inc.
Annex F	Section 351.455 of The General and Business Corporation Law of Missouri

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

*The following are some questions that you, as a stockholder of DRS Technologies, Inc., which we refer to as DRS, or Engineered Support Systems, Inc., which we refer to as ESSI, may have regarding the merger and the other matters being considered at the respective special meetings of DRS and ESSI and brief answers to those questions. DRS and ESSI urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section does not provide all the information that might be important to you with respect to the merger and the other matters being considered at their respective special meetings of stockholders. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this joint proxy statement/prospectus.*

**Q: Why am I receiving this joint proxy statement/prospectus?**

**A:** DRS and ESSI have entered into an Agreement and Plan of Merger, dated as of September 21, 2005 (referred to in this joint proxy statement/prospectus as the merger agreement), that contains the terms and conditions of the acquisition of ESSI by DRS. Pursuant to the terms of the merger agreement, ESSI will merge with Maxco, Inc., a wholly-owned subsidiary of DRS, with ESSI surviving and continuing as a wholly-owned subsidiary of DRS (referred to in this joint proxy statement/prospectus as the merger). The text of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. For a more complete description of the merger, see "The Merger" beginning on page 36.

In order to complete the merger, DRS stockholders must vote to approve the issuance of shares of DRS common stock in the merger, and ESSI shareholders must vote to approve the merger agreement and the transactions contemplated by the merger agreement. DRS and ESSI will hold separate special meetings of their respective stockholders to obtain these approvals.

This joint proxy statement/prospectus contains important information about the merger, the merger agreement and the special meetings of the respective stockholders of DRS and ESSI, which you should read carefully. The enclosed voting materials allow you to vote your shares without attending your respective company's special meeting.

Your vote is very important. We encourage you to vote as soon as possible.

**Q: Why are DRS and ESSI proposing the merger?**

**A:** The boards of directors of DRS and ESSI both believe that the merger will provide substantial strategic and financial benefits to the stockholders of both companies and will allow stockholders of both companies the opportunity to participate in a larger, more diversified company that will be a leading supplier of integrated hardware, software and support services for U.S. military forces, intelligence agencies, prime contractors and international military forces. DRS and ESSI both also believe that the combination will create a stronger and more competitive provider of defense technology products and services with strong military services and support capability that is capable of creating greater stockholder value than either DRS or ESSI could on its own. To review the reasons for the merger in greater detail, see "The Merger Recommendation of the DRS Board of Directors and Its Reasons for the Merger" beginning on page 40 and "The Merger Recommendation of the ESSI Board of Directors and Its Reasons for the Merger" beginning on page 43.

**Q: What consideration will ESSI shareholders receive in the merger?**

**A:** If the proposed merger is completed, you will be entitled to receive, for each share of ESSI stock you own, \$30.10 in cash and a fraction of a share of DRS common stock based on the following formula. If the average closing sale price per share of DRS common stock on the NYSE

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

composite transactions reporting system for each of the ten consecutive trading days ending with the second complete trading day prior to completion of the merger is:

\$57.20 per share or greater, you will be entitled to receive 0.2255 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed;

less than \$57.20 per share but greater than \$46.80 per share, you will be entitled to receive that fraction of a share of DRS common stock having a value, based on the ten-day average closing sale price for the same period, of \$12.90 for each share of ESSI common stock owned at the time the merger is completed; or

\$46.80 per share or less, you will be entitled to receive 0.2756 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed.

For a more complete description of what ESSI shareholders will receive in the merger, see "The Merger Agreement Merger Consideration" beginning on page 77.

Q: **What will happen to options to purchase ESSI common stock?**

A: If the proposed merger is completed, at the time of the completion of the merger, all unexercised options to acquire ESSI common stock will be cancelled in exchange for the same consideration paid to ESSI shareholders for shares of ESSI common stock, reduced by the applicable exercise price. The merger consideration per share of ESSI common stock, including the cash payment of \$30.10 and a fraction of a share of DRS common stock, will be reduced ratably by the exercise price of the unexercised options in the same proportion that the value of the cash and fraction of a share of DRS common stock bear to each other. The exact amount of the merger consideration payable in respect of an option, and the reduction applicable to the cash payment and DRS common stock components, will depend on the market price of DRS common stock and the exercise price of the unexercised option.

Q: **When will ESSI shareholders know the actual number of shares of DRS common stock that they will be entitled to receive as a result of the merger?**

A: As soon as practicable after the closing date, DRS plans to issue a press release that will announce the exchange ratio that will determine the number of shares of DRS common stock that ESSI shareholders will be entitled to receive in exchange for shares of ESSI common stock.

Q: **Should ESSI shareholders send in their ESSI stock certificates now?**

A: No. After the merger is completed, you will receive written instructions from the exchange agent on how to exchange your ESSI stock certificates for the merger consideration. **Please do not send in your ESSI stock certificates with your proxy.**

Q: **How will DRS stockholders be affected by the merger and issuance of DRS common stock in the merger?**

A: After the merger, DRS stockholders will continue to own their existing shares of DRS common stock. Accordingly, DRS stockholders will hold the same number of shares of DRS common stock that they held immediately prior to the merger. However, because DRS will be issuing new shares of DRS common stock to ESSI shareholders in the merger, each outstanding share of DRS common stock immediately prior to the merger will represent a smaller percentage of the total number of shares of DRS common stock outstanding after the merger.

Q: **When do DRS and ESSI expect the merger to be completed?**

A:

Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

DRS and ESSi are working to complete the merger as quickly as practicable. However, we cannot predict the exact timing of the completion of the merger because it is subject to regulatory

Q-2

---

approvals and other conditions. See "The Merger Agreement Conditions to Completion of the Merger" beginning on page 80.

Q:

**Are ESSI shareholders entitled to dissenters' rights?**

A:

Under Missouri law, holders of ESSI common stock have the right to dissent from the merger and obtain payment in cash for the fair value of their shares of common stock, in accordance with Missouri law, rather than the merger consideration. In order to perfect dissenters' rights, ESSI shareholders must deliver to ESSI a written objection to the merger at or prior to the ESSI special meeting of shareholders. The procedures for perfecting dissenters' rights are summarized under the section entitled "The Merger Dissenters' Rights of Appraisal" on page 74. In addition, the text of the applicable provisions of Missouri law is included as Annex F to this joint proxy statement/prospectus.

Holders of DRS common stock are not entitled to dissenters' appraisal rights in connection with the issuance of DRS common stock in the merger or in connection with the amendment of DRS's certificate of incorporation.

Q:

**What are DRS stockholders voting on?**

A:

DRS stockholders are voting on a proposal to approve the issuance of a maximum of approximately 12.8 million shares of DRS common stock pursuant to the merger agreement, or approximately 45.8% of the DRS common shares outstanding as of the record date. The approval of this proposal by DRS stockholders is a condition to the effectiveness of the merger. DRS stockholders also are voting on a proposal to approve an amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock, which is not a condition to the effectiveness of the merger. DRS stockholders are voting on each proposal separately. The vote on one proposal has no bearing on the other proposal, or any other matter that may come before the DRS special meeting.

Q:

**Why is DRS proposing to amend its certificate of incorporation?**

A:

There are 50 million shares of DRS common stock authorized under DRS's certificate of incorporation, and as of the record date of the DRS special meeting, approximately 32 million shares of DRS common stock were outstanding or reserved for issuance. Following completion of the merger with ESSI, there will be a maximum of approximately 44.8 million shares of DRS common stock outstanding or reserved for issuance. While DRS has a sufficient number of shares of common stock authorized to complete the merger, the DRS board of directors believes it is desirable to authorize additional shares of common stock so that there will be sufficient shares available for issuance for purposes that the DRS board of directors may later determine to be in the best interests of DRS and its stockholders. Those purposes could include, but are not limited to, making acquisitions through the use of common stock, raising capital, adopting additional employee benefit plans, reserving additional shares for issuance under those plans and under plans of acquired companies and for other corporate purposes. The DRS board of directors believes that approval of the proposed amendment to increase the authorized shares of common stock is necessary to provide DRS with the flexibility to pursue these types of opportunities without added delay and expense. If the proposed amendment is adopted, 50 million additional shares of common stock will be available for issuance by the DRS board of directors without any further stockholder approval, although certain issuances of shares may require stockholder approval in accordance with the requirements of the NYSE or the Delaware General Corporation Law, which is referred to as the DGCL. Other than in connection with the financing of the merger and the issuance of shares under benefit plans previously approved by DRS stockholders, DRS has no plans for the issuance of DRS common stock at this time, but the DRS board of directors reserves the right to authorize

any issuance of shares of DRS common stock deemed to be in the best interests of DRS and its stockholders.

Q: **What are ESSI shareholders voting on?**

A: ESSI shareholders are voting on a proposal to approve the merger agreement and the transactions contemplated by the merger agreement. The approval of this proposal by ESSI shareholders is a condition to the effectiveness of the merger.

Q: **What vote of DRS stockholders is required to approve the issuance of shares of DRS common stock in the merger?**

A: Approval of the issuance of DRS common stock in the merger requires the affirmative vote of the holders of a majority of shares of DRS common stock cast on the proposal, in person or by proxy, provided that the total votes cast on the proposal represent over 50% of the outstanding shares of DRS common stock entitled to vote on the proposal.

Q: **What vote of DRS stockholders is required to approve the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock?**

A: Approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock requires the affirmative vote of the holders of a majority of the outstanding shares of DRS common stock entitled to vote on the proposal.

Q: **What vote of ESSI shareholders is required to approve the merger agreement and the transactions contemplated by the merger agreement?**

A: The proposal to approve the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of ESSI common stock entitled to vote at the special meeting.

Q: **How does the board of directors of DRS recommend that DRS stockholders vote?**

A: The DRS board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of DRS and unanimously recommends that DRS stockholders vote "**FOR**" the proposal to approve the issuance of shares of DRS common stock pursuant to the merger agreement.

The DRS board of directors unanimously approved resolutions, subject to stockholder approval, to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock and unanimously recommends that DRS stockholders vote "**FOR**" the proposal to amend DRS's certificate of incorporation.

For a more complete description of the recommendation of the DRS board of directors, see "The DRS Special Meeting Recommendation of the DRS Board of Directors" beginning on page 26.

Q: **How does the board of directors of ESSI recommend that ESSI shareholders vote?**

A: The ESSI board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair to and in the best interests of ESSI and its shareholders and unanimously recommends that ESSI shareholders vote "**FOR**" the proposal to approve the merger agreement and the transactions contemplated by the merger agreement. For a more complete description of the recommendation of the ESSI board of directors, see "The ESSI Special Meeting Recommendation of the ESSI Board of Directors" beginning on page 32.

Q:



**When and where will the special meetings of stockholders be held?**

A:

The DRS special meeting will take place at the headquarters of DRS Technologies, Inc., 5 Sylvan Way, Floor 3, Parsippany, New Jersey, on January 30, 2006 at 10:00 a.m. local time. The ESSI

Q-4

---

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

special meeting will take place at the headquarters of Engineered Support Systems, Inc., 201 Evans Lane, St. Louis, Missouri 63121, on January 30, 2006 at 10:00 a.m. local time.

Q:

**Who can attend and vote at the special meetings?**

A:

All DRS stockholders of record as of the close of business on December 20, 2005, the record date for the DRS special meeting, are entitled to receive notice of and to vote at the DRS special meeting. All ESSI shareholders of record as of the close of business on December 20, 2005, the record date for the ESSI special meeting, are entitled to receive notice of and to vote at the ESSI special meeting. Shareholders of ESSI who plan to attend the ESSI special meeting should notify the Secretary of ESSI of their intent to do so by January 25, 2006.

Q:

**What should DRS and ESSI stockholders do now in order to vote on the proposals being considered at their company's special meeting?**

A:

Stockholders of record of DRS as of the record date for the DRS special meeting, participants in the DRS Retirement/Savings Plan, which is referred to as the DRS Plan, and shareholders of record of ESSI as of the record date for the ESSI special meeting may now vote by proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying postage-paid envelope or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. Participants in ESSI's 401(k) and Employee Stock Ownership Plan, as amended, which we refer to as the ESSI 401(k) Plan, may provide their instructions to the ESSI 401(k) Plan trustee by signing and returning the enclosed proxy card in the accompanying postage paid envelope or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. The ESSI 401(k) Plan trustee must receive participant vote instructions no later than January 26, 2006. If you hold DRS shares or ESSI shares in "street name," which means your shares are held of record by a broker, bank or nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please refer to the voting instruction card used by your broker, bank or nominee to see if you may submit voting instructions using the Internet or telephone.

Additionally, you also may vote in person by attending your respective company's special meeting of stockholders. If you plan to attend your respective company's special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in "street name," and you wish to vote at your respective company's special meeting, you must bring a proxy from the record holder of the shares authorizing you to vote at the special meeting. Whether or not DRS stockholders or ESSI shareholders plan to attend the special meeting of their respective company, they should grant their proxy as described in this joint proxy statement/prospectus.

Q:

**What will happen if I abstain from voting or fail to vote?**

A:

An abstention occurs when a stockholder attends a meeting, either in person or by proxy, but abstains from voting. Assuming a quorum is present and the total votes cast on the proposal to approve the issuance of DRS common stock in the merger represent more than 50% of the outstanding shares of DRS common stock entitled to vote on the proposal, an abstention or the failure of a DRS stockholder to vote or to instruct his or her broker to vote if his or her shares are held in "street name" will have no effect in determining whether the issuance of DRS common stock is approved. An abstention or the failure of a DRS stockholder to vote will have the same effect as voting against the approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock.

An abstention or the failure of an ESSI shareholder to vote or to instruct his or her broker to vote if his or her shares are held in "street name" will have the same effect as voting against the

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

proposal to approve the merger agreement and the transactions contemplated by the merger agreement.

Q:

**Can I change my vote after I have delivered my proxy?**

A:

Yes. If you are a holder of record, you may change your vote at any time before your proxy is voted at the applicable special meeting by:

delivering a signed written notice of revocation to the Secretary of your respective company at:

DRS Technologies, Inc.  
5 Sylvan Way  
Parsippany, NJ 07054  
(973) 898-1500

Attention: Corporate Secretary

Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, MO 63121  
(314) 553-4000

Attention: Corporate Secretary

signing and delivering a new, valid proxy bearing a later date;

submitting another proxy by telephone or on the Internet (your latest telephone or Internet voting instructions will be followed); or

attending the special meeting and voting in person, although your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote.

Q:

**What should DRS stockholders or ESSI shareholders do if they receive more than one set of voting materials for their company's special meeting?**

A:

You may receive more than one set of voting materials for your special meeting, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Q:

**Who can help answer my questions?**

A:

If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this joint proxy statement/prospectus or the enclosed proxy card, you should contact:

if you are a DRS stockholder:

Innisfree M&A Incorporated  
Stockholders call toll-free: (877) 687-1874  
Banks and brokers call collect: (212) 750-5833

if you are an ESSI shareholder:

Mellon Investor Services LLC  
Call toll-free: (888) 634-5906



## SUMMARY

*The following is a summary that highlights information contained in this joint proxy statement/prospectus. This summary may not contain all of the information that is important to you. For a more complete description of the merger agreement and the transactions contemplated by the merger agreement, we encourage you to carefully read this entire joint proxy statement/prospectus, including the attached annexes. In addition, we encourage you to read the information incorporated by reference into this joint proxy statement/prospectus, which includes important business and financial information about DRS that has been filed with the SEC. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled "Additional Information Where You Can Find More Information" beginning on page 135. We have included page references to direct you to more complete discussions of the topics presented in this summary.*

### The Companies

DRS Technologies, Inc.  
5 Sylvan Way  
Parsippany, New Jersey 07054  
(973) 898-1500

DRS is a leading supplier of defense electronic products, systems and defense services. DRS provides high-technology products and services to all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military forces and industrial markets. DRS focuses on several key areas of importance for the U.S. Department of Defense, which we refer to as the DoD, such as intelligence, surveillance, reconnaissance, power management, advanced communications and network systems. Incorporated in 1968, DRS has served the defense industry for over 37 years. DRS is a leading provider of thermal imaging devices, combat display workstations, electronic sensor systems, power systems, battlefield digitization systems, air combat training systems, mission recorders and deployable flight incident recorders. DRS's products are deployed on a wide range of high-profile military platforms, such as DDG-51 Aegis destroyers, M1A2 Abrams Main Battle Tanks, M2A3 Bradley Fighting Vehicles, OH-58D Kiowa Warrior helicopters, AH-64 Apache helicopters, F/A-18E/F Super Hornet and F-16 Fighting Falcon jet fighters, C-17 Globemaster II and C-130 Hercules cargo aircraft, Trident submarines, Virginia class submarines and on several other platforms for military and non-military applications. DRS also has contracts that support future military platforms, such as the DD(X) destroyer, CVN-78 next generation aircraft carrier and Future Combat System.

DRS's common stock is traded on the NYSE, under the symbol "DRS."

Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, Missouri 63121  
(314) 553-4000

ESSI is a holding company for 14 wholly-owned subsidiaries. These subsidiaries are organized within ESSI's two business segments: Support Systems and Support Services. The Support Systems segment designs, engineers and manufactures integrated military electronics and other military support equipment primarily for the DoD, as well as related heat transfer and air handling equipment for domestic commercial and industrial users, and material handling equipment primarily for the U.S. Postal Service. The Support Services segment includes the operations of Systems & Electronics Inc. (SEI), Keco Industries, Inc. (Keco), Engineered Air Systems, Inc. (Engineered Air), Engineered Coil Company, d/b/a Marlo Coil (Marlo Coil), Engineered Electric Company, d/b/a Fermont (Fermont), Universal Power Systems, Inc. (UPSI), Engineered Environments, Inc. (EEi), Pivotal Power Inc.

(Pivotal Power), Prospective Computer Analysts Incorporated (PCA) and Mobilized Systems, Inc. (Mobilized Systems).

The Support Services segment provides engineering services, logistics and training services, advanced technology services, asset protection systems and services, telecommunication systems integration and information technology services primarily for the DoD. The Support Services segment includes the operations of Technical and Management Services Corporation (TAMSCO), Radian, Inc. (Radian), Spacelink International, LLC (Spacelink) and ESSIBuy.com, Inc. (ESSIBuy). Substantially all revenues within these two segments are directly or indirectly derived from contracts with the DoD and certain foreign militaries.

ESSI's common stock is traded on the Nasdaq National Market System, which is referred to as the Nasdaq, under the symbol "EASI."

Maxco, Inc.  
5 Sylvan Way  
Parsippany, New Jersey 07054  
(973) 898-1500

Maxco is a wholly-owned subsidiary of DRS. Maxco was formed on September 16, 2005 solely for the purpose of engaging in the merger and the other transactions contemplated by the merger agreement. Maxco has not conducted any business operations other than incidental to its formation and in connection with the transactions contemplated by the merger agreement.

#### **The Merger (see page 36)**

DRS and ESSI have agreed to the acquisition of ESSI by DRS under the terms of the merger agreement that is described in this joint proxy statement/prospectus. Pursuant to the merger agreement, ESSI will merge with Maxco, with ESSI surviving the merger. We have attached the text of the merger agreement as Annex A to this joint proxy statement/prospectus. We encourage you to carefully read the merger agreement in its entirety because it is the legal document that governs the merger.

#### *Merger Consideration*

If the merger is completed, ESSI shareholders will receive \$30.10 in cash for each share of ESSI stock held and a fraction of a share of DRS common stock based on the following formula. If the average closing sale price per share of DRS common stock on the NYSE composite transactions reporting system for each of the ten consecutive trading days ending with the second complete trading day prior to completion of the merger is:

\$57.20 per share or greater, ESSI shareholders will be entitled to receive 0.2255 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed;

less than \$57.20 per share but greater than \$46.80 per share, ESSI shareholders will be entitled to receive that fraction of a share of DRS common stock having a value, based on the ten-day average market price for such period, of \$12.90 for each share of ESSI common stock owned at the time the merger is completed; or

\$46.80 per share or less, ESSI shareholders will be entitled to receive 0.2756 of a share of DRS common stock for each share of ESSI common stock owned at the time the merger is completed.

The final calculation of the exchange ratio in the merger agreement will be determined as soon as practicable after the closing date, and DRS plans to issue a press release announcing the exchange ratio promptly after it is determined. DRS will issue a maximum of approximately 12.8 million shares

of DRS common stock and spend approximately \$1.3 billion in cash in the merger based on the fully-diluted number of shares of ESSi common stock as of the record date of the ESSi special meeting.

ESSi shareholders will have to surrender their ESSi common stock certificates to receive the merger consideration payable to them, consisting of cash and new shares of DRS common stock. **PLEASE DO NOT SEND ANY CERTIFICATES NOW.** DRS will send ESSi shareholders written instructions on how to surrender ESSi common stock certificates for new DRS common stock certificates after the acquisition is completed.

#### **Exchange Ratio (see page 77)**

The exchange ratio and the market value of the shares of DRS common stock issuable in the merger will fluctuate with changes in the market price of DRS common stock. Because the exchange ratio depends on the ten-day average closing sale price of DRS common stock as described above, the exchange ratio will fluctuate if the ten-day average closing sale price of DRS common stock is between \$57.20 and \$46.80 per share. Within that range, each share of ESSi common stock will be exchanged for that fraction of a share of DRS common stock having a market value of \$12.90, based on its ten-day average closing sale price for such period.

If the ten-day average closing sale price per share of DRS common stock is \$46.80 or less, the exchange ratio will be fixed at 0.2756 of a share of DRS common stock and will not be adjusted to limit the risk of any further decline in the market value of the consideration you will receive in the merger. In addition, the exchange ratio will be fixed at 0.2255 of a share of DRS common stock if the ten-day average closing sale price per share of DRS common stock is \$57.20 or more. Accordingly, the market value of the consideration that you will receive will fluctuate with the market price of DRS common stock if either of the two fixed exchange ratios applies. DRS and ESSi each encourage you to obtain current stock price quotations for DRS common stock from a newspaper, the Internet or your broker. The merger will not be completed until after the ESSi special meeting. Since the ten-day average closing sale price measurement period does not end until the second complete trading day prior to completion of the merger, shareholders voting at the special meeting will not know the exchange ratio to be applied in the merger or, therefore, the exact value of the consideration to be received. For a more detailed discussion of the exchange ratio, see "The Merger Agreement Merger Consideration" on page 77.

#### *Fractional Shares*

DRS will not issue fractional shares of DRS common stock in the merger. As a result, ESSi shareholders will receive cash for any fractional share of DRS common stock that they would otherwise be entitled to receive in the merger. For a more detailed discussion of the treatment of fractional shares, see "The Merger Agreement Fractional Shares" on page 79.

#### **Treatment of Stock Options (see page 79)**

The merger agreement provides that at the time of the completion of the merger, all unexercised options to acquire ESSi common stock will be cancelled in exchange for the same consideration paid to ESSi shareholders for shares of ESSi common stock, reduced by the applicable exercise price. The merger consideration for each share of ESSi common stock, which includes the cash payment of \$30.10 and a fraction of a share of DRS common stock, will be reduced ratably by the exercise price of the unexercised options in the same proportion that the value of the cash and fraction of a share of DRS common stock bear to each other. The exact amount of the merger consideration payable in respect of an option, and the reduction applicable to the cash payment and DRS common stock components will depend on the market price of DRS common stock and the exercise price of the unexercised option. For a more detailed discussion of the treatment of ESSi stock options in the merger, see "The Merger Agreement Treatment of Stock Options" on page 79.

**Amendment to DRS's Certificate of Incorporation (see page 26)**

If the proposal to amend DRS's certificate of incorporation is approved by DRS stockholders, the authorized number of shares of DRS common stock will increase from 50 million to 100 million. There are 50 million shares of DRS common stock authorized under DRS's certificate of incorporation, and as of the record date of the DRS special meeting, approximately 32 million shares of DRS common stock were outstanding or reserved for issuance. Following completion of the merger with ESSI, there will be a maximum of approximately 44.8 million shares of DRS common stock outstanding or reserved for issuance. While DRS has a sufficient number of shares of common stock authorized to complete the merger, the DRS board of directors believes it is desirable to authorize additional shares of common stock so that there will be sufficient shares available for issuance for purposes that the DRS board of directors may later determine to be in the best interests of DRS and its stockholders. Those purposes could include, but are not limited to, making acquisitions through the use of common stock, raising capital, adopting additional employee benefit plans, reserving additional shares for issuance under those plans and under plans of acquired companies and for other corporate purposes. The DRS board of directors believes that approval of the proposed amendment to increase the authorized shares of common stock is necessary to provide DRS with the flexibility to pursue these types of opportunities without added delay and expense. If the proposed amendment is adopted, 50 million additional shares of common stock will be available for issuance by the DRS board of directors without any further stockholder approval, although certain issuances of shares may require stockholder approval in accordance with the requirements of the NYSE or the DGCL. Other than in connection with the financing of the merger and the issuance of shares under benefit plans previously approved by DRS stockholders, DRS has no plans for the issuance of DRS common stock at this time, but the DRS board of directors reserves the right to authorize any issuance of shares of DRS common stock deemed to be in the best interests of DRS and its stockholders.

**Recommendations of the Boards of Directors (see pages 26 and 32)**

*DRS*

The DRS board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of DRS and unanimously recommends that DRS stockholders vote "**FOR**" the proposal to approve the issuance of shares of DRS common stock pursuant to the merger agreement. The DRS board of directors unanimously recommends that DRS stockholders vote "**FOR**" approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock.

*ESSI*

The ESSI board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair to and in the best interests of ESSI, and unanimously recommends that ESSI shareholders vote "**FOR**" the proposal to approve the merger agreement and the transactions contemplated by the merger agreement.

