

OEM Capital – Defense Electronics Technology MARKET FOCUS

August 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of July 30, 2010

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	13.8	21.4	28.6 ▲	(27.0) ▼	NM
AeroVironment, Inc.	520.1	249.5	8.9 ▲	(19.3) ▼	26.4
AML Communications Inc.	16.1	16.7	17.2 ▲	1.4 ▲	8.4
Anaren Inc.	232.5	168.8	5.7 ▲	5.2 ▲	17.0
Applied Signal Technology, Inc.	277.1	216.9	7.4 ▲	6.7 ▲	18.5
Astronics Corp.	170.6	188.2	2.4 ▲	73.2 ▲	16.7
Comtech Telecommunications Corp.	610.6	643.3	(25.6) ▼	(39.3) ▼	12.5
Dynamics Research Corp.	96.5	267.2	(3.0) ▼	(8.6) ▼	8.4
EBS Technologies Inc.	254.7	342.1	11.9 ▲	17.2 ▲	24.2
Endwave Corp.	28.1	15.3	(9.5) ▼	20.6 ▲	NM
Espey Manufacturing & Electronics Corp.	44.1	28.0	2.7 ▲	(3.1) ▼	12.9
Frequency Electronics Inc.	42.0	49.4	12.6 ▲	0.4 ▲	37.3
Global Defense Technology & Systems, Inc.	110.0	204.9	(5.1) ▼	(26.0) ▼	26.6
HECO Corp.	1,089.7	591.3	9.1 ▲	10.4 ▲	21.6
Herley Industries Inc.	211.8	182.7	7.4 ▲	9.8 ▲	25.4
Hitite Microw ave Corporation	1,399.8	199.6	2.9 ▲	12.5 ▲	21.9
Kratos Defense & Security Solutions, Inc.	175.7	329.1	9.4 ▲	2.4 ▲	67.0
KVH Industries Inc.	200.8	106.4	15.2 ▲	(7.0) ▼	36.8
LaBarge Inc.	198.0	271.6	17.1 ▲	3.3 ▲	14.3
Micronetics Inc.	21.0	36.3	9.2 ▲	41.8 ▲	11.7
Orbit International Corp.	15.6	26.9	(5.1) ▼	(7.9) ▼	104.9