**Stockholders Entitled to Vote; Vote Required (see pages 28, 32 and 33)**

*DRS Stockholders*

You can vote at the DRS special meeting if you owned DRS common stock at the close of business on December 20, 2005, which is referred to as the DRS record date. On that date, there were 28,084,648 shares of DRS common stock outstanding and entitled to vote at the DRS special meeting. You can cast one vote for each share of DRS common stock that you owned on the DRS record date.

In accordance with the listing requirements of the NYSE, approval of the issuance of DRS common stock in the merger requires the affirmative vote of the holders of a majority of shares of



DRS common stock cast on the proposal, in person or by proxy, provided that the total votes cast on the proposal represent over 50% of the outstanding shares of DRS common stock entitled to vote on the proposal.

In accordance with the requirements of the DGCL, the approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock requires the affirmative vote of the holders of a majority of the outstanding shares of DRS common stock entitled to vote on the proposal. Stockholder approval of this proposal is not a condition that must be satisfied before the merger can be completed.

Abstentions and "broker non-votes," if any, will be counted in determining whether a quorum is present at the DRS special meeting. An abstention occurs when a stockholder attends a meeting either in person or by proxy, but abstains from voting. A "broker non-vote" occurs when shares are held in "street name" by a broker or other nominee on behalf of a beneficial owner and the beneficial owner does not instruct the broker or nominee how to vote the shares at the special meeting for a proposal that is "non-routine" under the listing requirements of the NYSE.

Assuming a quorum is present and the total votes cast on the proposal to approve the issuance of DRS common stock in the merger represent more than 50% of the outstanding shares of DRS common stock entitled to vote on the proposal, the failure of a DRS stockholder to vote or a decision by a DRS stockholder to abstain will have no effect in determining whether the issuance of DRS common stock is approved. The proposal to approve the issuance of DRS common stock is a "non-routine" proposal and could result in "broker non-votes." Abstentions and "broker non-votes" could have a negative effect on DRS's ability to obtain the necessary number of votes cast to approve the issuance of DRS common stock in accordance with the NYSE's listing requirements.

The failure of a DRS stockholder to vote or a decision by a DRS stockholder to abstain from voting will have the same effect as a vote against the proposal to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock. It is expected that "broker non-votes" will not result from the proposal to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock because under the NYSE listing requirements it is a "routine" proposal and, therefore, a broker or nominee will have the discretionary authority under the NYSE's listing requirements to vote the shares for which the broker or nominee does not receive voting instructions for the proposal.

#### *ESSI Shareholders*

You can vote at the ESSI special meeting if you owned ESSI common stock at the close of business on December 20, 2005, which is referred to as the ESSI record date. On that date, there were 41,960,035 shares of ESSI common stock outstanding and entitled to vote at the ESSI special meeting. You can cast one vote for each share of ESSI common stock that you owned on the ESSI record date. The affirmative vote of the holders of at least two-thirds of the outstanding shares of ESSI common stock entitled to vote at the special meeting, in person or by proxy is required to approve the merger agreement and the transactions contemplated by the merger agreement.

Abstentions and "broker non-votes," if any, will be counted in determining whether a quorum is present at the ESSI special meeting for purposes of the vote of ESSI shareholders on the proposal to approve the merger agreement and the transactions contemplated by the merger agreement. An abstention will have the same effect as a vote against the proposal to approve the merger agreement and the transactions contemplated by the merger agreement. A "broker non-vote" will have the same effect as a vote against the proposal to approve the merger agreement and the transactions contemplated by the merger agreement.

**Opinions of Financial Advisors (see pages 45, 51 and 57)**

*DRS*

On September 21, 2005, Bear, Stearns & Co. Inc., which is referred to as Bear Stearns, financial advisor to DRS, rendered its oral opinion to the DRS board of directors and subsequently confirmed in a written opinion dated September 21, 2005, that, as of that date, and based upon and subject to the considerations described in its opinion and based upon such other matters as Bear Stearns deemed appropriate, the merger consideration to be paid by DRS for each outstanding share of ESSI common stock pursuant to the merger agreement was fair to DRS from a financial point of view. The full text of Bear Stearns' written opinion is attached to this joint proxy statement/prospectus as Annex B. We encourage you to carefully read this opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Bear Stearns' opinion is directed to the DRS board of directors and does not constitute a recommendation to any stockholder as to any matters relating to the merger. In addition to financial advisory services, Bear Stearns and its affiliates, also referred to as Bear Stearns, together with Wachovia Capital Markets, LLC, and its affiliates, referred to as Wachovia, have provided (1) a commitment letter to DRS to amend and restate DRS's existing senior secured credit facility with a \$706.9 million senior secured credit facility, consisting of a \$356.9 million seven-year term loan and a \$350.0 million six-year revolving credit facility, and (2) a second commitment letter to DRS for an interim credit facility up to \$950.0 million, if the placement of permanent debt financing has not been consummated by the effective time of the merger. See "The Merger DRS Financing" on page 64.

On September 21, 2005, Merrill Lynch, Pierce, Fenner & Smith Incorporated, which is referred to as Merrill Lynch, financial advisor to DRS for purposes of rendering its opinion as to fairness, delivered its oral opinion to the board of directors of DRS, subsequently confirmed in its written opinion as of that same date, that, as of that date, and based upon and subject to the assumptions, matters considered and qualifications and limitations set forth in its written opinion and taking into account such other matters as Merrill Lynch deemed necessary, the merger consideration to be paid by DRS for each outstanding share of ESSI common stock pursuant to the merger agreement was fair to DRS from a financial point of view. The full text of Merrill Lynch's written opinion is attached to this joint proxy statement/prospectus as Annex C. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Merrill Lynch's opinion is directed to the DRS board of directors and does not constitute a recommendation to any stockholder as to any matters relating to the merger. Subsequent to Merrill Lynch serving as financial advisor to DRS in rendering its opinion as to fairness, and at the request of DRS, an affiliate of Merrill Lynch has committed to participate as a lender in the interim loan facility to DRS, which will be used by DRS to finance the merger in the event the placement of permanent debt financing has not been consummated by the effective time of the merger. See "The Merger DRS Financing" on page 64. DRS has agreed with Merrill Lynch that Merrill Lynch also will be a co-manager with respect to the placement of the permanent debt financing.

*ESSI*

On September 21, 2005, Lehman Brothers rendered its oral opinion to the ESSI board of directors and subsequently confirmed in a written opinion dated September 21, 2005, that, as of that date, and based upon and subject to the matters stated in its opinion, from a financial point of view, the consideration to be paid by DRS to the shareholders of ESSI in the merger was fair to such shareholders. The full text of Lehman Brothers' written opinion is attached to this joint proxy statement/prospectus as Annex D. We encourage you to carefully read this opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Lehman Brothers' opinion is directed to the ESSI board of directors and does not constitute a recommendation to any shareholder as to any matters relating to the merger.

### **Ownership of DRS After the Merger**

DRS expects to issue a maximum of approximately 12.8 million shares of DRS common stock in the merger. Based on the number of shares of DRS and ESSI common stock outstanding on their respective record dates, and the conversion of outstanding and unexercised stock options granted under ESSI's stock option plans and as represented by ESSI in the merger agreement, after completion of the merger, former ESSI shareholders will own a maximum of approximately 31.4% of the then outstanding shares of DRS common stock.

### **Share Ownership of Directors and Executive Officers**

At the close of business on the DRS record date, directors and executive officers of DRS and their affiliates beneficially owned and were entitled to vote approximately 244,884 shares of DRS common stock, collectively representing less than one percent of the shares of DRS common stock outstanding on that date.

At the close of business on the ESSI record date, directors and executive officers of ESSI and their affiliates beneficially owned and were entitled to vote approximately 1,454,407 shares of ESSI common stock, collectively representing approximately 3.47% of the shares of ESSI common stock outstanding on that date.

### **Interests of Certain Individuals in the Merger (see page 67)**

In considering the recommendation of the ESSI board of directors with respect to the merger agreement and the transactions contemplated by the merger agreement, you should be aware that certain members of the ESSI board of directors and certain ESSI executive officers have interests in the transactions contemplated by the merger agreement that may be different than, or in addition to, the interests of ESSI shareholders generally. These interests include, among other things, the following:

the payment, upon the completion of the merger, of lump sums to each of Gerald A. Potthoff, Chief Executive Officer and a director, Gary C. Gerhardt, Chief Financial Officer and a director, and Daniel A. Rodrigues, President and Chief Operating Officer, in accordance with their existing employment agreements, consisting of an amount equal to 2.99 times the average of each of such person's base salary and bonus for the prior five fiscal years;

the payment, upon the completion of the merger, of a success fee of \$5.0 million to Michael Shanahan, Sr., the non-executive Chairman and a director of ESSI, in accordance with a memorandum of understanding, dated April 30, 2005, as compensation for Mr. Shanahan's consulting services in connection with the exploration of a possible sale of ESSI;

continued benefits for at least one year following the effective time of the merger that are similar, in the aggregate, to those provided by ESSI prior to the effective time of the merger;

indemnification by DRS and the surviving corporation, to the fullest extent permitted by law of persons who were directors or officers of ESSI before the merger against various claims and actions arising out of their positions with ESSI prior to the merger, so long as such person is, or has been, acting within the scope of such person's employment or fiduciary duties; and

continued coverage under a directors' and officers' liability insurance policy for a minimum of six years following the effective time of the merger, under terms and conditions no less advantageous to the directors and officers than the liability insurance policy that ESSI maintained for its directors and officers prior to the merger, subject to a limit on premiums of 150% of the most recent annual premiums paid by ESSI prior to the date of the merger agreement.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

The ESSI board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and making its recommendation.

### **Financing of the Merger (see page 64)**

In connection with the merger, DRS will be required to pay approximately \$1.3 billion in cash with respect to ESSI shares and in-the-money stock options outstanding and will assume and repay approximately \$86.0 million of ESSI's debt. DRS also expects to incur approximately \$49.8 million of merger and financing-related costs. DRS's cash and cash equivalents as of September 30, 2005 were \$257.3 million; consequently, DRS will require financing to complete the merger.

On September 21, 2005, DRS executed a commitment letter with Bear Stearns for an amended and restated \$706.9 million senior secured credit facility, consisting of a \$356.9 million seven-year term loan and a \$350.0 million six-year revolving credit facility, a portion of which will be used to finance the merger. On October 6, 2005, the commitment letter was replaced with a new commitment letter issued by both Bear Stearns and Wachovia with substantially similar terms. In addition, a separate commitment letter provides that, if permanent financing (currently contemplated to include a combination of senior fixed-rate notes, senior floating-rate notes, senior subordinated notes and/or convertible notes in the aggregate principal amount of \$950.0 million) is not consummated by the closing date of the merger, Bear Stearns, Wachovia and other lenders will provide interim loans to DRS in an amount up to \$950.0 million, which will be used by DRS to finance the merger. Pursuant to the merger agreement, DRS and Maxco must use their reasonable commercial efforts to obtain the financing required for the consummation of the merger and to satisfy all conditions to funding. See "The Merger Agreement DRS Financing" beginning on page 87.

### **Listing of DRS Common Stock and Delisting of ESSI Common Stock (see pages 74 and 76)**

Application will be made to have the shares of DRS common stock issued in the merger approved for listing on the NYSE, where DRS common stock currently is traded under the symbol "DRS." If the merger is completed, ESSI common stock will no longer be listed on the Nasdaq and will be deregistered under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act, and ESSI will no longer file periodic reports with the SEC.

### **Dissenters' Rights in the Merger (see page 74)**

#### *DRS*

Under Delaware law, holders of DRS common stock are not entitled to dissenters' appraisal rights in connection with the issuance of DRS common stock in the merger or in connection with the amendment of DRS's certificate of incorporation.

#### *ESSI*

Holders of ESSI common stock who do not wish to accept the consideration payable pursuant to the merger may elect to dissent from the merger and demand payment in cash for the fair value of his or her ESSI common stock under Section 351.455 of The General and Business Corporation Law of Missouri, referred to as the MBCL. To exercise dissenters' rights, ESSI shareholders must:

deliver a written objection to ESSI prior to or at the ESSI special meeting;

not vote in favor of approving the merger agreement and the transactions contemplated by the merger agreement; and

deliver to the combined company within 20 days after the merger a written demand for payment of the fair value of your common stock, which may or may not be more than what you would have received in the merger.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Annex F to this joint proxy statement/prospectus contains the full text of Section 351.455 of the MBCL, which relates to dissenters' rights. We encourage you to carefully read these provisions in their entirety.

### **Conditions to Completion of the Merger (see page 80)**

A number of conditions must be satisfied before the merger will be completed. These include among others:

the expiration or termination of the waiting period, or any extension to the waiting period, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which is referred to as the HSR Act, which expiration occurred on November 14, 2005;

the receipt of the approval of the issuance of shares of DRS common stock in the merger by DRS stockholders and the approval of the merger agreement and the transactions contemplated by the merger agreement by ESSI shareholders;

the registration statement (of which this joint proxy statement/prospectus is a part) must be declared effective, and there must be no stop order suspending its effectiveness and there must be no proceeding for that purpose initiated or threatened in writing by the SEC;

the approval of the listing of shares of DRS common stock to be issued in connection with the merger on the NYSE, subject to official notice of issuance;

the absence of any legal restraints or prohibitions preventing the completion of the merger, or making such completion illegal;

the receipt of all governmental and regulatory authorizations, consents, waivers, orders, approvals, or declarations required to consummate the merger, except as would not be reasonably expected to result in a material adverse effect on ESSI;

the representations and warranties of each party contained in the merger agreement being true and correct in all material respects;

each party must have performed, in all material respects, all of its obligations under the merger agreement at or prior to the effective time of the merger agreement; and

the absence of events or developments since the date of the merger agreement that would reasonably be expected to have a material adverse effect with respect to either party.

Neither DRS nor ESSI can give any assurance that all of the conditions to the merger will be either satisfied or waived or that the merger will occur.

### **Regulatory Approvals (see page 71)**

The completion of the merger is subject to compliance with the HSR Act. The notifications required under the HSR Act to the U.S. Federal Trade Commission, or the FTC, and the Antitrust Division of the U.S. Department of Justice, or the Antitrust Division, were filed on October 14, 2005. The applicable waiting period under the HSR Act expired on November 14, 2005. DRS and ESSI also may be required to obtain additional regulatory approvals from various federal, state and foreign authorities.

### **No Solicitation by ESSI (see page 82)**

Subject to certain exceptions, the merger agreement precludes ESSI, its subsidiaries, officers, directors, employees, investment bankers, attorneys, accountants and other representatives from initiating, soliciting, or knowingly encouraging, directly or indirectly, any inquiries or the making or implementing of any proposal relating to the acquisition of more than 20% of the capital stock or



assets of ESSi or its subsidiaries or ESSi's merger, consolidation or other similar transaction or participating in any negotiations concerning, or providing any confidential information or data to, affording access to the properties, books or records of ESSi or its subsidiaries to, or having any discussions with, any person relating to such a proposal, or otherwise facilitating any effort or attempting to make or implement such a proposal. Notwithstanding these restrictions, the merger agreement provides that under specified circumstances and prior to the approval by ESSi shareholders of the merger agreement and transactions contemplated by the merger agreement, if ESSi receives a bona fide written proposal from a third party to acquire a significant interest in ESSi that the ESSi board of directors determines in good faith would reasonably be expected to result in a proposal that is superior to the merger, and such proposal was not initiated, solicited, or knowingly encouraged by ESSi, then ESSi may furnish confidential information or data to that third party and engage in discussions and negotiations regarding such proposal with that third party.

**Termination of the Merger Agreement; Termination Fee (see pages 87 and 89)**

DRS and ESSi mutually may agree in writing, at any time before the effective time of the merger, to terminate the merger agreement. Also, either DRS or ESSi may terminate the merger agreement in a number of circumstances, including if:

the merger is not consummated by June 30, 2006 through no fault of the party seeking to terminate the merger agreement. We refer to this June 30, 2006 date, as it may be extended, as the outside date;

there is a final, non-appealable injunction, judgment or other order, or law which prohibits the merger;

the ESSi board of directors authorizes ESSi to enter into an agreement with respect to a superior proposal;

ESSi shareholders fail to approve the merger agreement and the transactions contemplated by the merger agreement at the ESSi special meeting or at an adjournment of that meeting;

DRS stockholders fail to approve the issuance of shares of DRS common stock in the merger at the DRS special meeting or at an adjournment of that meeting; or

the party seeking termination is not in material breach of the merger agreement and the other party has materially breached a representation, warranty, covenant or agreement of that party contained in the merger agreement and such breach has not been cured within 15 days of notice of the breach.

ESSi may terminate the merger agreement to accept an acquisition proposal that is more favorable to ESSi and ESSi's shareholders from a financial point of view than the proposed merger with DRS. ESSi must pay DRS a termination fee of \$60.0 million, plus up to \$10.0 million in costs and expenses of DRS in connection with the transactions contemplated by the merger agreement, if the merger agreement is terminated due to ESSi's board of directors authorizing ESSi to enter into an acquisition agreement with a third party or if DRS terminates the merger agreement due to ESSi's board of directors withdrawing its approval or recommendation of the proposed merger, modifying its recommendation of the merger agreement in a manner adverse to DRS or failing to recommend against any tender or exchange offer that constitutes an alternative proposal. ESSi also must pay these fees and expenses if ESSi or DRS terminates the merger agreement because the merger has not been completed by the outside date or ESSi shareholders fail to approve the merger agreement, an alternative proposal with respect to ESSi shall have been publicly announced prior to such termination and ESSi enters into or completes any merger or extraordinary transaction within twelve months of the termination. The termination fee payable by ESSi is described below under "The Merger Agreement Termination" on page 89.

DRS may terminate the merger agreement if the financing contemplated by the merger agreement is not available on substantially the terms and conditions identified in the September 21, 2005 commitment letter with Bear Stearns, or on other terms or pursuant to other financing arrangements reasonably acceptable to DRS, but DRS will not have the right to terminate for this reason if its failure to fulfill its obligations to obtain financing is the cause of the failure of financing to become available. ESSI may terminate the merger agreement if DRS's financing contemplated in the merger agreement is not available and DRS fails to enter into a substitute commitment letter or alternate arrangements with other financing sources within 20 business days of advising ESSI of the unavailability of such financing or substitute financing. Under the merger agreement, DRS must pay ESSI \$20.0 million in liquidated damages upon such termination by DRS or ESSI.

**Material U.S. Federal Income Tax Consequences of the Merger (see page 72)**

In general, the merger will be a fully taxable transaction to ESSI shareholders for U.S. federal income tax purposes. Tax matters are complicated, however, and the tax consequences of the merger to each ESSI shareholder will depend on the facts of each shareholder's situation. ESSI shareholders are urged to read carefully the discussion in the section entitled "The Merger Material U.S. Federal Income Tax Consequences" and to consult their own tax advisors for a full understanding of the tax consequences of their participation in the merger.

**Accounting Treatment (see page 74)**

DRS will account for the merger using the purchase method under U.S. generally accepted accounting principles.

**Risks Relating to the Merger (see page 19)**

In evaluating the merger, the merger agreement or the issuance of shares of DRS common stock in the merger, you should carefully read this joint proxy statement/prospectus and especially consider the factors discussed in the section entitled "Risks Relating to the Merger" on page 19.

**Dividend Policies**

*DRS*

The holders of DRS common stock receive dividends if and when declared by the DRS board of directors. In 2005, the DRS board of directors declared cash dividends of \$0.03 per share of DRS common stock, which were paid on June 30, 2005 and September 30, 2005, to DRS stockholders of record on June 15, 2005 and September 15, 2005, respectively, and on November 3, 2005, declared a cash dividend of \$0.03 per share that will be paid on December 30, 2005 to DRS stockholders of record on December 15, 2005. ESSI shareholders will not be entitled to receive these dividends in respect of the DRS common stock issued to them in the merger. The declaration and payment of dividends is subject to the provisions of the DGCL and will depend upon business conditions, operating results, capital and reserve requirements, covenants in DRS debt agreements and the DRS board of directors' consideration of other relevant factors. DRS can give no assurances that it will continue to pay dividends on the DRS common stock in the future.

*ESSI*

The holders of ESSI common stock receive dividends if and when declared by the ESSI board of directors. In 2005, the ESSI board of directors declared cash dividends of \$0.018 per share of ESSI common stock, paid on July 29, 2005 and January 31, 2005 to ESSI shareholders of record on June 30, 2005 and December 31, 2004, respectively. ESSI has paid a cash dividend of \$0.018 per share on a semi-annual basis during the past two fiscal years. The merger agreement provides that ESSI may not declare, set aside or pay any dividend or make any similar payment with respect to its capital stock prior to the effective date of the merger.



**Material Differences in Rights of DRS Stockholders and ESSI Shareholders (see page 126)**

ESSI shareholders will receive a portion of the merger consideration in the form of shares of DRS common stock. The rights of holders of DRS common stock differ from the rights of ESSI shareholders due to differences between the laws of Delaware and Missouri and the governing documents of DRS and ESSI. These differences are described in detail under "Comparison of Stockholders Rights and Corporate Governance Matters" beginning on page 126.

**Summary Selected Historical and Pro Forma Consolidated Financial Data**

DRS and ESSI are providing the following information to aid you in your analysis of the financial aspects of the merger. This information is only a summary, and you should read it in connection with the historical consolidated financial statements of DRS and the accompanying notes, which can be found in DRS's Annual Report on Form 10-K for the year ended March 31, 2005 and DRS's quarterly report on Form 10-Q for the quarter ended September 30, 2005, which are incorporated by reference into this joint proxy statement/prospectus, and the historical consolidated financial statements of ESSI and the accompanying notes, which can be found in the section of this joint proxy statement/prospectus entitled "Consolidated Financial Statements" beginning on page F-1. You also should consider the other information in this joint proxy statement/prospectus and the other documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Additional Information Where You Can Find More Information" beginning on page 135.

*DRS*

The historical selected earnings data and earnings from continuing operations per-share data presented below for the years ended March 31, 2003, 2004 and 2005 and the historical selected financial position data as of March 31, 2004 and 2005 presented below are derived from DRS's audited consolidated financial statements, incorporated by reference into this joint proxy statement/prospectus. The historical selected earnings data and earnings from continuing operations per-share data presented below for the years ended March 31, 2001 and 2002 and the historical selected financial position data as of March 31, 2001, 2002 and 2003 presented below are derived from DRS's audited consolidated financial statements, which are not included or incorporated by reference in this joint proxy statement/prospectus. The historical selected earnings data, and earnings from continuing operations per-share data presented below for the six months ended September 30, 2004 and 2005 and the historical selected financial position data as of September 30, 2005 are derived from DRS's unaudited consolidated financial statements, incorporated by reference in this joint proxy statement/prospectus. The historical selected financial position data as of September 30, 2004 is derived from DRS's unaudited consolidated financial statements, which are not included or incorporated by reference in this joint proxy statement/prospectus. The selected consolidated financial data also includes unaudited pro forma information derived from the information set forth in the "Unaudited Pro Forma Condensed Combined Financial Statement Information," beginning on page 91, which gives effect to: (1) the proposed merger of a wholly-owned subsidiary of DRS and ESSI in a purchase business combination, as a result of which DRS will acquire ESSI for cash and DRS common stock (subject to a minimum and a maximum number of shares, as such terms are used in the "Unaudited Pro Forma Condensed Combined Financial Statement Information" beginning on page 91) for an estimated purchase price of approximately \$1.9 billion, including estimated merger-related expenses, and the assumption and repayment of approximately \$86.0 million of ESSI's debt, (2) the assumed offering of a combination of senior notes, senior subordinated notes, senior convertible notes and the anticipated concurrent amendment and restatement of DRS's existing senior secured credit facility, (3) ESSI's February 1, 2005 acquisition of Spacelink in a purchase business combination and related financing, and (4) DRS's fiscal 2005 acquisitions of Night Vision Equipment Co., Inc. and Excalibur Electro Optics, Inc. (which are referred to collectively as NVEC and Affiliate).

Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

	Years Ended March 31,(1)					Six Months Ended September 30,				
	2001	2002	2003	2004	2005	Pro Forma 2005	2004	2005	Pro Forma 2005	
(in thousands, except per-share data)										
Selected earnings data:										
Revenues	\$ 427,606	\$ 517,200	\$ 675,762	\$ 986,931	\$ 1,308,600	\$ 2,388,874	\$ 609,204	\$ 700,389	\$ 1,217,652	
Operating income(2)	37,531	49,769	67,684	103,332	143,132	293,182	62,306	73,635	137,299	
Earnings from continuing operations before income taxes(2)	24,954	38,361	55,872	77,331	102,968	165,558	43,527	51,685	74,400	
Earnings from continuing operations(2)	11,978	20,331	30,171	43,542	58,126	98,409	24,975	32,972	47,977	
Selected earnings from continuing operations per-share data(3):										
Basic	1.14	1.52	1.64	1.80	2.15	2.51	0.92	1.20	1.21	
Diluted	1.01	1.41	1.58	1.76	2.09	2.46	0.90	1.15	1.18	
Cash dividends declared per share								0.06	0.06	

	As of March 31,				As of September 30,		
	2002	2003	2004	2005	2004	2005	Pro Forma 2005
(in thousands)							

Selected financial position data								
Total assets	\$ 608,182	\$ 993,391	\$ 1,625,390	\$ 1,886,641	\$ 1,566,259	\$ 1,871,968	\$ 3,970,622	
Long-term debt, excluding current installments	138,060	216,837	565,530	727,611	544,222	705,775	1,941,499	
Stockholders' equity	257,235	438,180	595,625	671,428	626,903	716,457	1,280,862	

(1) DRS's selected financial data includes the effect of the following purchase business combinations and divestitures from their date of acquisition, or disposition, by fiscal year:

Fiscal Year 2005: NVEC and Affiliate acquired December 14, 2004;

Fiscal Year 2004: Integrated Defense Technologies, Inc. (IDT) acquired November 4, 2003.\*

\*

Two operating units acquired in connection with the IDT acquisition, DRS Weather Systems, Inc. and DRS Broadcast Technology, were divested in fiscal 2005.

Fiscal Year 2003: The U.S.-based Unmanned Aerial Vehicle business of Meggitt Defense Systems Texas, Inc. acquired April 11, 2002; The Navy Controls Division of Eaton Corporation acquired July 1, 2002; DKD, Inc. acquired October 15, 2002; Paravant Inc. acquired November 27, 2002; the Electromagnetics Development Center of Kaman Corporation acquired January 15, 2003; Power Technology Incorporated acquired February 14, 2003; DRS Advanced Programs, Inc. divested November 22, 2002; and DRS Ahead Technology Inc. divested May 27, 2002.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Fiscal Year 2002: The Electro Mechanical Systems unit of Lockheed Martin Corporation acquired August 22, 2001; and The Sensors and Electronic Systems business of The Boeing Company acquired September 28, 2001.

Fiscal Year 2001: General Atronics Corporation acquired June 14, 2000.

- (2) Effective April 1, 2001, DRS adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," and ceased amortizing goodwill. Included in operating income for fiscal year 2001 is goodwill amortization of \$5.3 million.
- (3) Per-share data includes the weighted average impact of the November 4, 2003 issuance of 4,323,172 shares of common stock in connection with the acquisition of IDT, the December 20, 2002 issuance of 5,462,500 shares of common stock in a public offering and the December 19, 2001 issuance of 3,755,000 shares of common stock in a public offering.

Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

ESSI

The historical selected earnings data and earnings from continuing operations per-share data for the years ended October 31, 2002, 2003 and 2004 and the historical selected financial position data as of October 31, 2003 and 2004 presented below are derived from ESSI's audited consolidated financial statements, which are included in this joint proxy statement/prospectus. The historical selected earnings data and earnings from continuous operations per-share data for the year ended October 31, 2000 and 2001 and the historical selected financial position data as of October 31, 2000, 2001 and 2002 presented below are derived from ESSI's audited consolidated financial statements, which are not included or incorporated by reference in this joint proxy statement/prospectus. The historical selected earnings data and earnings from continuing operations per-share data for the nine months ended July 31, 2005 and the historical selected financial position data as of July 31, 2005 presented below are derived from ESSI's unaudited condensed consolidated financial statements, which are included in this joint proxy statement/prospectus. The historical selected financial position data as of July 31, 2004 presented below are derived from ESSI's unaudited condensed consolidated financial statements, which are not included or incorporated by reference in this joint proxy statement/prospectus.

	Years Ended October 31,(1)					Nine Months Ended July 31,	
	2000	2001	2002	2003	2004	2004	2005
(in thousands, except per-share data)							
<b>Selected earnings data:</b>							
Revenues	\$ 335,342	\$ 365,198	\$ 407,945	\$ 572,701	\$ 883,630	\$ 627,257	\$ 756,036
Operating income(2)	30,165	35,853	48,599	72,616	123,296	89,642	103,349
Earnings from continuing operations before income taxes(2)	21,186	29,949	45,360	70,956	122,434	88,734	102,046
Earnings from continuing operations(2)	12,711	18,269	27,666	43,283	75,909	54,572	63,268
<b>Selected earnings from continuing operations per-share data:</b>							
Basic	0.43	0.58	0.79	1.19	1.95	1.41	1.54
Diluted	0.41	0.53	0.76	1.12	1.82	1.31	1.47
Cash dividends declared per share	0.01	0.01	0.01	0.02	0.02	0.02	0.03

	As of October 31,				As of July 31,	
	2001	2002	2003	2004	2004	2005
(in thousands)						
<b>Selected financial position:</b>						
Total assets	\$ 240,435	\$ 290,147	\$ 421,446	\$ 511,134	\$ 484,949	\$ 708,863
Long-term debt, excluding current installments	42,000	21,000	781	799	1,946	
Shareholders' equity	109,392	134,857	197,167	336,956	312,485	447,546

(1) ESSI selected financial data includes the effect of the following purchase business combinations and disposition from their date of acquisition, or disposition, by fiscal year:

Fiscal Year 2005: PCA acquired January 7, 2005; Spacelink acquired effective February 1, 2005; Mobilized Systems acquired May 1, 2005.

Fiscal Year 2004: Pivotal Power acquired December 5, 2003.

Fiscal Year 2003: TAMSCO acquired May 1, 2003; EEI acquired September 24, 2003.

Fiscal Year 2002: Engineered Specialty Plastics, Inc. divested April 15, 2003; "Revenues," "Operating Income," "Earnings from Continuing Operations Before Income Taxes," and "Earnings from Continuing Operations" exclude the operating results of this operating unit for all periods presented.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Fiscal Year 2002: Radian acquired May 10, 2002; UPSI acquired June 27, 2002.

(2)

Effective November 1, 2001, ESSI adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," and ceased amortizing goodwill. Included in operating income for the fiscal years ended October 31, 2000 and 2001 is goodwill amortization of \$1.9 million and \$1.9 million, respectively.

*Recent Developments*

On December 13, 2005, ESSI announced its unaudited financial results for the fourth quarter and fiscal year ended October 31, 2005. Net revenues for the year ended October 31, 2005 increased 15% to \$1.02 billion compared with \$883.6 million in fiscal 2004. Earnings from continuing operations totaled \$87.2 million, or \$2.02 per diluted share, in fiscal 2005 compared with \$75.9 million, or \$1.82 per diluted share, in fiscal 2004.

Net revenues for the fourth quarter of fiscal 2005 increased 2% to \$262.3 million compared with the fourth quarter of fiscal 2004. Earnings from continuing operations totaled \$24.0 million, or \$.55 per diluted share, for the fourth quarter of fiscal 2005 compared with \$21.3 million, or \$.51 per diluted share, for the fourth quarter of fiscal 2004.

**Comparative Historical and Pro Forma Per-Share Data**

The following table presents certain unaudited historical per-share data of DRS and ESSI and unaudited pro forma combined per-share data of DRS and ESSI after giving effect to:

The proposed merger of a wholly-owned subsidiary of DRS into ESSI and its related financing;

DRS's December 14, 2004, acquisition of NVEC and Affiliate; and

ESSI's February 1, 2005, acquisition of Spacelink and its related financing.

The information set forth below should be read in conjunction with: (1) the historical consolidated financial statements and related notes of DRS, which are incorporated by reference in this joint proxy statement/prospectus, (2) the historical consolidated financial statements and related notes of ESSI, which are included in this joint proxy statement/prospectus, and (3) the unaudited condensed combined pro forma financial information included in this joint proxy statement/prospectus.

The unaudited pro forma combined per-share data and unaudited pro forma equivalent per-share data for the year ended March 31, 2005 combines the historical consolidated statement of earnings of DRS for the fiscal year ended March 31, 2005, incorporated by reference in this joint proxy statement/prospectus, with the consolidated statement of operations of ESSI for the adapted year ended January 31, 2005 (see "Unaudited Pro Forma Condensed Combined Financial Statement Information" beginning on page 91) and gives effect to the unaudited pro forma adjustments necessary to account for the merger and related financings and the ESSI and DRS acquisitions described above. The unaudited pro forma combined per-share data and unaudited pro forma equivalent per-share data for the six months ended September 30, 2005 combines the unaudited historical consolidated statement of earnings of DRS for the six months ended September 30, 2005, incorporated by reference in this joint proxy statement/prospectus, with the unaudited historical adapted consolidated statement of income of ESSI for the six months ended July 31, 2005, included elsewhere in this joint proxy statement/prospectus (see "Unaudited Pro Forma Condensed Combined Financial Statement Information" beginning on page 91), and gives effect to the unaudited pro forma adjustments necessary to account for the merger, acquisitions and financings described above. The pro forma combined per-share data and the pro forma equivalent per-share data do not purport to be indicative of the results of future operations or the results that would have occurred had the merger and other transactions described above been consummated at the beginning of the periods presented.

DRS

	Year Ended March 31, 2005	Six Months Ended September 30, 2005
Historical per share data from continuing operations:		
Basic earnings per share	\$ 2.15	\$ 1.20
Diluted earnings per share	2.09	1.15
Net book value per share (end of period)(1)	24.44	25.57
Cash dividends declared per share		0.06

ESSI

	Year Ended October 31, 2004	Nine Months Ended July 31, 2005
Historical per share data from continuing operations:		
Basic earnings per share	\$ 1.95	\$ 1.54
Diluted earnings per share	1.82	1.47
Net book value per share (end of period)(1)	8.43	10.71
Cash dividends declared per share	0.02	0.03

DRS and ESSI Pro Forma Combined

	Year Ended March 31, 2005	Six Months Ended September 30, 2005
Unaudited pro forma combined per share data:		
Earnings from continuing operations per combined company's basic share(2)	\$ 2.51	\$ 1.21
Earnings from continuing operations per combined company's diluted share(2)	2.46	1.18
Pro forma cash dividends declared per combined company share(2)		0.06
Earnings from continuing operations per combined equivalent ESSI basic share(3)	0.69	0.33
Earnings from continuing operations per combined equivalent ESSI diluted share(3)	0.68	0.33
Pro forma cash dividends declared per combined equivalent ESSI share(3)		0.02

As of September 30,  
2005

Unaudited pro forma net book value per combined company's share(1)	\$ 31.92
Unaudited pro forma net book value per combined ESSI's share(3)	8.80

(1)

The historical net book value per DRS share is computed by dividing total stockholders' equity by the number of shares of common stock outstanding as of the date presented. The historical net book value per ESSI share is computed by dividing total stockholders' equity by the number of shares of common stock outstanding as of the date presented. The net book value per share of ESSI common stock at October 31, 2004 was adjusted for the three-for-two stock split effected by ESSI on April 15, 2005. The pro forma net book value per combined company's share is computed by dividing the pro forma total stockholders' equity by the pro forma number of shares of DRS common stock outstanding as of September 30, 2005, assuming the merger had occurred as of that date.





(2)

Shares used to calculate unaudited pro forma earnings from continuing operations per combined company's basic and diluted shares were computed by adding 12,103,216 shares of DRS common stock assumed to be issued in the merger to DRS's historical amounts. The pro forma adjustment to DRS's weighted average shares outstanding reflects the maximum number of shares of DRS common stock to be issued in the merger, as such terms are used in the "Unaudited Pro Forma Combined Condensed Financial Statement Information". The actual number of shares of DRS common stock issued in the merger will not be determined until the closing of the merger.

(3)

The unaudited pro forma combined per equivalent ESSI share is calculated by multiplying the pro forma combined amounts by the assumed exchange ratio of 0.2756 shares of DRS common stock for each share of ESSI common stock. The assumed exchange ratio does not include the \$30.10 per share cash consideration and reflects the maximum fraction of a share of DRS common stock that could be paid per share of ESSI common stock in the merger.

### Comparative Stock Prices and Dividends

#### Comparison

DRS's and ESSI's common stock are listed and traded on the NYSE and the Nasdaq, respectively, under the symbols "DRS" and "EASI," respectively. The following table sets forth, for the periods indicated, the high and low sales prices per share of DRS's and ESSI's common stock as reported on the NYSE composite transactions reporting system and the Nasdaq for each calendar quarter. DRS's and ESSI's fiscal years end on March 31 and October 31, respectively. For ease of comparison, the per-share data presented below is presented for the corresponding calendar period, rather than corresponding fiscal quarters of DRS and ESSI.

Calendar Year	DRS Common Stock		ESSI Common Stock	
	High	Low	High	Low
<b>2003</b>				
First Quarter	\$ 31.90	\$ 21.00	\$ 18.16	\$ 13.93
Second Quarter	\$ 28.83	\$ 23.68	\$ 18.97	\$ 14.98
Third Quarter	\$ 29.72	\$ 23.62	\$ 29.81	\$ 17.87
Fourth Quarter	\$ 29.38	\$ 23.37	\$ 41.29	\$ 26.69
<b>2004</b>				
First Quarter	\$ 32.00	\$ 26.94	\$ 37.99	\$ 30.33
Second Quarter	\$ 32.32	\$ 26.26	\$ 40.01	\$ 29.57
Third Quarter	\$ 39.80	\$ 33.84	\$ 39.47	\$ 24.22
Fourth Quarter	\$ 45.79	\$ 33.97	\$ 40.26	\$ 30.26
<b>2005</b>				
First Quarter	\$ 45.00	\$ 37.31	\$ 42.63	\$ 33.83
Second Quarter	\$ 51.80	\$ 42.65	\$ 39.10	\$ 31.60
Third Quarter	\$ 53.90	\$ 45.55	\$ 41.31	\$ 32.25
Fourth Quarter (through December 20, 2005)	\$ 53.10	\$ 46.68	\$ 41.86	\$ 38.79

On September 21, 2005, the last trading day before the announcement of the signing of the merger agreement, the closing price of DRS common stock on the NYSE was \$48.00 per share. DRS declared dividends of \$0.03 per share of DRS common stock which were paid on June 30, 2005 and September 30, 2005 based on DRS stockholders of record on June 15, 2005 and September 15, 2005, respectively, and on November 3, 2005 declared a cash dividend of \$0.03 per share that will be paid on December 30, 2005 to DRS stockholders of record on December 15, 2005. ESSI shareholders will not

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

be entitled to receive these dividends in respect of the DRS common stock issued to them in the merger. The declaration and payment of dividends is subject to the provisions of the DGCL and will depend upon business conditions, operating results, capital and reserve requirements, covenants in DRS debt agreements and the DRS board of directors' consideration of other relevant factors. DRS can give no assurances that it will continue to pay dividends on the DRS common stock in the future.

ESSI has paid a dividend of \$0.018 per share on a semi-annual basis for the past two fiscal years. ESSI's stock price has been adjusted for the three-for-two stock split effected by ESSI on October 31, 2003 and the three-for-two stock split on April 15, 2005. The merger agreement provides that ESSI may not declare, set aside or pay any dividend or make any similar payment with respect to its capital stock prior to the effective date of the merger.

### Market Price Data

The following table sets forth the high, low and closing reported sale price per share of DRS common stock on the NYSE and ESSI common stock on the Nasdaq, on September 21, 2005 and December 20, 2005, respectively. September 21, 2005 was the last full trading day prior to our announcement of the execution of the merger agreement. December 20, 2005 was the most recent practicable trading day for which information was available prior to the printing of this joint proxy statement/prospectus.

	DRS Common Stock			ESSI Common Stock		
	High	Low	Close	High	Low	Close
September 21, 2005	\$ 49.60	\$ 47.21	\$ 48.00	\$ 33.79	\$ 33.15	\$ 33.35
December 20, 2005	51.64	50.46	50.56	41.60	41.38	41.59

For illustrative purposes, the following table provides equivalent ESSI per share valuation information as of September 21, 2005 the last trading day before the merger agreement was announced, and December 20, 2005, the most recent practicable date before this joint proxy statement/prospectus was printed. The actual value of the stock component of consideration received by ESSI shareholders at the closing of the merger will be based upon the average closing sale price of DRS common stock for each of the ten consecutive trading days ending with the second complete trading day before the closing of the merger.

Date	Ten-Day Average Closing Sale Price of DRS Common Stock for Measurement Period	Equivalent ESSI Per-Share Value
September 21, 2005	\$ 51.94(1)	\$ 43.00(2)
December 20, 2005	52.00(3)	43.00(4)

- (1) Equal to the average closing sale price per share of DRS common stock on the NYSE composite transactions reporting system for each of the ten consecutive trading days ended on September 19, 2005, the second complete trading day prior to September 21, 2005.
- (2) Equal to (i) \$30.10, the cash component of the merger consideration plus (ii) the value of the stock component of the consideration, equal to (a) the exchange ratio (\$12.90 divided by \$51.938) multiplied by (b) \$51.938, the average closing sale price per share of DRS common stock during the illustrative measurement period.
- (3) Equal to the average closing sale price per share of DRS common stock on the NYSE composite transactions reporting system for each of the ten consecutive trading days ended on December 16, 2005, the second complete trading day prior to December 20, 2005.
- (4) Equal to (i) \$30.10, the cash component of the consideration plus (ii) the value of the stock component of the consideration, equal to (a) the exchange ratio (\$12.90 divided by \$52.001) multiplied by (b) \$52.001, the average closing sale price per share of DRS common stock during the illustrative measurement period.



### **RISKS RELATING TO THE MERGER**

*In addition to the other information included in this joint proxy statement/prospectus, including the matters addressed in "Cautionary Statement Concerning Forward-Looking Statements," you should consider carefully the following risks before deciding whether to vote for approval of the merger agreement and the transactions contemplated by the merger agreement, in the case of ESSI shareholders, or for approval of the issuance of shares of DRS common stock, pursuant to the merger agreement, in the case of DRS stockholders. In addition, you should read and consider the risks associated with each of the businesses of DRS and ESSI because these risks will also affect the combined company. You also should consider the other information in this joint proxy statement/prospectus and the other documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled "Additional Information Where You Can Find More Information" beginning on page 135.*

#### **DRS may not be able to obtain financing to pay the cash portion of the merger consideration.**

In addition to the issuance of common stock, DRS intends to finance the merger using a portion of available cash on hand, borrowings provided for under the commitment letter issued by Bear Stearns and Wachovia for a \$706.9 million senior secured credit facility consisting of a \$356.9 million seven-year term loan and a \$350.0 million six-year revolving credit facility and through the issuance of a combination of senior fixed-rate notes, senior floating-rate notes, senior subordinated notes and/or convertible notes in an aggregate principal amount of \$950.0 million. DRS has entered into a commitment with Bear Stearns and Wachovia for the term loan and revolving credit facility. DRS also has entered into a separate commitment letter with each of Bear Stearns and Wachovia for up to a \$950.0 million interim credit facility, if the placement of the permanent debt financing cannot be consummated by the effective time of the merger. See "The Merger DRS Financing" beginning on page 64. Each of the commitment letters and the availability of the term loan, revolving credit facility and interim facility, if necessary, is subject to certain conditions precedent, including, among other things, that there be no material adverse effect on ESSI. Therefore, DRS cannot assure you that the financing pursuant to the commitment letters will be available. DRS's proposed offerings of notes pursuant to the permanent debt financing is subject to market and other customary conditions, including, but not limited to, general global and U.S. economic conditions, the market for similar securities, and delivery of customary documents, officer certifications and representations prior to, or at the time of, the closing of the notes offering. There can be no assurance that DRS will be able to complete the notes offering or enter into the term loan, the revolving credit facility or the interim facility, if necessary, on commercially reasonable terms, or at all.

As of September 30, 2005, DRS's cash and cash equivalents were approximately \$257.3 million. DRS will not be able to complete the merger if it is unable to obtain financing. DRS may terminate the merger agreement if funding to consummate the merger pursuant to financing arrangements on substantially the terms expected or other terms reasonably acceptable to DRS shall not have become available. However, DRS will not have this termination right if the failure to fulfill its obligations under the merger agreement to obtain such financing is the cause of such financing not becoming available. ESSI may terminate the merger agreement if DRS's financing contemplated in the merger agreement is not available and DRS fails to obtain substitute financing within 20 business days of advising ESSI of the unavailability of such financing or substitute financing. Under certain circumstances pursuant to the merger agreement, DRS must pay ESSI \$20.0 million in liquidated damages upon such termination by DRS or ESSI. See "The Merger Agreement Fees and Liquidated Damages" beginning on page 89.

**DRS's level of indebtedness following the merger could limit cash flow available and could adversely affect its operations or its ability to obtain additional financing, if necessary. DRS may incur substantial additional indebtedness in the future.**

DRS's total debt outstanding as of September 30, 2005 was approximately \$708.4 million. DRS's pro forma indebtedness as of September 30, 2005, after giving effect to the merger and related financing (as described under "Unaudited Pro Forma Condensed Combined Financial Information") would have been approximately \$1.9 billion. As a result of the increase in debt, demands on the cash resources of DRS will increase after the merger, which could have important effects on an investment in DRS common stock. For example, increased levels of indebtedness could, among other things:

limit the ability of the combined company to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes or make such financing more costly;

require the combined company to dedicate all or a substantial portion of its cash flow to service debt, which will reduce funds available for other business purposes, such as capital expenditures, research and development, dividends or acquisitions;

limit flexibility in planning for or reacting to changes in the markets in which the combined company will compete;

place the combined company at a competitive disadvantage relative to its competitors with less indebtedness;

render the combined company more vulnerable to general adverse economic and industry conditions; and

make it more difficult to satisfy financial obligations, including those relating to the financing of the merger.

The terms of DRS's new financing agreements will include covenants restricting the activities of DRS and will require repayment of the debt in certain circumstances. In addition, following the merger, DRS may not be able to incur substantial additional indebtedness in the future. If DRS adds new debt, the related risks that it currently faces could intensify.

If DRS is unable to consummate permanent debt financing of at least \$950.0 million, DRS may enter into a new interim credit facility of up to \$950.0 million that is likely to be on terms substantially more restrictive and is likely to be more costly than the terms of the contemplated permanent financing. If any interim loan under the interim facility is not repaid within one year of the closing of the interim facility, the principal amount of such loan and any interest on the loan automatically will be exchanged for senior exchange notes which will bear a higher rate of interest and may contain other more restrictive terms than the interim credit facility. Additionally, if the interim facility has not been repaid within 90 days of the closing of the interim facility, Bear Stearns, in consultation with Wachovia, may demand that DRS issue and sell senior notes or senior subordinated notes in an amount sufficient to refinance the interim loans. For a more detailed description of DRS's proposed financing, see the section entitled "The Merger DRS Financing" beginning on page 64.

**ESSI currently is subject to an SEC investigation that could require significant management attention and legal resources and could have a material adverse effect on the combined company.**

In December 2004, ESSI was notified by the Enforcement Division of the SEC of the issuance of a formal order directing a private investigation captioned *In the Matter of Engineered Support Systems, Inc.* and in September 2005, ESSI received notice that the SEC staff had expanded the scope of its investigation. The investigation is discussed in greater detail under "The Merger Certain Legal Matters SEC Investigation" on page 66. In connection with the investigation, ESSI and certain of its

directors and officers have received subpoenas and provided information and testimony to the SEC and one former director and officer who currently is a consultant has received a so-called Wells notice. ESSI continues to furnish information required by the SEC and otherwise to cooperate in connection with the investigation. We are unable to determine at this time the impact, if any, which the investigation could have on ESSI or the combined company after the merger. If ESSI is unable to resolve the SEC investigation before completion of the merger, it could require significant management attention and legal resources and could have a material adverse effect on the combined company.

**The value of the stock component of the merger consideration could vary based upon the price of DRS common stock.**

The merger consideration for each share of ESSI common stock includes \$30.10 in cash and a fraction of a share of DRS common stock to be determined based upon the average closing sale price of DRS common stock for the ten consecutive trading day period ending with the second complete trading day before the closing of the merger. The merger agreement provides that such fraction will be fixed at 0.2255 if the average price is \$57.20 or greater and 0.2756 if the average price is \$46.80 or less. If such average price is less than \$57.20 and greater than \$46.80, such fraction will be equal to \$12.90 divided by the average price. If the average price is between \$57.20 and \$46.80 per share, the total consideration per share of ESSI common stock as of the date will be valued at \$43.00; if the average price is less than \$46.80, the value of the per-share consideration will be less than \$43.00, and if the average price is greater than \$57.20, the value of the consideration per share of ESSI common stock will be greater than \$43.00. Accordingly, ESSI shareholders will not know the value of the stock component of the merger consideration until after the closing date.

**The revenues of the combined company depend on DRS's and ESSI's ability to maintain levels of government business. The loss of contracts with domestic and non-U.S. government agencies could adversely affect the combined company's revenues.**

Both DRS and ESSI derive the substantial majority of their revenues from contracts or subcontracts with domestic and non-U.S. government agencies. A significant reduction in the purchase of our products by these agencies would have a material adverse effect on the businesses of DRS and ESSI. For fiscal years ended March 31, 2005, 2004 and 2003, approximately 84%, 85% and 81%, respectively, of DRS's revenues were derived directly or indirectly from defense-industry contracts with the U.S. government and its agencies. In addition, in each of the fiscal years ended March 31, 2005, 2004 and 2003, less than 14% of DRS's revenues were derived directly or indirectly from sales to foreign governments. Additionally, for fiscal years ended October 31, 2004, 2003 and 2002, approximately 94%, 95% and 91%, respectively, of ESSI's revenues were derived directly or indirectly from defense industry contracts with the U.S. government and its agencies. In addition, in each of the fiscal years ended October 31, 2004, 2003 and 2002, approximately 3% of ESSI's revenues were derived directly or indirectly from sales to foreign governments. Therefore, the development of the combined company's business in the future will depend upon the continued willingness of the U.S. government and its prime contractors to commit substantial resources to defense programs and, in particular, upon the continued purchase of our products and other products which incorporate our products, by the U.S. government. In particular, the current funding demands on the U.S. government combined with a potential reduction of forces in Iraq, may lead to lower levels of government defense spending.

The risk that governmental purchases of our products may decline stems from the nature of our business with the U.S. government, in which the U.S. government may:

terminate contracts at its convenience;

terminate, reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

cancel multi-year contracts and related orders if funds become unavailable;

shift its spending priorities;

adjust contract costs and fees on the basis of audits done by its agencies; and

inquire about and investigate business practices and audit compliance with applicable rules and regulations.

In addition, as defense businesses, DRS and ESSI are subject to the following risks in connection with government contracts:

the frequent need to bid on programs prior to completing the necessary design, which may result in unforeseen technological difficulties and/or cost overruns;

the difficulty in forecasting long-term costs and schedules and the potential obsolescence of products related to long-term fixed-price contracts;

the risk of fluctuations or a decline in government expenditures due to any changes in the DoD budget or appropriation of funds;

when DRS or ESSI acts as a subcontractor, the failure or inability of the primary contractor to perform its prime contract may result in an inability to obtain payment of fees and contract costs;

restriction or potential prohibition on the export of products based on licensing requirements; and

government contract wins can be contested by other contractors.

### **The price of DRS common stock may be affected by factors different from those affecting the price of ESSI common stock.**

Holders of ESSI common stock will be entitled to receive cash and DRS common stock in the merger and thus will become holders of DRS common stock. DRS's business is different in certain ways from that of ESSI, and DRS's results of operations, as well as the price of DRS common stock, may be affected by factors different from those affecting ESSI's results of operations and the price of ESSI common stock. The price of DRS common stock may fluctuate significantly following the merger, including as a result of factors over which DRS has no control. For a discussion of ESSI's businesses and certain factors to consider in connection with such businesses, see "Information Regarding ESSI" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of ESSI."

Factors affecting DRS's business include:

DRS's revenues are dependent on its ability to maintain its government business;

DRS's revenues will be adversely affected if it fails to receive renewal of follow-on contracts;

DRS's failure to anticipate technical problems, estimate costs accurately or control costs with respect to the performance of fixed-price contracts may reduce its profit or cause a loss;

DRS may experience production delays if its suppliers fail to deliver materials to it;

DRS's backlog is subject to reduction and cancellation;

competition;

military conflict, war or terrorism;

government regulation;



technological change; and

DRS's ability to use and safeguard intellectual property.

**The market price of DRS common stock may decrease as a result of the merger.**

In the merger, ESSI shareholders will receive consideration that includes DRS common stock. A number of factors may cause the market price of such DRS common stock to fluctuate significantly after the merger, including:

the success of the integration of DRS's and ESSI's operations;

DRS's realization of expected business opportunities and growth prospects from the merger;

short-term selling pressure on the market price of DRS common stock resulting from sales of DRS shares received by ESSI's shareholders in the merger;

DRS's operating results and those of defense companies in general;

the public's reaction to DRS's press releases, announcements and filings with the SEC;

changes in earnings estimates or recommendations by research analysts;

DRS's ability to reduce the indebtedness undertaken in connection with the acquisition of ESSI;

changes in general conditions in the U.S. economy, financial markets, global climate or defense industry;

natural disasters, terrorist attacks or acts of war;

other developments affecting DRS or its competitors; and

additional issuances of DRS common stock.

**Integration of DRS's and ESSI's operations will be complex, time-consuming and expensive and may adversely affect the results of operations of DRS after the merger.**

The anticipated benefits of the merger will depend in part on whether DRS and ESSI can integrate their operations in an efficient, timely and effective manner. Integrating DRS and ESSI will be a complex, time-consuming and expensive process. ESSI will represent DRS's largest and most significant acquisition to date. Successful integration will require, among other things, combining the companies':

business development efforts;

key personnel;

geographically separate facilities; and

business and executive cultures.

DRS and ESSI may not accomplish this integration successfully and may not realize the benefits contemplated by combining the operations of both companies. The diversion of management's attention to the integration effort and any difficulty encountered in combining operations could cause the interruption of, or a loss of momentum in, the activities of either or both of the companies' businesses.

**If DRS is unable to successfully integrate ESSI into DRS's operations on a timely basis, DRS's profitability could be negatively affected.**

DRS expects that the acquisition of ESSI will result in certain business opportunities and growth prospects. DRS, however, may never realize these expected business opportunities and growth

prospects. DRS may experience increased competition that limits its ability to expand its business, DRS's assumptions underlying estimates of expected cost savings may be inaccurate or general industry and business conditions may deteriorate. The acquisition involves numerous risks, including, but not limited to:

difficulties in assimilating and integrating the operations, technologies and products of ESSI;

the diversion of DRS's management's attention from other business concerns;

DRS's current operating and financial systems and controls may be inadequate to deal with the combined company's operations;

the risk that the combined company will be unable to maintain or renew any of ESSI's government contracts;

the risks of DRS entering markets in which it has limited or no experience; and

the loss of key employees.

If these factors limit DRS's ability to integrate the operations of ESSI successfully or on a timely basis, DRS's expectations of future results of operations may not be met. In addition, DRS's growth and operating strategies for ESSI's business may be different from the strategies that ESSI currently is pursuing. If DRS's strategies are not the proper strategies for ESSI, it could have a material adverse effect on the business, financial condition and results of operations of the combined company. Further, there can be no assurance that DRS will be able to maintain or enhance the profitability of ESSI or consolidate the combined company's operations to achieve cost savings. See "Cautionary Statement Concerning Forward-Looking Statements" on page 25.

**The merger may adversely affect the combined company's ability to attract and retain key ESSI employees.**

ESSI employees may experience uncertainty about their future roles after the merger. In addition, ESSI employees, including key executives and members of ESSI's senior management, may determine that they do not desire to work for DRS for a variety of reasons and may seek early retirement or other employment opportunities. These factors may adversely affect the combined company's ability to attract and retain key management, engineering, sales, marketing and other personnel. There is a continuing demand for qualified technical personnel and DRS's future growth and success will depend in part upon its ability to attract, train and retain such personnel. Competition for personnel in the defense industry is intense. An inability to attract and maintain a sufficient number of technical personnel, including ESSI personnel, could have a material adverse effect on DRS's contract performance and ability to capitalize on market opportunities.

A number of senior executive officers of ESSI have agreements requiring payments in the event of a change in control of ESSI. (See "The Merger Interests of Certain Individuals in the Merger" on page 67). Moreover, several of these executives have indicated their desire to retire from ESSI upon completion of the merger. Departing key employees may be difficult to replace, and their loss may have a material adverse effect on the combined company's operations.

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus, including information included or incorporated by reference in this proxy statement/prospectus, contains or may contain certain forward-looking statements, within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Generally, the words "will," "may," "should," "continue," "believes," "expects," "intends," "anticipates," "estimates" or similar expressions identify forward-looking statements and any statements regarding the benefits of the merger, or DRS's or ESSI's financial condition, results of operations and business are also forward-looking statements. Without limiting the generality of the preceding sentence, the statements contained in the sections "The Merger Background of the Merger," "The Merger Recommendation of the DRS Board of Directors and its Reasons for the Merger," "The Merger Recommendation of the ESSI Board of Directors and its Reasons for the Merger," "The Merger Opinion of Bear Stearns, Financial Advisor to DRS," "The Merger Opinion of Merrill Lynch, Financial Advisor to DRS," "The Merger Opinion of Lehman Brothers, Financial Advisor to ESSI" and "Unaudited Pro Forma Condensed Combined Financial Statement Information" constitute forward-looking statements. In addition, some statements about ESSI's business contained in the sections "Information Regarding ESSI," "Management's Discussion and Analysis of Financial Condition and Results of Operations of ESSI" and "Quantitative and Qualitative Disclosure About Market Risk Applicable to ESSI" and elsewhere in this document are forward-looking statements.

These forward-looking statements involve certain risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the following factors:

operating results following the proposed acquisition may be lower than expected;

competitive pressure among companies in the industries in which DRS and ESSI operate may increase significantly;

costs or difficulties related to the integration of the businesses of DRS and ESSI may be greater than expected;

adverse changes in the interest rate environment may reduce interest margin, adversely affect asset values of DRS or ESSI or increase the borrowing costs of each company;

general economic conditions, whether nationally or in the market areas in which DRS and ESSI conduct business, may be less favorable than expected;

legislation or regulatory changes may adversely affect the businesses in which DRS and ESSI are engaged;

the uncertainty of acceptance of new products and successful bidding for new contracts;

the effect of technological changes or obsolescence relating to each company's products and services;

the effects of government regulation or shifts in government policy, as they may relate to each company's products and services; or

adverse changes may occur in the securities markets generally.

Any forward-looking statements in the joint proxy statement/prospectus are not guarantees of future performance, and actual results, developments and business decisions may differ from those contemplated by those forward-looking statements, possibly materially. DRS and ESSI disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section. See also "Additional Information Where You Can Find More Information" on page 135.

## THE DRS SPECIAL MEETING

### General

This joint proxy statement/prospectus is being provided to DRS stockholders as part of a solicitation of proxies by the DRS board of directors for use at a special meeting of DRS stockholders. This joint proxy statement/prospectus provides DRS stockholders with the information they need to know to be able to vote or instruct their vote to be cast at the special meeting of DRS stockholders.

### Date, Time, Place and Purpose of the DRS Special Meeting

The special meeting of DRS stockholders will be held on January 30, 2006 at 10:00 a.m., local time, at the headquarters of DRS, 5 Sylvan Way, Floor 3, Parsippany, New Jersey 07054.

The DRS special meeting is being held for the following purposes:

to consider and vote upon a proposal to approve the issuance of shares of DRS common stock pursuant to the Agreement and Plan of Merger, dated as of September 21, 2005, by and among DRS, Maxco, a wholly-owned subsidiary of DRS, and ESSI; and

to consider and vote upon a proposal to approve an amendment to the certificate of incorporation of DRS to increase the number of authorized shares of DRS common stock from 50 million to 100 million.

We will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournments or postponements of the special meeting.

### Recommendation of the DRS Board of Directors

#### *Proposal 1*

The DRS board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of DRS and has unanimously approved the merger agreement and unanimously recommends that DRS stockholders vote **"FOR"** approval of the issuance of shares of DRS common stock to ESSI shareholders pursuant to the merger agreement. See "The Merger Recommendation of the DRS Board of Directors and Its Reasons for the Merger" on page 40.

#### *Proposal 2*

The DRS board of directors unanimously approved a resolution, subject to stockholder approval, to amend DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock and unanimously recommends that DRS stockholders vote **"FOR"** approval of the amendment to DRS's certificate of incorporation.

Under Section 242(b) of the DGCL, an amendment to DRS's certificate of incorporation must be approved by a majority of the board of directors and requires the affirmative vote of the holders of a majority of the outstanding shares of DRS common stock entitled to vote on the proposal. As required under Section 242(b), the DRS board of directors has unanimously adopted a resolution approving, and recommending to DRS stockholders for approval, a proposal to amend DRS's certificate of incorporation to increase the number of authorized shares of common stock from 50 million to 100 million and to submit the amendment to the vote of stockholders at the special meeting. The text of the proposed certificate of amendment to DRS's certificate of incorporation is attached as Annex E to this joint proxy statement/prospectus. If the proposed amendment is adopted, it will become effective upon filing the certificate of amendment with the Secretary of State of the State of Delaware. DRS reserves the right to abandon or modify, upon approval of the DRS board of directors, the proposed

amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock at any time prior to the filing of the amendment with the Secretary of State of the State of Delaware, including after approval of the stockholders has been obtained.

There are 50 million shares of DRS common stock authorized under DRS's certificate of incorporation and as of the DRS record date, approximately 32 million shares of DRS common stock were outstanding or reserved for issuance. Following completion of the merger with ESSi, there will be a maximum of approximately 44.8 million shares of DRS common stock outstanding or reserved for issuance. While DRS currently has a sufficient number of shares of common stock authorized to close the merger, the DRS board of directors believes it is desirable to authorize additional shares of common stock so that there will be sufficient shares available for issuance for purposes that the DRS board of directors may later determine to be in the best interests of DRS and its stockholders. Those purposes could include, but are not limited to, making acquisitions through the use of stock, raising capital, adopting additional employee benefit plans, reserving additional shares for issuance under such plans and under plans of acquired companies and for other corporate purposes. The DRS board of directors believes that approval of the proposed amendment to increase the authorized shares of common stock is necessary to provide DRS with the flexibility to pursue these types of opportunities without added delay and expense. If the proposed amendment is adopted, 50 million additional shares of common stock will be available for issuance by the DRS board of directors without any further stockholder approval, although certain issuances of shares may require stockholder approval in accordance with the requirements of the NYSE or the DGCL. Other than in connection with the financing of the merger and the issuance of shares under benefit plans previously approved by DRS stockholders, DRS has no plans for the issuance of DRS common stock at this time but the DRS board of directors reserves the right to authorize any issuance of shares of DRS common stock deemed to be in the best interests of DRS and its stockholders.

If the proposal to amend DRS's certificate of incorporation is approved by DRS stockholders, the increased flexibility of the DRS board of directors to authorize the issuance of additional shares of stock could enhance the ability of the DRS board of directors to negotiate on behalf of DRS stockholders in a takeover situation. Although it is not the purpose of the proposed amendment, the DRS board of directors could potentially use the newly authorized shares of common stock to discourage, delay or make more difficult a change in control of DRS. For example, these shares could be privately placed with purchasers who might align themselves with the DRS board of directors in opposing a hostile takeover bid. The issuance of additional shares might serve to dilute the stock ownership of a person seeking to obtain control and thereby increase the cost of acquiring a given percentage of the outstanding stock. DRS is not aware of any pending or proposed effort to acquire control of DRS.

The relative rights and limitations of the common stock would remain unchanged under the proposed amendment. DRS stockholders do not currently have preemptive rights with respect to common stock. Thus, if the DRS board of directors determines to authorize the issuance of additional shares of common stock, existing stockholders would not have any preferential rights to purchase those shares. If the DRS board of directors determines to issue additional shares of common stock, the issuance could have a dilutive effect on the earnings per share and voting power of current stockholders.

DRS stockholders are voting on each proposal separately. The vote of DRS stockholders on one proposal has no bearing on the other proposal, or on any other matter that may come before the DRS special meeting.

**Record Date; Outstanding Shares; Shares Entitled to Vote**

Only holders of record of DRS common stock at the close of business on the record date, December 20, 2005, are entitled to notice of and to vote at the DRS special meeting. As of the DRS record date, there were 28,084,648 shares of DRS common stock outstanding and entitled to vote at the special meeting. Each holder of DRS common stock is entitled to one vote for each share of DRS common stock owned as of the DRS record date.

A list of DRS stockholders will be available for review at the special meeting and at the executive offices of DRS during regular business hours for a period of ten days before the special meeting.

**Quorum**

A quorum of DRS's stockholders is necessary to hold a valid special meeting. The required quorum for the transaction of business at the special meeting is a majority of the outstanding shares of DRS common stock entitled to vote and present, whether in person or by proxy, at the DRS special meeting. All shares of DRS common stock represented at the DRS special meeting, including abstentions and "broker non-votes," if any, will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. "Broker non-votes" are shares held by a broker or other nominee that are represented at the meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of the shares to vote on the particular proposal and the broker does not have discretionary voting power on the proposal.

**Vote Required**

*Proposal 1*

In accordance with NYSE listing requirements, approval of the issuance of DRS common stock in the merger requires the affirmative vote of the holders of a majority of shares of DRS common stock cast on such proposal, in person or by proxy, provided that the total votes cast on the proposal represent over 50% of the outstanding shares of DRS common stock entitled to vote on the proposal. Votes "for" and votes "against" count as votes cast, while abstentions and "broker non-votes" do not count as votes cast. All outstanding shares of DRS common stock, including "broker non-votes", if any, count as shares entitled to vote. Thus the total sum of votes "for," plus votes "against," which is referred to as the "NYSE Votes Cast," must represent more than 50% of the outstanding shares of DRS common stock entitled to vote on the proposal. Once satisfied, the number of votes "for" the proposal must be greater than 50% of NYSE Votes Cast. Assuming a quorum is present and the total votes cast on the proposal to approve the issuance of DRS common stock in the merger represent more than 50% of the outstanding shares of DRS common stock entitled to vote on the proposal, the failure of a DRS stockholder to vote or a decision by a DRS stockholder to abstain will have no effect in determining whether the issuance of DRS common stock is approved. It is expected that brokers and other nominees will not have discretionary voting authority on this proposal and thus broker non-votes will result from this proposal. Abstentions and broker non-votes could have a negative effect on DRS's ability to obtain the necessary number of NYSE Votes Cast.

*Proposal 2*

In accordance with the requirements of DGCL, the approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock requires the affirmative vote of the holders of a majority of the outstanding shares of DRS common stock entitled to vote on the proposal. For this proposal, abstentions will have the same effect as a vote against the proposal. It is expected that brokers and other nominees will have discretionary voting authority on this proposal and thus broker non-votes will not result from this proposal.

### **Voting by DRS Directors and Executive Officers**

As of the DRS record date for the special meeting, the directors and executive officers of DRS as a group beneficially owned and were entitled to vote approximately 244,884 shares of DRS common stock, or less than one percent of the outstanding shares of DRS on that date.

### **Voting; Proxies; Revocation**

You may vote by proxy or in person at the DRS special meeting. Votes cast by proxy or in person at the DRS special meeting will be tabulated and certified by DRS's transfer agent, Mellon Investor Services.

#### *Voting in Person*

If you plan to attend the DRS special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in "street name," which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the DRS special meeting, you must bring to the special meeting a proxy from the record holder of the shares authorizing you to vote at the DRS special meeting.

#### *Voting by Proxy*

**Your vote is very important. Accordingly, please complete, sign, date and return the enclosed proxy card or, if the option is available to you, grant your proxy electronically over the Internet or by telephone, whether or not you plan to attend the DRS special meeting in person.** You should vote your proxy even if you plan to attend the DRS special meeting. You can always change your vote at the special meeting, if necessary. Voting instructions are included on your proxy card. If you properly give your proxy and submit it to DRS in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. A proxy card is enclosed for your use.

The method of voting by proxy differs for shares held as a record holder and shares held in "street name." If you hold your shares of DRS common stock as a record holder or as a participant in the DRS Plan, you may vote by signing and dating the enclosed proxy card and promptly returning it in the enclosed postage-paid envelope or otherwise mailing it to DRS, or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. If you hold your shares of DRS common stock in street name, which means your shares are held of record by a broker, bank or nominee, you will receive instructions from your broker, bank or other nominee that you must follow in order to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet or by telephone. Please see the voting instructions from your broker, bank or nominee that accompany this joint proxy statement/prospectus.

All properly signed proxies that are received prior to the special meeting and that are not revoked will be voted at the special meeting according to the instructions indicated on the proxies or, if no direction is indicated, they will be voted **"FOR"** approval of the issuance of shares of DRS common stock pursuant to the merger agreement and **"FOR"** approval of the amendment to DRS's certificate of incorporation to increase the number of authorized shares of DRS common stock.

As of the DRS record date, there were approximately 6,000 shares of DRS common stock held by employees of DRS through the DRS Plan. If you hold shares of DRS common stock through the DRS Plan, your proxy will serve to direct the trustees of the plan to vote your shares in accordance with your instructions. Shares of DRS common stock for which the trustee has not received instructions from the respective DRS Plan participant, or for which the DRS Plan participant has revoked its proxy before the special meeting, will be considered not voted. The DRS Plan provides that, except as required by law, the trustees shall not vote any not voted DRS shares held under the DRS Plan. The



trustees have determined that their fiduciary obligations, arising under the Employee Retirement Income Security Act of 1974, as amended, require them to vote any not voted shares DRS common stock held under the DRS Plan. Therefore, the trustees have determined that all unvoted shares of DRS common stock in the plan will be voted "**FOR**" Proposal 1 and "**FOR**" Proposal 2 at the special meeting by the investment committee under the plan or a delegated member of such committee.

*Revocation of Proxy*

You may revoke your proxy at any time before your proxy is voted at the DRS special meeting by taking any of the following actions:

delivering to the Secretary of DRS a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;

signing and delivering a new proxy, relating to the same shares and bearing a later date;

submitting another proxy by telephone or on the Internet (your latest telephone or Internet voting instructions are followed);  
or

if you are a holder of record, attending the DRS special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

If your shares are held in "street name," you may change your vote by submitting new voting instructions to your broker, bank or other nominee. You must contact your broker, bank or other nominee to find out how to do so.

Written notices of revocation and other communications with respect to the revocation of DRS proxies should be addressed to:

DRS Technologies, Inc.  
5 Sylvan Way  
Parsippany, New Jersey 07054  
Attention: Corporate Secretary

**Abstentions and Broker Non-Votes**

For Proposal 1, assuming a quorum is present and the total votes cast on the proposal to approve the issuance of DRS common stock in the merger represent more than 50% of the outstanding shares of DRS common stock entitled to vote on the proposal, the failure of a DRS stockholder to vote or a decision by a DRS stockholder to abstain will have no effect in determining whether the issuance of DRS common stock is approved.

For Proposal 2, abstentions will have the same effect as voting against approval of the amendment to DRS's certificate of incorporation to increase the authorized number of shares of DRS common stock.

Under the listing requirements of the NYSE, brokers who hold shares of DRS common stock in "street name" for a beneficial owner of those shares typically have the authority to vote in their discretion on "routine" proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters which the NYSE determines to be "non-routine" without specific instructions from the beneficial owner. These non-voted shares are referred to as "broker non-votes." If your broker holds your DRS common stock in "street name," your broker will vote your shares on a "non-routine" proposal only if you provide instructions on how to vote by filling out the voting instruction form sent to you by your broker with this joint proxy statement/prospectus.

It is expected that brokers and other nominees will not have discretionary voting authority on Proposal 1, and thus broker non-votes will result from Proposal 1. It is expected that brokers and other nominees will have discretionary voting authority on Proposal 2, and thus broker non-votes will not result from Proposal 2.

**Proxy Solicitation**

DRS is soliciting proxies for the DRS special meeting from DRS stockholders. DRS will bear the entire cost of soliciting proxies from DRS stockholders, except that DRS and ESSI have each agreed to share equally all expenses incurred in connection with the filing with the SEC of the registration statement of which this joint proxy statement/prospectus forms a part, and the printing and mailing of this joint proxy statement/prospectus and related proxy materials. In addition to the solicitation of proxies by mail, DRS will request that brokers, banks and other nominees send proxies and proxy materials to the beneficial owners of DRS common stock held by them and secure their voting instructions, if necessary. DRS will reimburse those record holders for their reasonable expenses. DRS has also made arrangements with Innisfree M&A Incorporated to assist it in soliciting proxies, and has agreed to pay a fee of approximately \$10,000 plus expenses for those services. DRS also may use several of its regular employees, who will not be specially compensated, to solicit proxies from DRS stockholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

**Other Business; Adjournments**

DRS does not expect that any matter other than the proposals presented in this joint proxy statement/prospectus will be brought before the DRS special meeting. However, if other matters incident to the conduct of the special meeting are properly presented at the special meeting or any adjournment or postponement of the special meeting, the persons named as proxies will vote in accordance with their best judgment with respect to those matters.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. An adjournment may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. DRS currently does not intend to seek an adjournment of the DRS special meeting.

**Assistance**

If you need assistance in completing your proxy card or have questions regarding the DRS special meeting, please contact Innisfree M&A Incorporated toll-free at (877) 687-1874 (banks and brokers may call collect at (212) 750-5833).

## THE ESSI SPECIAL MEETING

### General

This joint proxy statement/prospectus is being provided to ESSI shareholders as part of a solicitation of proxies by the ESSI board of directors for use at a special meeting of ESSI shareholders. This joint proxy statement/prospectus provides ESSI shareholders with the information they need to know to be able to vote or instruct their vote to be cast at the special meeting of ESSI shareholders.

### Date, Time, Place and Purpose of the ESSI Special Meeting

The special meeting of ESSI shareholders will be held on January 30, 2006 at 10:00 a.m., local time, at the headquarters of ESSI, 201 Evans Lane, St. Louis, Missouri 63121.

The ESSI special meeting is being held for the following purpose:

to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of September 21, 2005, by and among DRS, Maxco, a wholly-owned subsidiary of DRS, and ESSI, and the transactions contemplated by the merger agreement.

ESSI will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournments or postponements of the special meeting.

For security purposes, if you plan to attend the ESSI special meeting, you must notify the Secretary of ESSI of your intent to do so by January 25, 2006. The enclosed proxy should be returned by January 29, 2006 in the enclosed envelope to ensure that your vote is counted at the special meeting.

### Recommendation of the ESSI Board of Directors

The ESSI board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair to and in the best interests of ESSI and its shareholders and has unanimously approved the merger agreement and the transactions contemplated by the merger agreement. Accordingly, the ESSI board unanimously recommends that ESSI shareholders vote "**FOR**" approval of the merger agreement and the transactions contemplated by the merger agreement. See "The Merger Recommendation of the ESSI Board of Directors and Its Reasons for the Merger" on page 43.

### Record Date; Outstanding Shares; Shares Entitled to Vote

Only holders of record of ESSI common stock at the close of business on the ESSI record date, December 20, 2005 are entitled to notice of and to vote at the ESSI special meeting. As of the ESSI record date, there were 41,960,035 shares of ESSI common stock outstanding and entitled to vote at the special meeting held by approximately 24,350 holders, including 340 shareholders of record and an estimated 24,010 persons or entities holding common stock in nominee name. Each holder of ESSI common stock is entitled to one vote for each share of ESSI common stock owned as of the ESSI record date.

ESSI's by-laws and the MBCL provide that a list of ESSI shareholders must be available for review at the ESSI special meeting and at the executive offices of ESSI during regular business hours for a period of at least ten days before the special meeting.

### Quorum

A quorum of shareholders is necessary to hold a valid special meeting of ESSI. The required quorum for the transaction of business at the special meeting is a majority of the outstanding shares of

ESSI common stock entitled to vote and present at the special meeting, whether in person or by proxy at the ESSI special meeting. All shares of ESSI common stock represented at the ESSI special meeting, including abstentions and "broker non-votes," if any, will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. "Broker non-votes" are shares held by a broker or other nominee that are represented at the meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of the shares to vote on the particular proposal and the broker does not have discretionary voting power on the proposal.

### **Vote Required**

The approval of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of holders of at least two-thirds of the outstanding shares of ESSI common stock entitled to vote on the merger agreement at the ESSI special meeting.

It is expected that brokers and other nominees in the absence of instructions from the beneficial owners of the shares will not have discretionary voting authority to vote those shares on the merger agreement and the transactions contemplated by the merger agreement. Because approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of holders of at least two-thirds of the outstanding ESSI shares, abstaining, not voting on the proposal, or failing to instruct your broker on how to vote ESSI shares held for you by the broker, will have the same effect as a vote against the merger agreement and the transactions contemplated by the merger agreement.

### **Voting by ESSI Directors and Executive Officers**

As of the ESSI record date for the ESSI special meeting, the directors and executive officers of ESSI as a group beneficially owned and were entitled to vote approximately 1,454,407 shares of ESSI common stock, or approximately 3.47% of the outstanding shares of ESSI on that date.

### **Voting; Proxies; Revocation**

You may vote by proxy or in person at the ESSI special meeting. Votes cast by proxy or in person at the ESSI special meeting will be tabulated and certified by ESSI's transfer agent, Mellon Investor Services LLC.

#### *Voting in Person*

If you plan to attend the ESSI special meeting and wish to vote in person, you will be given a ballot at the ESSI special meeting. Please note, however, that if your shares are held in "street name," which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the ESSI special meeting, you must bring to the ESSI special meeting a proxy from the record holder of the shares authorizing you to vote at the ESSI special meeting.

#### *Voting by Proxy*

**Your vote is very important. Accordingly, please sign, complete, date and return the enclosed proxy card or, if the option is available to you, grant your proxy electronically over the Internet or by telephone, whether or not you plan to attend the ESSI special meeting in person.** You should vote your proxy even if you plan to attend the ESSI special meeting. You can always change your vote at the special meeting, if necessary. Voting instructions are included on your proxy card. If you properly give your proxy and submit it to ESSI in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. A proxy card is enclosed for your use.

The method of voting by proxy differs for shares held as a record holder and shares held in "street name." If you hold your shares of ESSI common stock as a record holder, you may vote by completing, signing and dating the enclosed proxy card and promptly returning it in the enclosed postage-paid envelope. Record holders may also submit a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. Participants in ESSI's 401(k) Plan may provide their instructions to the ESSI 401(k) Plan trustee by signing and returning the enclosed proxy card in the accompanying postage paid envelope or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. The ESSI 401(k) Plan trustee must receive participant vote instructions no later than January 26, 2006. If you hold your shares of ESSI common stock in street name, which means your shares are held of record by a broker, bank or other nominee, you will receive instructions from your broker, bank or other nominee that you must follow in order to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet or by telephone. Please see the voting instructions from your broker, bank or nominee that accompany this joint proxy statement/prospectus.

All properly signed proxies that are received prior to the ESSI special meeting and that are not revoked will be voted at the special meeting according to the instructions indicated on the proxies or, if no direction is indicated, **"FOR"** approval of the merger agreement and transactions contemplated by the merger agreement.

As of the ESSI record date, there were approximately 1,167,609 shares of ESSI common stock held by employees of ESSI through the ESSI 401(k) Plan. If you are a participant of this stock purchase plan, your proxy will serve to direct the trustee of the plan to vote your shares in accordance with your instructions. Shares of ESSI common stock for which the trustee has not received instructions from the respective plan participant, or for which the plan participant has revoked its proxy before the special meeting, will be considered not voted. All not voted shares of common stock in the plan will be voted **"FOR"** approval of the merger agreement and the transactions contemplated by the merger agreement at the special meeting by the trustee. The trustee of the plan will vote any shares for which they do not receive instructions in the same proportion as they vote the shares for which they do receive instructions.

#### *Revocation of Proxies*

You may revoke your proxy at any time before your proxy is voted at the ESSI special meeting by taking any of the following actions:

delivering to the Secretary of ESSI a signed written notice of revocation bearing a date later than the date of the proxy, stating that the proxy is revoked;

signing and delivering a new proxy, relating to the same shares and bearing a later date;

submitting another proxy by telephone or on the Internet (your latest telephone or Internet voting instructions will be followed); or

if you are a holder of record, attending the ESSI special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

If your shares are held in "street name," you may change your vote by submitting new voting instructions to your broker, bank or other nominee. You must contact your broker, bank or other nominee to find out how to do so.

Written notices of revocation and other communications with respect to the revocation of ESSI proxies should be addressed to:

Engineered Support Systems, Inc.  
201 Evans Lane  
St. Louis, Missouri 63121  
Attention: Corporate Secretary

**Proxy Solicitation**

ESSI is soliciting proxies for the ESSI special meeting from ESSI shareholders. ESSI will bear the entire cost of soliciting proxies from ESSI shareholders, except that ESSI and DRS have each agreed to share equally all expenses incurred in connection with the filing of the registration statement of which this joint proxy statement/prospectus forms a part with the SEC and the printing and mailing of this joint proxy statement/prospectus and related proxy materials. In addition to the solicitation of proxies by mail, ESSI will request that brokers, banks and other nominees send proxies and proxy materials to the beneficial owners of ESSI common stock held by them and secure their voting instructions, if necessary. ESSI will reimburse those record holders for their reasonable expenses in so doing. ESSI also has made arrangements with Mellon Investor Services LLC to assist it in soliciting proxies, and has agreed to pay a fee of approximately \$10,000 plus expenses for those services. ESSI also may use several of its regular employees, who will not be specially compensated, to solicit proxies from ESSI shareholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

**Other Business; Adjournments**

ESSI does not expect that any matter other than the proposals presented in this joint proxy statement/prospectus will be brought before the ESSI special meeting. However, if other matters incident to the conduct of the special meeting are properly presented at the special meeting or any adjournment or postponement of the special meeting, the persons named as proxies will vote in accordance with their best judgment with respect to those matters.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. An adjournment may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. ESSI currently does not intend to seek an adjournment of the ESSI special meeting.

**Assistance**

If you need assistance in completing your proxy card or have questions regarding the ESSI special meeting, please contact Mellon Investor Services LLC toll-free at (888) 634-5906 or contact ESSI's Corporate Secretary at (314) 553-4000.

## THE MERGER

*The following is a description of the material aspects of the merger. While we believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire joint proxy statement/prospectus, including the text of the merger agreement attached to this joint proxy statement/prospectus as Annex A, for a more complete understanding of the merger.*

### General

Each of the DRS and ESSI board of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement. At the effective time of the merger, ESSI will be merged with Maxco and ESSI will survive as the surviving entity and a wholly-owned subsidiary of DRS. ESSI shareholders will receive the merger consideration upon the terms set forth in the merger agreement and further described below under "The Merger Agreement Merger Consideration."

### Background of the Merger

ESSI's board of directors and senior management regularly have reviewed and assessed the organization's business strategy, the trends and conditions impacting ESSI's industry and various strategic alternatives available to enhance shareholder value, including internal growth and possible growth through business combinations. From time to time, ESSI's senior management has informally explored on a preliminary basis the degree to which other parties might have an interest in discussing a possible business combination with ESSI. ESSI's senior management also had received and considered a few unsolicited informal expressions of interest from parties interested in pursuing a possible business combination with ESSI.

Beginning in late 2004, the board of directors and management of ESSI reviewed various proposed and completed business combinations in the defense industry. Management believed that these transactions were indicative of a trend toward consolidation and created conditions under which a business combination involving ESSI could be advisable. ESSI's board of directors and management have continued to monitor these trends and developments and, from time to time, have had informal discussions with a limited number of companies in the defense industry regarding their possible interest in a transaction with ESSI. On May 2, 2005, representatives of Bear Stearns met with members of ESSI management and made a general presentation to them regarding DRS and its various businesses.

Management of DRS regularly and actively reviews potential acquisitions and pursues those which it believes meet its criteria for growth and earnings potential. Over the past eight years, DRS has completed 20 business acquisitions ranging in size from \$0.3 million to \$543.0 million. DRS's largest previous transaction was consummated in November 2003 with its acquisition of Integrated Defense Technologies, Inc., referred to as IDT. Since the IDT acquisition, DRS principally has been focused on the integration of IDT's various businesses with the other operations of DRS, although DRS has completed several smaller acquisitions during this time.

DRS management has considered the possibility of a transaction with ESSI for a number of years. In approximately 2001, senior management of DRS and ESSI met to generally discuss their respective businesses. The possibility of a transaction was discussed on a preliminary basis, but there were unresolved issues between the parties, including an inability to agree on an appropriate valuation. From time to time thereafter, Mark S. Newman, Chairman, President and Chief Executive Officer of DRS, and Michael F. Shanahan, Sr., the Chairman of ESSI, met or informally discussed their businesses with one another on a general basis, but such meetings or discussions did not lead to the consideration of a transaction. With the successful integration of IDT completed in 2005 DRS was more receptive to the possibility of a larger transaction.

In light of the perceived trends and conditions for business combinations in the defense industry and as part of its periodic review of market conditions, on June 14, 2005 members of ESSI management, including Gerald A. Potthoff, Chief Executive Officer, Gary C. Gerhardt, Chief Financial Officer, and Daniel A. Rodrigues, President and Chief Operating Officer, met with representatives of Lehman Brothers. At this meeting, Lehman Brothers presented an introduction and its view of strategic alternatives potentially available to ESSI, as well as an overview of recent business combination activity in the defense industry and a range of possible values for a transaction involving ESSI. At this meeting, management of ESSI advised Lehman Brothers that no decision had been made to pursue a transaction; however, management authorized Lehman Brothers to conduct a preliminary informal survey of companies in the industry and financial sponsors that potentially would be interested in, and have sufficient resources to execute, a transaction with ESSI.

From June 14, 2005 to June 28, 2005, Lehman Brothers informally surveyed various parties believed to have a potential strategic interest in ESSI and financial sponsors that were thought to have both an interest in the defense industry and access to sufficient financing for a possible transaction with ESSI. On June 28, 2005, representatives of Lehman Brothers met with members of ESSI management to discuss current market conditions and the results of the informal survey. Lehman advised ESSI that based on its informal survey, only one company, referred to as Company A, displayed significant preliminary interest in an all-cash transaction and was willing to proceed rapidly. Company A, a financial sponsor, had demonstrated financial resources and experience with transactions in the defense industry.

In light of the results of the informal survey conducted by Lehman Brothers, ESSI management determined to further explore the potential interest of Company A. On June 29, 2005, members of ESSI management and representatives of Lehman Brothers met by telephone with representatives of Company A and discussed that party's possible interest in a transaction with ESSI.

On July 7, 2005, ESSI and Company A executed a confidentiality and non-disclosure agreement and on July 8, 2005, Lehman Brothers and members of ESSI management, including Messrs. Shanahan, Potthoff, Gerhardt and Rodrigues, met with representatives of Company A. At this meeting, ESSI provided Company A with various financial information and the parties discussed the structure and terms of a potential transaction. Company A again indicated its willingness to proceed rapidly with an all cash transaction.

On July 18, 2005, ESSI received a letter from Company A indicating preliminary interest in acquiring ESSI for \$40 to \$42 per share of ESSI common stock, payable in cash. The letter indicated that Company A had favorable preliminary discussions with financial institutions regarding financing for the transaction and expressed a willingness to proceed quickly to complete due diligence and enter into a definitive purchase agreement. Over the next several days, representatives of Company A contacted Lehman Brothers and Messrs. Shanahan, Potthoff and Gerhardt to discuss the letter and stress Company A's strong interest in pursuing a transaction.

On July 20, 2005, members of ESSI management met with representatives of Bear Stearns. At this meeting, Bear Stearns made a presentation to ESSI regarding strategic rationales for a business combination involving DRS and ESSI and possible financial consequences of a combination of the two companies. Bear Stearns expressed its belief that DRS would have an interest in further discussions regarding a potential transaction and proposed that the parties meet.

At a meeting of the ESSI board of directors on July 21, 2005, representatives of Lehman Brothers gave a presentation that included an overview of industry trends and valuations, including a preliminary valuation of ESSI, and reported on the results of the preliminary informal survey conducted by Lehman Brothers. Additionally, Lehman Brothers reviewed with ESSI's board of directors the recent discussions with Company A and reported on the terms of Company A's preliminary indication of interest. Following Lehman Brothers' presentation, the board of directors determined that, while no decision



had been made by the board of directors to offer ESSI for sale, the possibility of a sale should be explored further to enable the board of directors to make an informed evaluation about the advisability of a sale as a strategic alternative. Management of ESSI was instructed to contact Company A to discuss further that party's interest in a possible transaction. In addition, the board of directors approved the engagement of Lehman Brothers as ESSI's financial advisor.

On July 25, 2005, Mr. Shanahan sent a letter to Company A on behalf of ESSI indicating that, although ESSI's board of directors had not decided to put the company up for sale, ESSI would be interested in further exploring Company A's indication of interest. Thereafter, commencing on July 26, 2005, Company A initiated a due diligence examination of ESSI, including site visits, management presentations, legal matters and a review of financial performance and projections. As part of its due diligence, Company A and its advisors met with members of ESSI management in St. Louis, Missouri from August 15 to August 17, 2005 and conducted further due diligence, including management presentations from ESSI's various subsidiaries and a financial and accounting review, including a discussion of ESSI's financial projections for fiscal 2006.

Company A contacted representatives of Lehman Brothers by telephone on August 29, 2005 and revised its indication of interest to \$39 to \$40 per share of ESSI common stock, payable in cash. Thereafter, Lehman Brothers contacted ESSI management and discussed Company A's revised indication of interest. On August 31, 2005, legal counsel for Company A submitted a draft merger agreement to ESSI. Over the course of the next two weeks, counsel for Company A and counsel for ESSI negotiated the terms of the proposed merger agreement.

During late August, at the request of ESSI, Lehman Brothers had conversations with Bear Stearns regarding DRS's continuing interest in a transaction. On September 1, 2005, ESSI and DRS entered into a confidentiality and non-disclosure agreement, and management representatives of ESSI and DRS and its respective financial advisors met at the offices of Bear Stearns in New York, New York. ESSI and DRS each presented an overview of their respective businesses and the parties discussed potential benefits of a business combination. During the course of the discussions, DRS communicated to ESSI its preliminary indication of interest in acquiring ESSI for \$41 to \$43 per share of ESSI common stock, payable in a combination of 60% cash and 40% DRS common stock. Following this meeting, ESSI forwarded to DRS additional due diligence and financial information. DRS indicated that it was prepared to move quickly with the potential transaction, subject to the satisfactory completion of its due diligence review.

Company A attended additional management and due diligence presentations in St. Louis, Missouri on September 8, 2005. On September 12, 2005, Company A forwarded to ESSI a draft of its financial commitment papers.

On September 9, 2005, Bear Stearns verbally communicated to Lehman Brothers a revised indication of interest on behalf of DRS to acquire ESSI for \$43 per share, payable in a combination of 70% cash and 30% DRS common stock. Lehman Brothers then discussed the revised proposal with ESSI management.

Lehman Brothers contacted both Company A and DRS, and indicated that ESSI's board of directors would be meeting on September 15, 2005 to review current developments and requested that each of Company A and DRS submit their best and final proposals prior to that meeting.

At meetings held on September 12 to September 14, 2005, DRS and its financial advisors attended management and financial presentations in St. Louis, Missouri, and conducted additional due diligence. Following these sessions, DRS submitted an updated request for due diligence from ESSI. On September 13, 2005, DRS's counsel submitted a draft merger agreement to ESSI, which contained DRS's proposal for a fixed exchange ratio. Additionally, on September 14, 2005, DRS presented management and financial presentations about DRS to members of ESSI management and selected members of ESSI's board of directors, including Messrs. Shanahan, Schaefer, Boyer, Lewi and Guilfoil.

On September 14, 2005, Mr. Newman contacted Mr. Shanahan and confirmed DRS's indication of interest to acquire ESSI for \$43 per share, consisting of 70% cash and 30% DRS common stock. Later that day, Lehman Brothers contacted Company A and indicated that its current offer of \$39 to \$40 per share in cash was insufficient as a result of recent developments, and that Company A should consider an all cash offer of at least \$42 per share to be competitive.

On September 15, 2005, following a request from Lehman Brothers, Bear Stearns contacted Lehman Brothers and indicated that DRS would enhance its offer such that the merger consideration to be paid to shareholders in DRS common stock would be fixed in value within the range of a 10% collar. On the same day, DRS submitted to ESSI a revised proposal indicating its interest in a merger transaction in which ESSI shareholders would receive \$43 per share through a combination of 70% cash and 30% DRS common stock, with DRS agreeing to make the stock portion of its offer fixed value to ESSI shareholders (subject to a 10% collar). DRS also provided ESSI with a draft of its financing commitment letter. Company A did not submit a new proposal in response to Lehman Brothers' request that Company A consider increasing its offer.

ESSI's board of directors met on September 15, 2005, to review the developments and consider moving forward with a possible transaction. At this meeting, legal counsel reviewed with the board of directors the fiduciary duties and other legal responsibilities of the directors in the context of a potential sale transaction and presented an overview of various transaction terms. Lehman Brothers presented the board of directors with an update on discussions with Company A and DRS. Lehman Brothers indicated that DRS would require approximately seven days for completing its due diligence, finalizing financing, making selected calls to ESSI customers and negotiating a definitive merger agreement. In addition, Lehman Brothers made a detailed financial presentation regarding a possible acquisition of ESSI. The ESSI board of directors discussed the prices, timing, financing issues and other elements of each proposal. The ESSI board of directors considered Company A's last proposal to acquire ESSI for \$39 to \$40 per share in an all cash transaction and its likelihood of completion. The board of directors also considered the principal terms of the DRS proposal, including the higher price offered by DRS to acquire shares of ESSI through a combination of cash and DRS common stock, and the additional time which likely would be required to conclude a definitive agreement with DRS. After reviewing the perceived attributes and risks of each proposal, the ESSI board of directors determined that, in light of the additional consideration provided by the DRS proposal, ESSI should move forward to provide DRS some additional time to complete its due diligence and financing arrangements and negotiate a merger agreement.

Following the ESSI board of directors meeting, Lehman Brothers informed DRS and Bear Stearns of the decision of ESSI's board of directors and its desire to proceed quickly. Over the next six days, counsel for DRS and ESSI negotiated the terms of the merger agreement. Additionally, DRS conducted additional due diligence on various aspects of ESSI and its operations, including site visits to ESSI facilities and a review of financial, accounting and legal matters. Representatives of ESSI and its legal counsel also conducted a further due diligence review of DRS at DRS's offices and telephonically.

Meetings of the respective boards of directors of ESSI and DRS were scheduled for September 21, 2005. On September 19, 2005, a draft of the merger agreement and preliminary copies of the financial presentations of Bear Stearns and Merrill Lynch were distributed to members of the DRS board of directors. ESSI, DRS and their respective counsel continued to negotiate the terms of the merger agreement on September 20, 2005, and a revised draft of the merger agreement and a preliminary copy of the financial presentation of Lehman Brothers were distributed to members of the board of directors of ESSI that afternoon.

On September 21, 2005, the ESSI board of directors held a special meeting to consider the merger agreement and the transactions contemplated by it, including the consideration to be received by ESSI shareholders. ESSI's counsel reviewed the terms of the transaction documents and other relevant legal considerations with the board of directors. Representatives of Lehman Brothers delivered a financial

analysis of the consideration to be received by ESSI's shareholders in the merger. Lehman Brothers then orally advised ESSI's board of directors of its opinion that, as of September 21, 2005, and based on and subject to the factors and assumptions set forth in their opinion, the merger consideration to be received by the ESSI shareholders pursuant to the merger agreement was fair, from a financial point of view, to the ESSI shareholders. Lehman Brothers subsequently confirmed its opinion in writing.

The ESSI board of directors also reviewed the interests of certain persons in the transaction, including the terms of the change of control agreements between ESSI and each of Messrs. Potthoff, Gerhardt and Rodrigues. In addition, the board of directors considered and discussed the recommendation of the board's compensation committee that Michael Shanahan, Sr. receive a success fee of \$5.0 million upon consummation of the merger in accordance with the Shanahan MOU, which was entered into when Mr. Shanahan retired as ESSI's executive Chairman and executed a consulting agreement with ESSI. See "Interests of Certain Individuals in the Merger" beginning on page 67. Thereafter, the ESSI board of directors discussed the advisability of the proposed merger, the merger agreement and the transactions contemplated by it. At the conclusion of the discussion, the ESSI board of directors unanimously approved the merger agreement and the transactions contemplated by it, including the merger consideration to be received by ESSI's shareholders, subject to the negotiation of certain other terms of the definitive agreement by ESSI management and legal counsel, and determined to recommend that the shareholders vote to approve the merger agreement and related transactions.

On September 21, 2005, the DRS board of directors held a special meeting to consider the merger agreement and the transactions contemplated by it, including the issuance of DRS common stock under the merger. The DRS board of directors previously had been apprised of the possibility of a transaction with ESSI. DRS's counsel reviewed the terms of the transaction documents and other relevant legal considerations with the board. Representatives of Bear Stearns delivered a financial analysis of the transaction and then orally advised DRS's board of directors of its opinion that, as of September 21, 2005, and based on and subject to the factors and assumptions set forth in their opinion, the merger was fair, from a financial point of view, to DRS. Bear Stearns subsequently confirmed its opinion in writing. Representatives of Merrill Lynch also delivered a financial analysis of the transaction and then advised DRS's board of directors of its opinion that, as of September 21, 2005, and based on and subject to the factors and assumptions set forth in their opinion, the merger was fair, from a financial point of view, to DRS. At the conclusion of the discussion, the DRS board of directors unanimously approved the merger agreement and the transactions contemplated by it, including the issuance of DRS common stock pursuant to the merger, subject to the final negotiation of the definitive agreement by DRS's management and legal counsel, and determined to recommend that the DRS stockholders vote to approve the merger agreement and related transactions.

Final negotiations for the definitive merger agreement continued throughout the day, and the merger agreement was executed by the parties during the evening of September 21, 2005. On the morning of September 22, 2005, ESSI and DRS jointly announced the proposed merger before the opening of the stock market. Although ESSI furnished the Shanahan MOU to DRS on September 20, 2005, indicating that ESSI was required to negotiate in good faith the amount of a reasonable success fee payable to Michael Shanahan, Sr., DRS learned of the amount of the success fee in connection with the filing on September 27, 2005 of a Current Report on Form 8-K by ESSI.

#### **Recommendation of the DRS Board of Directors and Its Reasons for the Merger**

The DRS board of directors believes there are substantial benefits to DRS that can be obtained as a result of the merger. If this transaction is consummated, the DRS board of directors believes that the acquisition of ESSI will enhance DRS's position as a leading provider of defense electronics products and services. At a meeting held on September 21, 2005, the DRS board of directors determined that the merger agreement and the merger are advisable and in the best interest of DRS, and approved the

merger agreement and the transactions contemplated by the merger agreement. Therefore, the DRS board of directors resolved to recommend that the DRS stockholders approve the issuance of shares of DRS common stock pursuant to the merger agreement.

The DRS board of directors consulted with DRS senior management, as well as its legal counsel, Skadden, Arps, Slate, Meagher & Flom LLP, and its financial advisors, Bear Stearns and Merrill Lynch, in reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement. Among the matters considered by the DRS board of directors in its deliberations were the following material factors:

the strategic benefits of the merger, including:

the combination with ESSI's logistics and services capabilities to better align DRS with future DoD requirements, which underscore the need for deployable and mobile forces, and to better position DRS to provide sustainment, reset, modernization and transformation to our customers;

the opportunity to leverage ESSI's well established services and support businesses to further expand DRS's customer base with new relationships, enhance DRS's access to additional program funding sources such as the DoD's operations and maintenance accounts, and to gain access to attractive and flexible contract vehicles;

increased scale to strengthen DRS's ability to secure new contracts by increasing visibility within the DoD and better serving existing customers with an expanded product base integrated solutions and product offerings;

increased program and customer diversification, most notably the Air Force, in light of ESSI's significant and complementary portfolio of contracts; and

the foundation to sell into the evolving homeland defense market by combining ESSI's small scale systems integration capabilities with DRS's array of products and subsystems.

the attractive financial terms of the merger in light of:

information concerning the financial performance and condition, business operations and prospects of DRS, ESSI and the combined company;

the prices paid in comparable transactions involving other similar companies and the trading performance of the stock of comparable companies within the industry; and

the written opinions of Bear Stearns and Merrill Lynch, each dated September 21, 2005, that as of that date, and based upon and subject to the considerations described in their respective opinions and such other matters as each considered relevant, the merger consideration to be paid by DRS was fair to DRS from a financial point of view.

the following terms of the merger agreement:

the exchange ratio with respect to the issuance of DRS shares in the merger is subject to a "collar" which provides that if the average closing sale price of DRS common stock during the ten consecutive trading days prior to the second complete trading day before the closing of the merger is between \$57.20 and \$46.80 per share, the total consideration to be paid to shareholders of ESSI will provide \$43.00 of value per share, consisting of \$30.10 in cash and \$12.90 in DRS common stock. If DRS's average closing sale price is greater than \$57.20 per share or less than \$46.80 per share, ESSI shareholders will receive 0.2255 or 0.2756 of a share of DRS common stock,

respectively. DRS stockholders will benefit from the collar because of the certainty as to the maximum number of shares of DRS common stock to be issued to ESSi shareholders and the maximum percentage of the shares of DRS common stock they will own after the merger;

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

the provisions which prohibit ESSi from soliciting other acquisition offers;

the provisions which require ESSi to pay a \$60.0 million termination fee and up to \$10.0 million in expenses, if the merger agreement is terminated for certain specified reasons; and

the provisions which require DRS to pay \$20.0 million in liquidated damages under certain circumstances if DRS terminates because DRS's financing contemplated in the merger agreement is not available and DRS fails to obtain substitute financing on terms reasonably acceptable to DRS.

The DRS board of directors also considered the following factors, uncertainties and risks in its deliberations concerning the merger. However, the DRS board of directors concluded that these risks were outweighed by the potential benefits of the merger:

the merger related debt could cause DRS to have reduced financial flexibility, including the risk that DRS may have to utilize interim financing and may have difficulty accessing permanent financing;

the collective deliberations and discussions by and among the members of the DRS board of directors;

the competitive nature of the sale process being conducted by ESSi;

the risk that the potential benefits sought in the merger might not be fully realized;

the possibility that the merger might not be completed, or that completion might be unduly delayed, for reasons beyond DRS's control;

the effect of the public announcement of the merger on DRS's and ESSi's stock price;

the risk that DRS may not achieve its expectations with respect to the merger being accretive to DRS earnings per share during its next fiscal year and the projected dilution of DRS earnings per share as a result of the issuance of the shares in the merger;

the risk that DRS management's efforts to integrate ESSi will disrupt the operations of the combined company's operations;

the substantial charges to be incurred in connection with the merger, including the costs of integrating the businesses of DRS and ESSi and the transaction expenses arising from the merger;

the risk that, despite DRS's efforts and the efforts of ESSi after the merger, the combined company may lose key personnel;

the risk that the SEC's investigation of ESSi, as described under "The Merger Certain Legal Matters SEC Investigation" on page 66, could have a material impact on DRS or ESSi; and

the other risks described above under "Risks Relating to the Merger."

The DRS board of directors did not believe that it was practical to and, therefore, did not, quantify, rank or otherwise assign relative weights to the wide variety of factors it considered in evaluating the merger and the merger agreement, nor did the board determine that any one factor was of particular importance in deciding that the merger agreement and associated transactions were in the best interests of DRS and its stockholders. This discussion of information and material factors considered by the DRS board of directors is intended to be a summary rather

than an exhaustive list. In considering these factors, individual members of the board may have given different weight to different factors. The board conducted an overall analysis of the factors described above, and overall considered the factors to support its decision in favor of the merger and the merger agreement. The decision of each member of the DRS board of directors was based upon his own judgment, in light of

all of the information presented, regarding the overall effect of the merger agreement and associated transactions on DRS stockholders as compared with any potential alternative transactions or courses of action. After considering this information, all members of the DRS board of directors unanimously approved the merger agreement and the transactions contemplated by the merger agreement, and recommended that DRS stockholders approve the issuance of shares of DRS common stock pursuant to the merger agreement.

#### **Recommendation of the ESSI Board of Directors and Its Reasons for the Merger**

The ESSI board of directors believes that the merger agreement and the transactions contemplated by the merger agreement are fair to and in the best interests of ESSI and its shareholders and has unanimously approved the merger agreement and the transactions contemplated by the merger agreement. Therefore, the ESSI board of directors unanimously recommends that ESSI shareholders vote for approval of the merger agreement and the transactions contemplated by the merger agreement.

The ESSI board of directors, in reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, consulted with ESSI's executive officers and ESSI's financial and legal advisors and considered a variety of factors weighing positively in favor of the merger, including, but not limited to, the following:

ESSI's business, current financial condition, results of operations and performance of ESSI's stock price;

other strategic alternatives available to ESSI, including pursuing growth through additional acquisitions and continuing to operate as an independent public company. ESSI's board of directors noted ongoing consolidation in the defense industry, which reflects advantages of scale for defense contractors in winning contract awards and profitably performing contracts with the DoD. Although the board of directors believes that ESSI's prospects remain strong as an independent company, the board of directors believes the proposed business combination with DRS on the terms set forth in the merger agreement is more likely to maximize shareholder value than remaining an independent company or pursuing other alternatives. Additionally, the board of directors believes that there are risks and uncertainties associated with remaining an independent public company, including the possibility that future suitable acquisition candidates may not be available at reasonable values and that competition for future acquisitions could intensify and increasing costs and risks associated with integration of acquired businesses, including regulatory compliance;

the fact that the merger consideration would provide ESSI shareholders with an approximately 29% premium over the closing price of the ESSI common stock on September 21, 2005, the last trading day before the announcement of the merger agreement;

the likelihood that the merger would be consummated, given the regulatory and other approvals required in connection with the merger;

the experience, reputation and financial resources of DRS;

DRS's position and past business experience in the defense industry, and ESSI's knowledge of DRS's business, operations, financial condition, earnings and prospects, taking into account the results of ESSI's due diligence review of DRS;

the strategic benefits of the merger, including the belief of the board of directors of ESSI that the merger represents a unique opportunity to combine two companies to create a sizable, diversified industry competitor with a significant business base in technical and logistics support services, integrated military electronics and support equipment;



## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

the opportunity to address uncertainties arising from anticipated management succession issues which, despite the confidence of the board of directors in its management succession plan, could arise as a result of the planned retirement of a number of members of ESSI's current senior management;

the opportunity for ESSI shareholders to receive a combination of cash and DRS shares in exchange for their ESSI shares;

the availability to DRS of the financing commitment from Bear Stearns;

the conclusion of ESSI's board of directors and management that, based upon various inquiries of candidates for possible business combinations in ESSI's industry, it is unlikely that any other party would propose a transaction more favorable to ESSI's shareholders than the merger with DRS;

the general terms of the merger agreement, including but not limited to:

the exchange ratio for determining the number of DRS shares issuable in the merger is subject to a "collar" which provides that if the average closing sale price of DRS's common stock during the ten consecutive trading days prior to the second complete trading day before the closing of the merger is between \$57.20 and \$46.80 per share, ESSI shareholders will receive DRS common stock worth \$12.90 for each ESSI share, in addition to \$30.10 in cash for each ESSI share. If DRS's average closing sale price is greater than \$57.20 or less than \$46.80 per share, the exchange ratio will be 0.2255 or 0.2756 of a share of DRS common stock, respectively;

the ability of the ESSI board of directors to terminate the merger agreement in order to accept a superior proposal;

the conclusion of the board of directors that the provisions which require ESSI to pay a \$60.0 million termination fee and reimburse DRS for up to \$10.0 million in expenses, and the circumstances when those amounts are payable, were reasonable in light of the anticipated benefits of the merger and commercial practice;

the \$20.0 million termination fee payable under certain circumstances by DRS to ESSI if DRS is unable to obtain suitable financing for the transaction on terms reasonably acceptable to DRS; and

the presentation of Lehman Brothers on September 21, 2005 and its opinion that, as of September 21, 2005 and based upon and subject to the factors and assumptions set forth in its opinion, the consideration to be received by ESSI's shareholders pursuant to the merger agreement was fair, from a financial point of view, to the shareholders of ESSI. The full text of the written opinion of Lehman Brothers, dated September 21, 2005, which sets forth the assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this proxy statement.

The ESSI board of directors also considered and balanced against the potential benefits of the merger a number of factors, uncertainties and risks in its deliberations concerning the merger, including the following:

the opportunities for growth and potential for increased shareholder value if ESSI were to remain an independent public company;

conflicts of interests that certain of ESSI's directors and executive officers may have in connection with the merger, as they may receive benefits that are different from, and in addition to, those of the ESSI shareholders. See " Interests of Certain Individuals in the Merger;"

the merger consideration, including the value of DRS shares received, will be taxable to ESSI's shareholders for U.S. federal income tax purposes;

ESSI's obligation to pay DRS a termination fee if the merger agreement is terminated under certain circumstances, which could discourage a competing proposal to acquire ESSI or reduce the price in an alternative transaction;

the possibility that the merger might not be completed, or that completion might be unduly delayed, for reasons beyond ESSI's control;

the effect of the public announcement of the merger on DRS's and ESSI's stock price;

the significant risks and costs that could be incurred by ESSI if the merger does not close, including the diversion of management and employee attention during the period after signing of the merger agreement, potential employee attrition and the potential effect on ESSI's business and customer relations;

restrictions under the merger agreement on the conduct of ESSI's business prior to completion of the merger or termination of the merger agreement which may delay or prevent ESSI from undertaking business opportunities that may arise or preclude actions that would be advisable if ESSI were to remain as an independent public company; and

the other risks described above under "Risks Relating to the Merger."

It was not practical to, and thus the ESSI board of directors did not, quantify, rank or otherwise assign relative weights to the wide variety of factors it considered in evaluating the merger and the merger agreement, nor did the board determine that any one factor was of particular importance in deciding that the merger agreement and associated transactions were in the best interests of ESSI and its shareholders. This discussion of information and material factors considered by the ESSI board of directors is intended to be a summary rather than an exhaustive list. In considering these factors, individual members of the board may have given different weight to different factors. The board conducted an overall analysis of the factors described above, and overall considered the factors to support its decision in favor of the merger and the merger agreement. The decision of each member of the ESSI board of directors was based upon his own judgment, in light of all of the information presented, regarding the overall effect of the merger agreement and associated transactions on ESSI shareholders as compared with any potential alternative transactions or courses of action.

After considering this information, the ESSI board of directors approved the merger agreement and the transactions contemplated by the merger agreement, and recommended that ESSI shareholders approve the merger agreement and the transactions contemplated by the merger agreement.

#### **Opinion of Bear Stearns, Financial Advisor to DRS**

##### *Overview*

At a meeting of DRS's board of directors held on September 21, 2005, at which DRS's board of directors considered the merger agreement and the merger, Bear Stearns rendered its oral opinion (which was subsequently confirmed in a written opinion dated as of September 21, 2005) that, as of such date and based upon and subject to the matters reviewed with DRS's board of directors and the assumptions and limitations contained in Bear Stearns' written opinion, the total consideration paid by DRS for ESSI was fair, from a financial point of view, to DRS.

The full text of the Bear Stearns opinion is attached as Annex B. This description of the Bear Stearns opinion is qualified in its entirety by reference to the full text of the Bear Stearns opinion set forth in Annex B. DRS stockholders are urged to read the Bear Stearns opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Bear Stearns in connection with rendering its opinion. The

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Bear Stearns opinion is subject to the assumptions and conditions stated in the opinion and is necessarily based on economic, market and other conditions and the information made available to Bear Stearns, as of the date of the Bear Stearns opinion. Bear Stearns assumes no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of the Bear Stearns opinion. The Bear Stearns opinion is intended for the benefit and use of the board of directors of DRS and does not constitute a recommendation to the board of directors of DRS or any holders of DRS common stock as to how to vote in connection with the merger. The Bear Stearns opinion does not address DRS's underlying decision to pursue the merger, the relative merits of the merger as compared with any alternative business strategies that might have existed for DRS or the effects of any other transaction in which DRS might engage.

In the course of performing its reviews and analyses for rendering its opinion, Bear Stearns:

reviewed the draft of the merger agreement in substantially final form;

reviewed ESSI's Annual Reports to Shareholders and Annual Reports on Form 10-K for the fiscal years ended October 31, 2004, 2003 and 2002, its Quarterly Reports on Form 10-Q for the periods ended July 31, 2005, April 30, 2005 and January 31, 2005, and its Current Reports on Form 8-K filed during the three-year period ended September 21, 2005;

reviewed DRS's Annual Reports to Stockholders and Annual Reports on Form 10-K for the fiscal years ended March 31, 2005, 2004 and 2003, its Quarterly Reports on Form 10-Q for the periods ended June 30, 2005, December 31, 2004 and September 30, 2004, and its Current Reports on Form 8-K filed during the three-year period ended September 21, 2005;

reviewed certain operating and financial information relating to ESSI's business and prospects, all as prepared and provided to Bear Stearns by ESSI's management;

reviewed projections for ESSI for the five years ended October 31, 2010, as prepared and provided to Bear Stearns by DRS's management;

reviewed certain operating and financial information relating to DRS's business and prospects, including projections for DRS for the five years ended March 31, 2010, all as prepared and provided to Bear Stearns by DRS's management;

reviewed certain estimates of potential cost savings and other combination benefits expected to result from the merger, prepared and provided to Bear Stearns by DRS's management;

met with certain members of ESSI's senior management to discuss ESSI's businesses, operations, historical and projected financial results and future prospects;

met with certain members of DRS's senior management to discuss DRS's and ESSI's businesses, operations, historical and projected financial results and future prospects;

reviewed the historical prices, trading multiples and trading volumes of the common stock of DRS and ESSI;

reviewed publicly available financial data, stock market performance data and trading multiples of companies which Bear Stearns deemed generally comparable to ESSI and DRS;

reviewed the terms of recent mergers and acquisitions involving companies that Bear Stearns deemed generally comparable to the merger;

performed discounted cash flow analyses based on the projections for ESSi as furnished to Bear Stearns by DRS's management;

reviewed the pro forma financial results, financial condition and capitalization of DRS giving effect to the merger; and

conducted such other studies, analyses, inquiries and investigations as Bear Stearns deemed appropriate.

Bear Stearns relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information publicly available or provided to it and adjusted by DRS and ESSI, including, without limitation, the projections and the potential synergy estimates. With respect to DRS's and ESSI's projected financial results and the potential synergies that could be achieved as a result of the merger, Bear Stearns relied on representations that such projected financial results and potential synergies had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the senior management of DRS as to the expected future performance of DRS and ESSI and potential synergies. Bear Stearns did not assume any responsibility for the independent verification of any such information or of the projections and potential synergy estimates provided to it, and Bear Stearns further relied upon the assurances of the senior management of DRS that they are unaware of any facts that would make the information, projections and potential synergy estimates provided to Bear Stearns incomplete or misleading.

In arriving at its opinion, Bear Stearns did not perform or obtain any independent appraisal of the assets or liabilities (contingent or otherwise) of DRS or ESSI, nor was Bear Stearns furnished with any such appraisals. Bear Stearns assumed that the merger will be consummated in a timely manner and in accordance with the terms of the agreement without any limitations, restrictions, conditions, amendments or modifications, regulatory or otherwise, that collectively would have a material effect on DRS or ESSI.

#### *Bear Stearns' Financial Analysis*

The following is a summary of certain material financial and valuation analyses performed by Bear Stearns in connection with rendering its fairness opinion to the DRS board of directors.

*Discounted Cash Flow Analysis.* Bear Stearns performed a discounted cash flow analysis of ESSI for the purpose of determining the estimated equity value range of ESSI. In conducting this analysis, Bear Stearns used ESSI projections as adjusted and provided by DRS. Bear Stearns used the projected after-tax unlevered free cash flows for ESSI plus its terminal value, calculated as a multiple of 9.5x to 11.5x projected fiscal year 2011 earnings before interest, income taxes, depreciation and amortization, which is referred to as EBITDA, and discounted these items to determine the present value using a range of discount rates that corresponds to ESSI's estimated weighted average cost of capital, which is referred to as WACC, during that period. Bear Stearns used a range of WACCs of 10% to 12%, which was based on an unlevered beta range of 0.80 to 1.00 (determined by observing ESSI's and comparable public companies' historical and projected betas). This analysis yielded an implied per-share equity value for ESSI of between \$38.41 to \$48.82.

*Expected Synergy Analysis.* DRS indicated to Bear Stearns that it expected to benefit from savings related to projected overhead reductions post-transaction as well as potential incremental revenue and improved operating margins as a result of the transaction, which together are referred to as "synergies." DRS management quantified the expected benefits of these synergies which were included as part of Bear Stearns' valuation analysis.

Only the projected overhead-related synergies were included in the pro forma forecasted combined company financial information provided by DRS management. These projected synergies include \$1.3 million, \$13.2 million, \$8.8 million and \$0.9 million in fiscal years 2006, 2007, 2008 and 2009, respectively. These synergies are non-perpetual and were valued between \$12.3 million and \$12.6 million (\$0.28 and \$0.29 per share), assuming discount rates of between 12.0% and 10.0%.

DRS also provided Bear Stearns with guidance as to the range of other potential revenue and operating margin synergies expected from the transaction. DRS management believed it could attain revenue synergies ranging from \$30.0 million to \$60.0 million annually. These synergies would result from improved opportunities to market DRS's existing products through new customer channels given ESSi's flexible set of schedule-type contracts. DRS management also indicated that it believed the combined company's increased operating leverage could improve operating margins by 0.50% to 1.0% beginning in fiscal 2008. DRS indicated that operating margin improvement could be attained through the allocation of a fixed overhead over a larger revenue base. DRS further indicated it would expect to attain none of these revenue and operating margin synergies in fiscal 2006 or 2007, but could expect to attain 50% of these synergies in 2008 and 100% thereafter. These synergies are perpetual and are valued between \$140.4 million and \$177.3 million (\$3.19 and \$4.04 per share), assuming discount rates of between 12.0% and 10.0% and terminal multiples between 9.0x and 11.0x.

*Comparable Public Company Trading Analysis.* Bear Stearns performed an analysis of various financial metrics and valuation multiples of selected comparable public companies in the defense electronics and defense services industries to assist DRS's board of directors in valuing ESSi. In performing this analysis, Bear Stearns reviewed certain financial information relating to ESSi and compared this information to the corresponding financial information of other publicly traded defense electronics and defense services companies which Bear Stearns deemed to be reasonably comparable to ESSi based on similar business profiles and operating characteristics.

The defense electronics comparable companies included in Bear Stearns' analysis consisted of:

DRS

EDO Corporation

FLIR Systems, Inc.

General Dynamics Corporation

L-3 Communications Holdings, Inc.

For each of the defense electronics comparable companies listed above, Bear Stearns analyzed multiples of Enterprise Value (which is referred to as EV and is calculated as the sum of the value of the common equity on a fully-diluted basis and the value of net debt, any minority interest and preferred stock) over estimated revenues, EBITDA, and earnings before interest and taxes (which is referred to as EBIT), for the calendar year ending December 31, 2006. Bear Stearns also analyzed multiples of each company's current stock price over estimated earnings per share (which is referred to as EPS) for the calendar year ending December 31, 2006. This analysis was compiled using publicly available information, including closing stock market data as of September 16, 2005 and First Call consensus Wall Street research estimates of calendar year ending December 31, 2006 revenue, EBITDA, EBIT and EPS. Bear Stearns calculated the following range of multiples for the above public comparable companies:

Multiple	Low	High	Mean	Median
EV/2006E Revenue	1.00x	3.66x	1.65	1.20x
EV/2006E EBITDA	7.6x	13.1x	9.8x	9.2x
EV/2006E EBIT	9.9x	14.1x	11.5x	10.9x
Price/2006E EPS	14.9x	21.4x	17.5x	16.8x

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

The defense services comparable companies included in Bear Stearns' analysis consisted of:

Anteon International Corporation

CACI International Inc.

ManTech International Corporation

SI International, Inc.

SRA International, Inc.

For each of the defense services comparable companies listed above, Bear Stearns analyzed multiples of EV over estimated revenues, EBITDA, and EBIT for the calendar year ending December 31, 2006. Bear Stearns also analyzed the multiples of current stock price over EPS for the calendar year ending December 31, 2006. This analysis was compiled using publicly available information, including closing stock market data as of September 16, 2005 and First Call consensus Wall Street research estimates of calendar year ending December 31, 2006 revenue, EBITDA, EBIT and EPS. Bear Stearns calculated the following range of multiples for the above public comparable companies:

Multiple	Low	High	Mean	Median
EV/2006E Revenue	0.84x	1.61x	1.18x	1.04x
EV/2006E EBITDA	8.9x	13.7x	11.5x	11.3x
EV/2006E EBIT	9.6x	16.1x	12.8x	12.0x
Price/2006E EPS	15.8x	25.8x	19.8x	19.1x

Bear Stearns compared the multiples of both the defense electronics and defense services companies to the multiples implied for ESSI at the proposed deal price. The following represents ESSI's 2006 multiples based on DRS management estimates for revenue, EBIT, EBITDA and EPS:

EV/2006E Revenue: 1.62x

EV/2006E EBITDA: 10.9x

EV/2006E EBIT: 12.4x

Price/2006E EPS: 19.7x

Bear Stearns observed that ESSI's implied enterprise and equity value multiples based on the proposed transaction price were within the range of trading multiples for comparable public companies as of September 16, 2005.

*Selected Comparable Precedent Transaction Analysis.* Bear Stearns reviewed five selected comparable precedent merger and acquisition transactions (which are referred to as the precedent transactions) involving U.S. defense electronics and defense services companies as a means of comparison for the transaction. Bear Stearns selected these precedent transactions based on the reasonably similar business profiles and operating characteristics of the target companies in comparison with ESSI. The precedent transactions selected include the following:

L-3 Communication Holdings, Inc./Titan Corporation (announced June 2005)

Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Nortel Networks Corporation/PEC Solutions Inc. (announced April 2005)

ITT Industries Inc./Kodak Remote Sensing Systems (announced February 2004)

DRS/Integrated Defense Technologies, Inc. (announced August 2003)

General Dynamics Corporation/Veridian Corporation (announced June 2003)



## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Bear Stearns analyzed the implied transaction multiples in these precedent transactions on a forward basis. Forward multiples were calculated as the applicable valuation metric (EV, equity value or price) divided by the applicable operating metric (Revenue, EBITDA, EBIT or EPS) for the twelve-month period post-transaction as forecasted by Wall Street equity research on or just prior to the date of the transaction. These comparable transaction multiples were compared with the same multiples implied in this transaction based on ESSi projections provided by DRS management assuming a \$43.00 per share purchase price for ESSi's common stock.

The range of precedent transaction EV/Forward Revenue multiples was 1.10x to 1.64x with a mean of 1.40x and a median of 1.40x which is consistent with the transaction EV/2006E EBITDA multiple of 1.62x for the merger, assuming a \$43.00 per share purchase price for ESSi's common stock.

The range of precedent transaction EV/Forward EBITDA multiples was 9.1x to 13.9x with a mean of 10.9x and a median of 11.2x, which is consistent with the transaction EV/2006E EBITDA multiple of 10.9x for the merger, assuming a \$43.00 per share purchase price for ESSi's common stock.

The range of precedent transaction EV/Forward EBIT multiples was 12.0x to 16.4x with a mean of 13.7x and a median of 13.0x, which is consistent with the transaction EV/2006E EBIT multiple of 12.4x for the merger, assuming a \$43.00 per share purchase price for ESSi's common stock.

The range of precedent transaction equity value/Forward EPS multiples was 17.9x to 27.3x with a mean of 22.0x and a median of 21.5x which is consistent with the transaction equity value/2006E EPS multiple of 19.7x for the merger, assuming a \$43.00 per share purchase price for ESSi's common stock.

*Pro Forma Merger Consequences Analysis.* Bear Stearns performed a pro forma merger analysis to assist the DRS board of directors in analyzing the financial impact of the merger on DRS. Bear Stearns analyzed the pro forma EPS consequences of the transaction to DRS's stockholders with synergies and assumed a transaction closing date of December 31, 2005. Only the projected overhead-related synergies discussed previously were included in the pro forma forecasted combined company financial information provided by DRS management.

For purposes of its analysis, Bear Stearns assumed a DRS closing stock price of \$51.00 per share, which is slightly below the mid-point of the collar range contemplated in the transaction and slightly below DRS's price per share of \$51.40 at September 16, 2005. At the assumed \$51.00 per share price for DRS, the implied exchange ratio is 0.2529x, or 11.114 million DRS shares to be issued.

Including synergies of \$1.3 million in the fiscal year ending in March 2006 and \$13.2 million in the fiscal year ending in March 2007, the annual EPS accretion/(dilution) expected from the transaction is as follows:

Fiscal year ending March 31, 2006: \$0.00 or 0.0%

Fiscal year ending March 31, 2007: \$0.20 or 6.9%

### *Other Considerations*

As described above, Bear Stearns performed a variety of financial and valuation analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and valuation analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to a partial analysis or summary description. Bear Stearns arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and believes that the totality of the factors considered and analyses performed by Bear Stearns in connection with its opinion operated collectively to support its determination as to the fairness, from a financial point of view, of the consideration paid by DRS to ESSi in the transaction. Accordingly, notwithstanding the analyses summarized above, Bear Stearns believes that its analyses must be considered as a whole and that selecting portions of the analyses and

factors considered by them, without considering all such analyses and factors, or attempting to ascribe relative weights to some or all such analyses and factors, could create an incomplete view of the evaluation process underlying the Bear Stearns opinion. Bear Stearns did not assign any specific weight to any of the analyses described above and did not draw any conclusions from or with regard to any one method of analysis.

In performing its analyses, Bear Stearns considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of DRS, ESSI and Bear Stearns. The analyses performed by Bear Stearns are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Accordingly, such analyses are inherently subject to substantial uncertainty.

The form and amount of consideration payable in the merger were determined through negotiations between DRS and ESSI and approved by the DRS board of directors. Bear Stearns did not express any opinion as to the price or range of prices at which the shares of common stock of DRS or ESSI may trade subsequent to the announcement or consummation of the merger or as to the price or range of prices at which the shares of common stock of DRS may trade subsequent to the consummation of the merger. The decision to enter into the merger agreement was solely that of the DRS board of directors. The analyses do not purport to be appraisals or to reflect the prices at which any securities may trade at the present time or at any time in the future. In addition, the Bear Stearns opinion was just one of the many factors taken into consideration by the DRS board of directors. Consequently, Bear Stearns' analyses should not be viewed as determinative of the decision the DRS board of directors or DRS's management with respect to the fairness of the merger consideration.

Bear Stearns was selected by the DRS board of directors to act as DRS's financial advisor and to render a fairness opinion because of its expertise and reputation in investment banking and mergers and acquisitions and its familiarity with DRS, ESSI and the U.S. defense electronics and defense services industries. Bear Stearns is an internationally recognized investment banking firm and is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, spin-offs, split-offs and other corporate restructurings, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, leveraged buyouts and valuations for estate, corporate and other purposes.

In the ordinary course of business, Bear Stearns and its affiliates actively trade the equity and debt securities and/or bank debt of DRS and/or ESSI for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities or bank debt. Bear Stearns previously has been engaged by DRS to provide certain investment banking and financial advisory services for which it received customary fees. Pursuant to its engagement letter with Bear Stearns, DRS agreed to pay Bear Stearns the following fees:

\$5,000,000 payable on the date DRS requested Bear Stearns to deliver a fairness opinion (September 21, 2005); and

\$13,000,000 payable upon the completion of the merger.

Certain of Bear Stearns' affiliates have provided financing commitments in connection with the merger for which they have received and will receive customary compensation. See " DRS Financing" beginning on page 64.

#### **Opinion of Merrill Lynch, Financial Advisor to DRS**

On September 15, 2005, DRS engaged Merrill Lynch to act as its financial advisor in connection with the proposed merger, and to render an opinion as to whether the consideration to be paid by DRS pursuant to the merger was fair from a financial point of view to DRS.

On September 21, 2005, Merrill Lynch delivered its oral opinion to the board of directors of DRS, subsequently confirmed in its written opinion as of that same date, that, as of that date, and based upon and subject to the assumptions made, matters considered and qualifications and limitations set forth in the written opinion, the merger consideration to be paid by DRS pursuant to the merger was fair, from a financial point of view, to DRS.

The full text of the written opinion of Merrill Lynch, dated September 21, 2005, which sets forth the assumptions made, matters considered and qualifications and limitations on the review undertaken by Merrill Lynch, is attached as Annex C to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference. The following summary of Merrill Lynch's opinion is qualified in its entirety by reference to the full text of the opinion. Stockholders of DRS are urged to read and should read the entire opinion carefully. Merrill Lynch has consented to the inclusion in this joint proxy statement/prospectus of its opinion dated September 21, 2005 and of the summary of that opinion set forth below.

In preparing its opinion to the board of directors of DRS, Merrill Lynch performed various financial and comparative analyses, including those described below. The summary set forth below does not purport to be a complete description of the analyses underlying Merrill Lynch's opinion or the presentation made by Merrill Lynch to the board of directors of DRS. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Merrill Lynch did not attribute any particular weight to any analysis or factor considered by it, but rather made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. Accordingly, Merrill Lynch believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors, or focusing on information presented in tabular format, without considering all of the analyses and factors or the narrative description of the analyses, would create a misleading or incomplete view of the process underlying its opinion.

In performing its analyses, Merrill Lynch made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Merrill Lynch. Any estimates contained in the analyses performed by Merrill Lynch are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by such analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, as described above, the opinion of Merrill Lynch was one of several factors taken into consideration by the board of directors of DRS in making its determination to approve the merger and the issuance of shares of DRS in the merger. Consequently, Merrill Lynch's analyses as described below should not be viewed as determinative of the decision of the board of directors of DRS with respect to the fairness from a financial point of view of the merger consideration to be paid by DRS pursuant to the merger.

In arriving at its opinion, Merrill Lynch, among other things:

reviewed certain publicly available business and financial information relating to DRS and ESSI that Merrill Lynch deemed to be relevant;

reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of DRS and ESSI, as well as the amount and timing of the cost savings and related expenses and synergies expected to result from the merger, which is referred to as the expected synergies, furnished to Merrill Lynch by DRS and ESSI, respectively;

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

conducted discussions with members of senior management and representatives of DRS concerning the matters described in the preceding two bullet points, as well as the business and prospects before and after giving effect to the merger and the expected synergies;

reviewed the market prices and valuation multiples for ESSi's common stock and DRS common stock and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

reviewed the results of operations of DRS and ESSi and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

compared the proposed financial terms of the merger with the financial terms of certain other transactions that Merrill Lynch deemed to be relevant;

participated in certain discussions among representatives of DRS and ESSi and their financial and legal advisors;

reviewed the potential pro forma impact of the merger on DRS;

reviewed a draft of the merger agreement dated September 19, 2005; and

reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including its assessment of general economic, market and monetary conditions.

In preparing its opinion, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to it, discussed with or reviewed by or for it, or that was publicly available. Merrill Lynch did not assume any responsibility for independently verifying such information and did not undertake any independent evaluation or appraisal of any of the assets or liabilities of DRS or ESSi and it was not furnished with any such evaluation or appraisal, nor did it evaluate the solvency or fair value of DRS or ESSi under any state or federal laws relating to bankruptcy, insolvency or similar matters. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of DRS or ESSi. With respect to the financial forecast information and the expected synergies furnished to or discussed with Merrill Lynch by DRS or ESSi, Merrill Lynch assumed that they had been reasonably prepared and reflected the best currently available estimates and judgment of the management of DRS or ESSi as to the expected future financial performance of DRS or ESSi, as the case may be, and the expected synergies. Merrill Lynch expresses no opinion as to such financial forecast information, including the expected synergies, or the assumptions on which they are based. Merrill Lynch also assumed that the final form of the merger agreement would be substantially similar to the last draft reviewed by it.

Merrill Lynch's opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information made available to Merrill Lynch as of September 21, 2005. Merrill Lynch assumed that the transactions described in the merger agreement will be consummated on the terms set forth therein, without material modification or waiver. Merrill Lynch further assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirements or amendments or modifications, would be imposed that will have a material adverse effect on the contemplated benefits of the merger.

Pursuant to its engagement letter, DRS agreed to pay Merrill Lynch a fee of \$1.5 million for its financial advisory services. DRS also agreed to indemnify Merrill Lynch and certain related persons and entities for certain liabilities, including liabilities under the U.S. federal securities laws, related to or arising out of its engagement.

Merrill Lynch currently is providing, and has in the past provided, financial advisory and financing services to DRS and ESSI and/or their respective affiliates unrelated to the proposed merger and may continue to do so. Merrill Lynch has received, and may receive, fees for the rendering of such services. In addition, in the ordinary course of its business, Merrill Lynch may actively trade the common stock of ESSI and other securities of ESSI, as well as the common stock of DRS and other securities of DRS, for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Merrill Lynch's opinion is addressed to the board of directors of DRS and addresses only the fairness, from a financial point of view, of the consideration to be paid by DRS pursuant to the merger. The opinion does not address the merits of the underlying decision of DRS to engage in the merger and does not constitute, nor should it be construed as, a recommendation to any stockholder of DRS as to how that stockholder should vote with respect to the proposed merger or any other matter. In addition, the opinion of Merrill Lynch does not address, and Merrill Lynch was not asked to address, the fairness to, or any other consideration of, the holders of any other class of securities, creditors or other constituencies of DRS. Merrill Lynch did not express any opinion as to the prices at which the common stock of DRS will trade following the announcement or consummation of the merger.

#### *Merrill Lynch's Financial Analysis*

The following is a summary of the material financial analyses that Merrill Lynch performed in connection with its opinion to the DRS board of directors dated September 21, 2005. **The financial analyses summarized below include information presented in tabular format. In order to understand fully the financial analyses performed by Merrill Lynch, the tables must be read together with the accompanying text of each summary. The tables alone do not constitute a complete description of the financial analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Merrill Lynch. To the extent the following quantitative information reflects market data, except as otherwise indicated, Merrill Lynch based this information on market data as they existed prior to September 21, 2005. This information, therefore, does not necessarily reflect current or future market conditions.**

*Analysis of Selected Comparable Publicly Traded Companies.* Using publicly available information concerning historical financial results, Merrill Lynch compared financial and operating information and ratios for ESSI with the corresponding financial and operating information and measurements for a selected group of publicly traded companies in the defense industry that Merrill Lynch deemed to be reasonably comparable to ESSI.

The publicly traded companies selected as the primary comparable companies to ESSI were: (1) General Defense Companies (Lockheed Martin Corp., Harris Corp., General Dynamics Corp., Alliant Techsystems Inc., Northrop Grumman Corp., DRS, Raytheon Company, Teledyne Technologies Inc. and L-3 Communications, and (2) Defense IT Companies (Anteon International, Mantech International and SI International).

The financial and operating information and valuation measurements reviewed by Merrill Lynch included, among other things, the ratio of price per share to estimated EPS for calendar year 2006, and the ratio of total enterprise value (calculated as equity value, plus total debt, preferred stock and minority investments, less cash and cash equivalents) to estimated EBITDA for calendar year 2006. All multiples were based on closing stock prices on September 16, 2005. Estimated financial data for the selected comparable companies were based on First Call estimates as of September 16, 2005 and publicly available research analysts' estimates.

Based on this analysis, Merrill Lynch derived a range of implied values of ESSI common stock of \$32.75 to \$39.25 per share using the multiple of price per share to estimated earnings per share for calendar year 2006, and from \$31.75 to \$39.50 per share using the multiple of total enterprise value to

estimated calendar year 2006 EBITDA. Merrill Lynch utilized comparable publicly traded company analysis to establish a fair trading value of ESSI common stock vis-à-vis the publicly traded companies in the defense industry that Merrill Lynch deemed to be reasonably comparable to ESSI.

Although similar, none of the selected comparable companies is identical to ESSI. Accordingly, Merrill Lynch believes a complete analysis of the foregoing calculations cannot be limited to a quantitative review of the results. Rather, it involves complex considerations and qualitative judgments concerning differences in financial and operating characteristics of the selected comparable companies and other factors that could affect the public trading dynamics of the selected comparable companies, as well as ESSI.

*Discounted Cash Flow Analysis.* Merrill Lynch performed a discounted cash flows analysis for ESSI as a stand-alone entity. Merrill Lynch calculated the discounted cash flow values for ESSI as the sum of the net present values of:

the estimated future free cash flows that ESSI would generate for fiscal 2006 through 2009; and

the terminal value of ESSI at the end of that period.

The estimated future free cash flows were based on financial projections from ESSI adjusted by the management of DRS. The terminal values for ESSI were calculated based on projected 2009 EBIT and a range of multiples of EBIT ranging from 11.0x to 13.0x. Merrill Lynch used discount rates ranging from 9.0% to 11.0% for ESSI based on Merrill Lynch's judgment of the estimated weighted average cost of capital of ESSI, and the EBIT multiples were based on its review of the trading characteristics of ESSI.

Based on the discounted cash flow analysis, Merrill Lynch derived a range of the implied value per share of ESSI common stock, treating ESSI as a stand-alone entity, from \$38.00 to \$46.50 per share. Merrill Lynch compared each of this range of values to \$43.00, which represents the merger consideration per share ESSI shareholders will receive in cash (\$30.10) and DRS common stock (\$12.90, assuming the average closing sale price per share of DRS common stock on the NYSE composite transactions reporting system for each of the ten consecutive trading days ending with the second complete trading day prior to completion of the merger is between \$46.80 and \$57.20 per share).

*Analysis of Selected Precedent Transactions.* Merrill Lynch reviewed five mergers and acquisitions transactions announced since June 9, 2003 in the defense industry. The transactions reviewed, which are referred to as the selected transactions, are: L-3 Communications' acquisition of Titan Corp. (June 3, 2005); BAE Systems' acquisition of United Defense (March 8, 2005); BAE Systems' acquisition of Alvis PLC (June 3, 2004); DRS's acquisition of Integrated Defense Technologies (August 18, 2003); and General Dynamics' acquisition of Veridian (June 9, 2003).

For each of the selected precedent transactions, Merrill Lynch determined that the relevant ratio of total enterprise value of each target to the target's LTM EBITDA ranged from 11.0x to 14.0x, which, when applied to the LTM EBITDA for ESSI, implied a range of values of \$37.25 to \$47.00 per share. Merrill Lynch also determined that the relevant ratios of total enterprise value to LTM EBIT for the selected transactions ranged from 14.0x to 17.0x, which, when applied to the LTM EBIT for ESSI, implied a range of values of \$42.00 to \$50.75 per share. Merrill Lynch compared those ranges of values to \$43.00, which represents the merger consideration per share ESSI will receive in cash (\$30.10) and DRS common stock (\$12.90, assuming the average closing sale price per share of DRS common stock on the NYSE composite transactions reporting system for each of the ten consecutive trading days ending with the second complete trading day prior to completion of the merger is between \$46.80 and \$57.20 per share).

The analysis for the selected transactions was based on public information available at the time of announcement of such transactions, without taking into account differing market and other conditions during the period between which the selected transactions were announced.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

*Pro Forma Merger Analysis.* Merrill Lynch analyzed the pro forma impact of the proposed merger on DRS's EPS for the fiscal years ending March 31, 2007, 2008 and 2009. For purposes of this analysis, Merrill Lynch used the financial projections from ESSI adjusted by the management of DRS and the financial information and projections for DRS and expected synergies provided by the management of DRS and incorporated certain assumptions with respect to the value of identifiable intangibles and other adjustments resulting from the proposed merger and various structural considerations.

Merrill Lynch determined that, excluding the expected synergies but including the other pro forma adjustments, the proposed merger with ESSI would be accretive to DRS's EPS in each fiscal year analyzed (2007, 2008 and 2009). Incorporating the expected synergies and the other pro forma adjustments into the analysis, the proposed merger with ESSI would be more than \$0.20 per share accretive to DRS's EPS in each fiscal year analyzed (2007, 2008 and 2009).

### *Other Factors*

In the course of preparing its opinion, Merrill Lynch also reviewed and considered other information and data, including the following:

trading characteristics of DRS common stock and ESSI common stock;

historical market prices for DRS common stock and ESSI common stock; and

selected research analysts' reports on DRS and ESSI, including stock price targets of those analysts.

### *General*

In conducting its analyses and arriving at its opinions, Merrill Lynch utilized a variety of generally accepted valuation methods. The analyses were prepared solely for the purpose of enabling Merrill Lynch to provide its opinion to the board of directors of DRS as to the fairness, from a financial point view to DRS of the merger consideration to be paid by DRS pursuant to the merger and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty. In connection with its analyses, Merrill Lynch made, and was provided by the management of DRS and ESSI's management with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Merrill Lynch, ESSI or DRS. Analyses based on estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of DRS, ESSI or their respective advisors, neither DRS nor Merrill Lynch nor any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

DRS retained Merrill Lynch based upon Merrill Lynch's experience and expertise. Merrill Lynch is an internationally recognized investment banking and advisory firm. Merrill Lynch, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

The terms of the merger were determined through negotiations between ESSI and DRS and were approved by the board of directors of DRS. Although Merrill Lynch provided advice to DRS during the course of these negotiations, the decision to enter into the merger was solely that of the board of directors of DRS. As described above, the opinion and presentation of Merrill Lynch to the board of directors of DRS were only one of a number of factors taken into consideration by the board of

directors of DRS in making its determination to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger. Merrill Lynch's opinion was provided to the board of directors of DRS to assist it in connection with its consideration of the merger and does not constitute a recommendation to any stockholder as to how to vote or take any other action with respect to the merger. Merrill Lynch's opinion does not in any manner address the prices at which shares of DRS's common stock will trade after the announcement or completion of the merger.

Subsequent to Merrill Lynch serving as financial advisor to DRS and rendering its opinion as to fairness, and at the request of DRS, an affiliate of Merrill Lynch has committed to participate as a lender in the interim loan facility to DRS, which will be used by DRS to finance the merger in the event the placement of permanent debt financing has not been consummated by the effective time of the merger. See "DRS Financing" beginning on page 64. DRS has agreed with Merrill Lynch that Merrill Lynch will also be a co-manager in respect to the placement of DRS's permanent debt financing. Merrill Lynch and its affiliate will receive customary fees in connection with their participation in such financings.

#### **Opinion of Lehman Brothers, Financial Advisor to ESSI**

In August 2005, the ESSI board of directors engaged Lehman Brothers to act as its financial advisor with respect to exploring its strategic alternatives. In connection with this engagement, Lehman Brothers provided financial advice to ESSI regarding the proposed merger. On September 21, 2005, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the ESSI board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the consideration to be paid by DRS to the shareholders of ESSI in the merger was fair to such shareholders.

**The full text of Lehman Brothers' written opinion, dated September 21, 2005, is attached as Annex D to this joint proxy statement/prospectus. You are encouraged to read Lehman Brothers' opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers' opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.**

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the ESSI board of directors in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any shareholder of ESSI as to how such shareholder should vote in connection with the merger. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not address, ESSI's underlying business decision to proceed with or effect the merger.

In arriving at its opinion, Lehman Brothers reviewed and analyzed, among other things:

the merger agreement and the specific terms of the merger;

publicly available information concerning ESSI and DRS that Lehman Brothers believed to be relevant to its analysis, including certain periodic reports filed by ESSI and DRS, including their most recent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q;

financial and operating information with respect to the business, operations and prospects of ESSI furnished to Lehman Brothers by ESSI, including financial projections prepared by ESSI's management;

financial and operating information with respect to the business, operations and prospects of DRS furnished to Lehman Brothers by DRS;



## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

publicly available third-party research estimates with respect to both ESSI and DRS;

trading histories of ESSI common stock and of DRS common stock from September 20, 2000 through September 19, 2005 and a comparison of each company's trading histories with those of other companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results and present financial condition of ESSI and DRS with those of other companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the merger with the financial terms of certain other transactions that Lehman Brothers deemed relevant; and

the results of Lehman Brothers' efforts to solicit indications of interest and definitive proposals from third parties with respect to an acquisition of ESSI.

In addition, Lehman Brothers had discussions with the management of each of ESSI and DRS concerning their respective businesses, operations, assets, financial conditions and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of ESSI and DRS that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of ESSI, upon advice of ESSI, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of ESSI as to ESSI's future financial performance and that ESSI would perform substantially in accordance with such projections. With respect to the publicly available research reports of DRS, upon advice of DRS, Lehman Brothers assumed that such research estimates with respect to DRS's future financial performance were a reasonable basis upon which to evaluate DRS's future financial performance and that DRS would perform substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct or obtain any evaluations or appraisals of the assets or liabilities of ESSI or DRS, nor did it conduct a physical inspection of the properties and facilities of ESSI or DRS. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, September 21, 2005.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to the ESSI board of directors. **In order to fully understand the financial analyses used by Lehman Brothers, the summary of the analyses must be considered as a whole. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors considered, could create a misleading or incomplete view of the process underlying Lehman Brothers' opinion.**

### *ESSI Valuation*

*Comparable Company Analysis.* Lehman Brothers reviewed and compared specific financial and operating data relating to ESSI with that of selected publicly traded companies that Lehman Brothers deemed comparable to ESSI. Lehman Brothers chose the companies used in the Comparable Company Analysis based on their similarity to ESSI in the mix and characteristics of their businesses. For ESSI, Lehman Brothers included in its review the following comparable companies:

Lockheed Martin Corporation

General Dynamics Corporation

Northrop Grumman Corporation



Alliant Techsystems Inc.

Moog Inc.

Esterline Technologies Corporation

EDO Corporation

For each comparable company, Lehman Brothers calculated multiples of enterprise value over EBITDA and multiples of current stock price over EPS based upon estimates of EBITDA and EPS for each of the calendar years ending December 31, 2005 and 2006. Lehman Brothers applied a range of multiples derived from this analysis to ESSI's projected adjusted EBITDA and EPS for each of the calendar years ending December 31, 2005 and 2006. All of these calculations were performed and based on management projections for ESSI, and utilized closing prices, as of September 19, 2005.

The analysis of various financial multiples indicated that, for the selected comparable companies, enterprise value as a multiple of projected 2005 EBITDA and 2006 EBITDA ranged from 8.5x to 10.0x, and 7.5x to 9.0x, respectively. Based on each of those selected multiples, Lehman Brothers calculated per-share equity reference ranges for ESSI common stock, based on projected 2005 EBITDA, between \$31.65 and \$37.30 per share and, based on projected 2006 EBITDA, between \$31.10 and \$37.40 per share.

The analysis of current stock price to EPS indicated that, for the selected comparable companies, the ratio of current stock price to projected 2005 and 2006 EPS ranged from 16.5x to 18.0x, and 15.0x to 16.5x, respectively. Based on each of those selected multiples, Lehman Brothers calculated per-share equity reference ranges for ESSI common stock, based on projected 2005 EPS, between \$34.95 and \$38.10 per share and, based on projected 2006 EPS, between \$35.20 and \$38.75 per share.

These implied stand-alone public market trading values did not include any value an acquirer may derive from consolidated ownership such as synergies, cost savings and enhanced revenue opportunities.

Lehman Brothers selected the comparable companies above because their businesses and operating profiles are reasonably similar to those of ESSI. However, because of the inherent differences between the business, operations and prospects of ESSI and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as ESSI. Therefore, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Comparable Company Analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of ESSI and the companies included in the Comparable Company Analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between ESSI and the companies included in the Comparable Company Analysis.

*Comparable Transaction Analysis.* Using publicly available information, Lehman Brothers reviewed and compared the purchase prices and financial multiples paid in ten acquisitions of companies that Lehman Brothers, based on its experience, deemed relevant to arriving at its opinion. Lehman Brothers chose the transactions used in the Comparable Transaction Analysis based on the similarity of the target companies in the transactions to ESSI in the size, mix, margins and other relevant characteristics of their businesses. Lehman Brothers reviewed the following transactions:

Acquisition of Newport News Shipbuilding Inc. by Northrop Grumman Corporation

Acquisition of the Aircraft Integration Systems business of Raytheon Company by L-3 Communications Corporation

Acquisition of Advanced Technical Products, Inc. by General Dynamics Corporation

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

Acquisition of United States Marine Repair, Inc. by United Defense Industries, Inc.

Acquisition of TRW, Inc. by Northrop Grumman Corporation

Acquisition of General Motors Defense, a business unit of General Motors Corporation, by General Dynamics Corporation

Acquisition of Integrated Defense Technologies, Inc. by DRS Technologies, Inc.

Acquisition of Alvis plc by BAE Systems plc

Acquisition of K&F Industries, Inc. by AAKF Acquisition, Inc. (an affiliate of certain funds of Aurora Capital Partners, L.P.)

Acquisition of United Defense Industries, Inc. by BAE Systems plc

Lehman Brothers considered the transaction values as multiples of the then forward projected twelve-month EBITDA.

The reasons for and the circumstances surrounding each of the transactions analyzed were diverse and there are inherent differences in the business, operations, financial conditions and prospects of ESSI, and the businesses, operations, financial conditions and prospects of the companies included in the Comparable Transaction Analysis. Accordingly, Lehman Brothers believed that a purely quantitative comparable transaction analysis would not be particularly meaningful in the context of the merger. Lehman Brothers believed that the appropriate use of the Comparable Transaction Analysis required qualitative judgments concerning the differences between the characteristics of these transactions and the merger, which would affect the acquisition values of the acquired companies and ESSI.

Lehman Brothers applied a range of multiples (8.5x to 10.5x) to ESSI's forward projected twelve-month EBITDA (using EBITDA for the fourth quarter of calendar year 2005 plus the first three quarters of 2006). Based on this range of multiples, the analysis indicates a range of equity values per share of \$34.40 to \$42.40. Using a median forward twelve-month EBITDA multiple of 8.7x, the analysis indicated an equity value of \$35.25 per share.

*ESSI Discounted Cash Flow Analysis.* As part of its analysis, and in order to estimate the present value of ESSI common stock, Lehman Brothers prepared a five-year Discounted Cash Flow Analysis for ESSI of projected after-tax unlevered free cash flows for fiscal years 2006 through 2010.

A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the "present value" of estimated future cash flows of the asset. "Present value" refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Lehman Brothers performed a Discounted Cash Flow Analysis for ESSI by adding (1) the present value of ESSI's projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 to (2) the present value of the "terminal value" of ESSI as of 2010. "Terminal value" refers to the value of all future cash flows from an asset at a particular point in time.

To estimate the terminal value of ESSI at the end of the forecast period, Lehman Brothers applied LTM EBITDA multiples in 2010 of 8.0x to 9.0x. These terminal multiples imply perpetuity annual growth rates of 3.3% to 4.4%. Lehman Brothers discounted the unlevered free cash flows and the estimated terminal value to a present value at a range of after-tax discount rates ranging from 10.0% to 12.0% per annum. This range of discount rates was based on an analysis of ESSI's weighted average cost of capital and those of other comparable companies. Lehman Brothers calculated the implied per-share equity values for ESSI by first determining a range of enterprise values of ESSI by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt

(which is total debt minus cash) of ESSI, and dividing those amounts by the number of fully-diluted shares of ESSI.

Based on the projections and assumptions set forth above, the Discounted Cash Flow Analysis of ESSI yielded an implied valuation range of ESSI common stock of \$38.25 to \$45.05 per share.

*Leveraged Buyout Analysis.* Lehman Brothers performed a Leveraged Buyout Analysis in order to ascertain the price which might be achieved in a leveraged buyout transaction based upon current market conditions. In conducting this analysis, Lehman Brothers assumed the following: (1) a capital structure comprised of \$1,105 million in total debt (or approximately 6.0x LTM EBITDA), (2) an equity investment that would achieve a minimum annual rate of return ranging from 25% to 30% on equity invested during a five-year period and (3) a projected EBITDA terminal value multiple of 8.5x LTM EBITDA. Based on these assumptions, the range of implied leveraged acquisition prices per share of ESSI common stock was \$33.70 to \$35.75.

*Premium Paid Analysis.* Lehman Brothers compared the premium proposed to be paid in the merger with premiums paid in mergers and acquisitions transactions for domestic companies in the industrial sector that were announced or completed between January 1, 2002 and September 8, 2005 with transaction values greater than \$250.0 million. Lehman Brothers calculated the premium per share paid by the acquirer compared with the share price of the target company prevailing (1) one day, (2) one week and (3) four weeks prior to the announcement of the transaction.

Based on the analysis, Lehman Brothers applied a premium range of 20% to 25% to ESSI's stock price on September 19, 2005, which yielded an implied equity value per share range of \$34.95 to \$39.60.

#### *DRS Valuation*

Given that approximately 30% of the value of the merger consideration will be paid in DRS common stock, Lehman Brothers conducted financial analyses that it deemed appropriate to evaluate the public market valuation of DRS's common stock as it relates to any impact on the value of the merger consideration to be received by the ESSI shareholders. The stock component of the merger consideration is based on a fixed-value formula, subject to a collar, that is described elsewhere in this joint proxy statement/prospectus. Due to the fact that (1) 70% of the merger consideration will be paid in cash; (2) the 30% of the merger consideration to be paid in DRS stock is fixed in value within the range of the above-mentioned collar; and (3) DRS's common stock is publicly traded on the NYSE, Lehman Brothers' analysis necessarily was focused on reviewing the value of DRS's stock for material mispricing. In order to do this, Lehman Brothers performed a Comparable Company Analysis and a Discounted Cash Flow Analysis. Based on these analyses, Lehman Brothers calculated a mean per-share equity reference range for DRS common stock of between \$45.15 and \$54.60 per share.

*DRS Comparable Company Analysis.* Lehman Brothers reviewed and compared specific financial and operating data relating to DRS with that of selected publicly traded companies that Lehman Brothers deemed comparable to DRS. Lehman Brothers chose the companies used in the Comparable Company Analysis based on their similarity to DRS in the mix and characteristics of their businesses. For DRS, Lehman Brothers included in its review the following comparable companies:

Raytheon Company

L-3 Communications Corporation

Lockheed Martin Corporation

General Dynamics Corporation

Northrop Grumman Corporation

Alliant Techsystems Inc.

Moog Inc.

Esterline Technologies Corporation

EDO Corporation

For each comparable company, Lehman Brothers calculated multiples of enterprise value over EBITDA and multiples of current stock price over EPS, based upon estimates of EBITDA and EPS for each of the calendar years ending December 31, 2005 and 2006. Lehman Brothers applied a range of multiples derived from this analysis to DRS's projected EBITDA and EPS, as applicable, for each of the calendar years ending December 31, 2005 and 2006. All of these calculations were performed, and based on publicly available financial data (including Institutional Brokers Estimate System consensus estimates for EPS) and closing prices, as of September 19, 2005.

The analysis of various financial multiples indicated that, for the selected comparable companies, enterprise value as a multiple of projected 2005 and 2006 EBITDA ranged from 9.0x to 10.5x, and 8.0x to 9.5x, respectively. Based on each of those selected multiples, Lehman Brothers calculated per-share equity reference ranges for DRS common stock, based on projected 2005 EBITDA, between \$46.30 and \$56.65 per share and, based on projected 2006 EBITDA, between \$47.05 and \$58.80 per share.

In the process of conducting its analysis, Lehman Brothers concluded that DRS's equity value is more accurately valued on an EBITDA multiple basis, as opposed to a price-to-earnings, or P/E, basis. This perspective is supported specifically by certain research analysts who cover DRS's stock and who indicate that a P/E multiple approach may undervalue DRS's value. Lehman Brothers concluded it was still appropriate to calculate the equity value of DRS implied by the P/E multiple approach as a data point, but noted that the results of this valuation methodology would be less indicative of the value of the DRS common stock than perceived by the market. The analysis of current stock price to EPS indicated that, for the selected comparable companies, the ratio of current stock price to projected 2005 and 2006 EPS ranged from 17.0x to 20.0x, and 15.0x to 17.0x, respectively. Based on each of those selected multiples, Lehman Brothers calculated per-share equity reference ranges for DRS common stock, based on projected 2005 EPS, between \$41.15 and \$48.40 per share and, based on projected 2006 EPS, between \$41.50 and \$47.00 per share.

Lehman Brothers selected the comparable companies above because their businesses and operating profiles are reasonably similar to those of DRS. However, because of the inherent differences between the business, operations and prospects of DRS and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as DRS. Therefore, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Comparable Company Analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of DRS and the companies included in the Comparable Company Analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degrees of operational risk between DRS and the companies included in the Comparable Company Analysis.

#### *DRS Discounted Cash Flow Analysis*

As part of its analysis, and in order to estimate the present value of DRS common stock, Lehman Brothers prepared a five-year Discounted Cash Flow Analysis for DRS of projected after-tax unlevered free cash flows for fiscal years 2006 through 2010. Lehman Brothers performed a Discounted Cash Flow Analysis for DRS by adding (1) the present value of DRS's projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 to (2) the present value of the terminal value of DRS as of 2010.

## Edgar Filing: DRS TECHNOLOGIES INC - Form 424B3

To estimate the terminal value of DRS at the end of the forecast period, Lehman Brothers applied LTM EBITDA multiples in 2010 of 8.0x to 9.0x. These terminal multiples imply perpetuity annual growth rates of 3.0% to 4.3%. Lehman Brothers discounted the unlevered free cash flows and the estimated terminal value to a present value at a range of after-tax discount rates ranging from 8.0% to 10.0% per annum. This range of discount rates was based on an analysis of DRS's weighted average cost of capital and those of other comparable companies. Lehman Brothers calculated the implied per-share equity values for DRS by first determining a range of enterprise values of DRS by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of DRS, and dividing those amounts by the number of fully diluted shares of DRS.

The DRS projections used in the Discounted Cash Flow analysis consisted of published estimates of third party research analysts, the content of which was discussed and confirmed by DRS management as a reasonable basis upon which to evaluate DRS's future financial performance. Based on the projections and assumptions set forth above, the Discounted Cash Flow Analysis of DRS yielded an implied valuation range of DRS common stock of \$49.65 to \$62.15 per share.

### *Pro Forma Analysis*

Lehman Brothers analyzed the pro forma effect of the merger on the pro forma EPS of DRS. For purposes of this analysis, Lehman Brothers used publicly available research estimates of calendar year 2006 EPS for DRS. This analysis indicated that the merger would be approximately 8.7% accretive to DRS's pro forma calendar year 2006 EPS assuming no pre-tax synergies.

The financial forecasts and assumptions that underlie this analysis are subject to substantial uncertainty and exclude one-time costs that may be incurred in connection with the transaction and, therefore, actual results may be substantially different than those presented.

### *General*

In connection with the review of the merger by ESSI's board of directors, Lehman Brothers performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Lehman Brothers considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, Lehman Brothers believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of its analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion. In addition, Lehman Brothers may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Lehman Brothers' view of the actual value of ESSI or DRS.

In performing its analyses, Lehman Brothers made numerous assumptions with respect to industry risks associated with reserves, industry performance, general business and economic conditions and other matters, many of which are beyond the control of ESSI or DRS. Any estimates contained in Lehman Brothers' analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of Lehman Brothers' analysis of the fairness from a financial point of view to ESSI shareholders of the consideration to be received in the merger and were prepared in connection with the delivery by Lehman Brothers of its opinion, dated September 21, 2005, to ESSI's board of directors. The analyses do not purport to be appraisals or to reflect the prices at which ESSI common stock or DRS common stock might trade following announcement of the merger or the prices at which DRS common stock might trade following consummation of the merger.

The terms of the merger were determined through arm's length negotiations between ESSI and DRS and were unanimously approved by ESSI's and DRS's boards of directors. Lehman Brothers did not recommend any specific price per share or form of consideration to ESSI or that any specific price per share or form of consideration constituted the only appropriate consideration for the merger. Lehman Brothers' opinion was provided to ESSI's board of directors to assist it in its consideration of the price per share in the merger. Lehman Brothers' opinion does not address any other aspect of the proposed merger and does not constitute a recommendation to any shareholder as to how to vote or to take any other action with respect to the merger. Lehman Brothers' opinion was one of the many factors taken into consideration by ESSI's board of directors in making its unanimous determination to approve the merger agreement. Lehman Brothers' analyses summarized above should not be viewed as determinative of the opinion of ESSI's board of directors with respect to the value of ESSI or DRS or of whether ESSI's board of directors would have been willing to agree to a different exchange ratio or form of consideration.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The ESSI board of directors selected Lehman Brothers because of its expertise, reputation and familiarity with ESSI and the defense industry generally and because its investment banking professionals have substantial experience in transactions comparable to the merger.

As compensation for its services in connection with the merger, ESSI paid Lehman Brothers \$1.0 million upon the delivery of Lehman Brothers' opinion. Compensation of approximately \$12.4 million will be payable on completion of the merger against which the amounts paid for the opinion will be credited. ESSI also paid Lehman Brothers an engagement fee of \$125,000 upon the signing of the engagement letter and \$125,000 as of November 1, 2005, each of which is fully creditable towards the fee payable on the completion of the merger. In addition, ESSI has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by ESSI and the rendering of the Lehman Brothers opinion.

In the ordinary course of its business, Lehman Brothers may actively trade in the debt or equity securities of ESSI and DRS for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

## **DRS Financing**

### *Overview*

In connection with the merger, DRS will be required to pay approximately \$1.3 billion in cash with respect to ESSI shares and in-the-money stock options outstanding and will assume and repay approximately \$86.0 million of ESSI's debt. DRS also expects to incur approximately \$49.8 million of merger and financing-related costs. DRS's cash and cash equivalents as of September 30, 2005 were \$257.3 million; consequently, DRS will require financing to complete the merger.

On September 21, 2005, DRS executed a commitment letter with Bear Stearns for an amended and restated \$706.9 million senior secured credit facility, consisting of a \$356.9 million seven-year term loan and a \$350.0 million six-year revolving credit facility, a portion of which will be used to finance the merger. On October 6, 2005, the commitment letter was replaced with a new commitment letter issued by both Bear Stearns and Wachovia with substantially similar terms. In addition, a separate commitment letter provides that, if DRS does not consummate the permanent financing referred to below by the closing date of the merger, Bear Stearns, Wachovia and other lenders will provide interim loans to DRS in an amount up to \$950.0 million, which will be used by DRS to finance the merger.



DRS and Maxco must use their reasonable commercial efforts to obtain the financing required for the consummation of the merger and to satisfy all conditions to funding. DRS plans to seek permanent financing through the issuance of notes, rather than through the use of the interim loans offered under the commitment letter.

*Permanent Financing Expectation*

In addition to the facilities contemplated by the senior facilities commitment letter, DRS expects to offer a combination of senior fixed-rate notes, senior floating-rate notes, senior subordinated notes and/or convertible notes in an aggregate principal amount of \$950.0 million in capital markets transactions, which will be used to finance the merger in lieu of the interim facility. The proposed offering of notes is subject to market and other customary conditions, including, but not limited to, general global and U.S. economic conditions, the market for similar securities, and delivery of customary documents, officer certifications and representations prior to, or at the time of, the closing of the notes offering. There can be no assurance that DRS will be able to consummate the notes offerings on commercially reasonable terms, or at all.

*The Commitment Letter*

Under the terms of the senior facilities commitment letter, DRS would be provided with an amended and restated senior secured credit facility consisting of: (1) a seven-year term loan facility in an aggregate principal amount equal to \$356.9 million, with principal repayable in quarterly installments at a rate of 1.00% per year and the balance to be repaid in equal quarterly installments beginning six years following the completion of the merger, and (2) a six-year revolving credit facility in an aggregate principal amount of \$350.0 million to be repaid in full on the sixth anniversary of the closing date of the facility. The senior facilities commitment letter also provides that the loans will bear interest at DRS's option at either the base rate (the higher of the prime rate announced by the commercial bank to be selected by the administrative agent to the facility or the federal funds effective rate plus 0.50%) plus an applicable margin, or at the rate at which Eurodollar deposits for one, two, three or six months are offered in the interbank Eurodollar market, which is referred to as the Eurodollar Rate, plus an applicable margin. It is anticipated that the interest rate will be calculated initially as the Eurodollar Rate plus 175 basis points.

The interim facility commitment letter provides that any interim loans initially will bear interest at a rate equal to the three-month Eurodollar Rate plus a spread of 400 basis points. If the interim loans are not repaid on the six-month anniversary of the closing date of the interim facility, the interim loans will thereafter bear interest at a rate equal to the Bear Stearns High Yield B Index, which is an index composed of publicly-issued, high yield, single B-rated debt securities, plus a spread of 100 basis points. At the end of each subsequent 90-day period following the six-month anniversary of the closing date of the interim facility, the interest rate on the interim loans will increase by 50 basis points, but the interest rate on the interim loans will in no event exceed 12.0%, or the maximum amount permitted by law. In addition, DRS will have the option to add any interest above 10.0% on the interim loans to the outstanding principal.

If any interim loan has not been repaid in full after the one-year anniversary of the closing date of the interim facility, the sum of the aggregate principal amount of each nondefaulting unpaid interim loan and any associated capitalized interest will be exchanged automatically for an equal amount of senior exchange notes, which will bear interest at the rate then payable on the interim loans plus 50 basis points. In addition, DRS will have the option to pay any interest above 10.0% on the senior exchange notes through the issuance of additional senior exchange notes. The senior exchange notes will be due on the tenth anniversary of the closing date of the interim facility.

If the interim loans have not been repaid within 90 days of the closing of the interim facility, Bear Stearns, in consultation with Wachovia, may demand that DRS issue and sell senior notes or senior subordinated notes in an amount sufficient to refinance the interim loans. The interest rate on such

notes shall be reasonably determined by Bear Stearns in consultation with Wachovia, but in no event shall have a yield to maturity greater than DRS's existing 6<sup>7</sup>/<sub>8</sub>% senior subordinated notes due 2013, plus 100 basis points.

The obligation of Bear Stearns, Wachovia and the other lenders to provide the senior credit facility and, if necessary, the interim facility, is subject to several conditions, including, but not limited to, the following:

Bear Stearns must be reasonably satisfied that no event has occurred that would reasonably be expected to have a material adverse effect on ESSI and its subsidiaries taken as a whole;

there must not have been a declaration of a banking moratorium or any general suspension of trading or limitation on prices for securities on the NYSE for three or more consecutive business days;

there must not have been any commencement or material escalation of armed hostilities or any security crisis or event directly or indirectly involving the United States, including any acts of terrorism or response of the United States or its allies, resulting in any material disruption or material adverse change in the U.S. credit or capital markets for three or more consecutive business days;

there must not have been any limitation by any governmental or regulatory authority that prohibits the extension of credit by banks, or lending institutions in the United States generally, that prevents a lender from providing financing in connection with either the senior credit facility or the interim facility, as the case may be, for three or more consecutive business days;

DRS must have complied in all material respects with its covenants, and its representations and warranties must be correct in all material respects;

DRS must have issued at least \$566.8 million in common equity to the shareholders of ESSI on the terms and conditions set forth in the commitment letter and otherwise reasonably satisfactory to Bear Stearns and Wachovia;

the aggregate consideration for the merger must not exceed \$2.214 billion, including the assumption of ESSI's indebtedness; and

DRS must not be in material breach of the merger agreement or the commitment letter.

As a result of the foregoing, DRS cannot assure you that the financing contemplated by the commitment letters will be available.

## **Certain Legal Matters**

### *SEC Investigation*

In December 2004, ESSI was notified by the Enforcement Division of the SEC of the issuance of a formal order directing a private investigation captioned *In the Matter of Engineered Support Systems, Inc.* and that the SEC had issued subpoenas to various individuals associated with ESSI to produce certain documents. The SEC staff also requested that ESSI voluntarily produce certain documents in connection with the investigation. The subpoenas related to trading in ESSI stock around ESSI's earnings releases in 2003 and the adequacy of certain disclosures made by ESSI regarding related-party transactions in 2002 and 2003 involving insurance policies placed by ESSI through an insurance brokerage firm in which an ESSI director was a principal at the time of the transactions.

On or about September 23, 2005, the SEC staff contacted ESSI's counsel and advised that it had issued a subpoena directed to ESSI and expanded its investigation to include ESSI's disclosure of a November 2004 stop-work order relating to ESSI's Deployable Power Generation and Distribution Systems program for the U.S. Air Force, and trading in ESSI stock by certain individuals associated with ESSI.



In connection with the foregoing SEC investigation, ESSI and certain of its directors and officers have provided information and testimony to the SEC. ESSI continues to furnish information requested by the SEC. On November 14, 2005, ESSI was informed by the Enforcement Division that one of ESSI's former directors and officers who is currently a consultant to ESSI has been issued a so-called Wells notice informing him that the staff of the SEC was considering recommending that the SEC bring a civil injunctive action against the former officer and director in connection with the SEC's investigation into trading in ESSI common stock in 2003. A Wells notice provides prospective defendants with an opportunity to respond to the SEC staff members before the staff makes a formal recommendation on whether the SEC should pursue disciplinary action against them. ESSI has not received a Wells notice and continues to cooperate with the investigation. We are unable to determine at this time either the timing of the investigation or the impact, if any, which the investigation could have on ESSI or the combined company after the merger.

#### **Interests of Certain Individuals in the Merger**

Some of ESSI's current and former executive officers and directors have certain interests in the merger that differ from the interests of ESSI's shareholders generally. The ESSI board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and making its recommendation.

#### *Executive Employment Agreements; Change in Control Payments*

ESSI has existing employment agreements with the following executive officers: Gerald A. Potthoff, Chief Executive Officer and a director; Gary C. Gerhardt, Chief Financial Officer and a director; and Daniel A. Rodrigues, President and Chief Operating Officer.

Under Mr. Potthoff's employment agreement, he serves as Vice Chairman and Chief Executive Officer until October 31, 2007. Thereafter, the agreement automatically renews for successive one-year periods unless he or ESSI gives notice to terminate the agreement at least 30 days prior to the expiration of the term. The agreement may be terminated at any time by Mr. Potthoff upon not less than 90 days' written notice, or by ESSI at any time with or without cause.

Under the terms of the employment agreement, Mr. Potthoff is paid a base annual salary of \$720,000 and receives an annual incentive bonus payment. In addition, Mr. Potthoff is entitled to: (a) reimbursement of reasonable and necessary expenses incurred in the interest of the business of ESSI; (b) a car allowance as determined by ESSI's board; (c) payment of Mr. Potthoff's country club membership and other membership privileges as approved by ESSI's board; and (d) participate in ESSI's medical, life insurance, accidental death, disability income, profit sharing trust and other employee benefits along with his spouse for the duration of his life and the life of his spouse. The employment agreement also provides that, for ESSI's 2005 fiscal year, Mr. Potthoff shall receive a stock option award based on 15,000 shares of ESSI common stock. If the agreement is terminated by ESSI other than for cause, Mr. Potthoff is entitled to termination pay equal to his base salary upon the date of termination payable over 12 months. Additionally, during the 12-month period, Mr. Potthoff (and his eligible family members) are entitled to continue to participate in and receive certain standard employee benefits. The agreement prohibits Mr. Potthoff from competing with ESSI for a period of two years after termination of employment. In the event of a change in control of ESSI, Mr. Potthoff is entitled to receive a lump sum cash payment in an amount equal to 2.99 times his average compensation for the prior five fiscal years of employment with ESSI.

Under Mr. Gerhardt's employment agreement, he serves as Vice Chairman and Chief Financial Officer until October 31, 2007. Thereafter, the agreement automatically renews for successive one-year periods unless he or ESSI gives notice to terminate the agreement at least 30 days prior to the expiration of the term. The agreement may be terminated at any time by Mr. Gerhardt upon not less than 90 days' written notice, or by ESSI at any time with or without cause.

Under the terms of the employment agreement, Mr. Gerhardt is paid a base annual salary of \$600,000 and receives an annual incentive bonus payment. In addition, Mr. Gerhardt is entitled to: (a) reimbursement of reasonable and necessary expenses incurred in the interest of the business of ESSI; (b) a car allowance as determined by ESSI's board; (c) payment of Mr. Gerhardt's country club membership and other membership privileges as approved by ESSI's board; and (d) participate in ESSI's medical, life insurance, accidental death, disability income, profit sharing trust and other employee benefits along with his spouse for the duration of his life and the life of his spouse. The employment agreement also provides that, for ESSI's 2005 fiscal year, Mr. Gerhardt shall receive a stock option award based on 15,000 shares of ESSI common stock. If the agreement is terminated by ESSI other than for cause, Mr. Gerhardt is entitled to termination pay equal to his base salary upon the date of termination payable over 12 months. Additionally, during the 12-month period, Mr. Gerhardt (and his eligible family members) are entitled to continue to participate in and receive certain standard employee benefits. The agreement prohibits Mr. Gerhardt from competing with ESSI for a period of two years after termination of employment. In the event of a change in control of ESSI, Mr. Gerhardt is entitled to receive a lump sum cash payment in an amount equal to 2.99 times his average compensation for the prior five fiscal years of employment with ESSI.

Under Mr. Rodrigues's employment agreement, he serves as President and Chief Operating Officer until April 10, 2008. Thereafter, the agreement automatically renews for successive one-year periods unless he or ESSI gives notice to terminate the agreement at least 30 days prior to the expiration of the term. The agreement may be terminated at any time by Mr. Rodrigues upon not less than 90 days' written notice, or by ESSI at any time with or without cause.

Under the terms of the employment agreement, Mr. Rodrigues is paid a base annual salary of \$400,000 and receives an annual incentive bonus payment. In addition, Mr. Rodrigues is entitled to: (a) reimbursement of reasonable and necessary expenses incurred in the interest of the business of ESSI; (b) a car allowance as determined by ESSI's board; (c) payment of Mr. Rodrigues's country club membership and other membership privileges as approved by ESSI's board; and (d) participate in ESSI's medical, life insurance, accidental death, disability income, profit sharing trust and other employee benefits on the same basis as other employees of ESSI. The employment agreement also provides that, for ESSI's 2005 fiscal year, Mr. Rodrigues shall receive a stock option award based on 142,500 shares of ESSI common stock. If the agreement is terminated by ESSI other than for cause, Mr. Rodrigues is entitled to termination pay equal to his base salary upon the date of termination payable over 12 months. Additionally, during the 12-month period, Mr. Rodrigues (and his eligible family members) are entitled to continue to participate in and receive certain standard employee benefits. The agreement prohibits Mr. Rodrigues from competing with ESSI for a period of two years after termination of employment. In the event of a change in control of ESSI, Mr. Rodrigues is entitled to receive a lump sum cash payment in an amount equal to 2.99 times his average compensation for the prior five fiscal years of employment with ESSI.

The table below lists the estimated aggregate cash payments to which each of Messrs. Potthoff, Gerhardt and Rodrigues would be entitled under their employment agreements: (a) if the executive officer's employment with ESSI were terminated as of the effective time of the merger under circumstances entitling the executive officer to termination pay; and (b) as a result of the change in control benefits payable to each of these executive officers as of the effective time of the merger.

	<u>Termination Pay</u>	<u>Change in Control Benefit</u>
Gerald A. Potthoff	\$ 720,000	\$ 2,145,325
Gary C. Gerhardt	600,000	1,970,410
Daniel A. Rodrigues	400,000	933,977

In addition to the employment agreements with Messrs. Potthoff, Gerhardt and Rodrigues, ESSI has entered into employment agreements with substantially all of its other executive officers. Each of these agreements sets forth, among other things, the various terms of the executive's employment with

ESSI or its subsidiaries, including employment term, salary, bonus and employee benefits and non-compete obligations. Each of the agreements provides for certain benefits payable to the executive if the executive's employment is terminated by the employer without cause. Additionally, the employment agreements also provide that if the executive's employment is terminated under certain circumstances following a "change of control" of the employer, the executive would be entitled to cash severance payments equal to up to 12 months' base salary and certain continuation of employee benefits. For purposes of those agreements in which ESSI is the employer, a "change in control" will occur at the effective time of the merger.

*Success Fee Payment; Consulting Agreements*

In connection with the approval of the merger agreement, ESSI's board of directors approved the recommendation of the board's compensation committee for ESSI to pay a success fee of \$5.0 million to Michael Shanahan, Sr., the non-executive Chairman and a director of ESSI, upon consummation of the merger. The payment will be made pursuant to the Shanahan MOU. The Shanahan MOU required ESSI to negotiate in good faith with Mr. Shanahan the amount of a reasonable success fee as compensation for Mr. Shanahan's consulting services, pursuant to a consulting agreement, dated May 1, 2005, in connection with the exploration of a possible sale of ESSI. Under the terms of the Shanahan MOU, Mr. Shanahan will be entitled to receive the success fee following any transaction resulting in a change of control of ESSI.

ESSI and Mr. Shanahan entered into the Shanahan MOU and the consulting agreement following Mr. Shanahan's retirement as ESSI's executive Chairman and the termination of the employment agreement between Mr. Shanahan and ESSI, which had provided for a change in control benefit consisting of a lump sum cash payment in an amount equal to 2.99 times Mr. Shanahan's average annual compensation for his prior five fiscal years of employment with ESSI.

Under the terms of the consulting agreement with Mr. Shanahan, Mr. Shanahan provides consulting and advisory services, pertaining to the business and operations of ESSI and serves as the non-executive Chairman of the board. The initial term of the agreement continues through April 30, 2006. The agreement automatically renews for an additional one-year period through April 30, 2007, unless terminated by Mr. Shanahan upon written notice at least 30 days prior to the expiration of the initial term. Thereafter, the agreement automatically renews for successive one-year periods unless terminated by either party upon written notice at least 30 days prior to the expiration of the then-current term. The agreement may be terminated at any time by Mr. Shanahan upon not less than 30 days' written notice, or by ESSI at any time with or without cause.

If the consulting agreement with Mr. Shanahan is terminated by ESSI without cause, Mr. Shanahan would be entitled to receive all compensation and benefits through the later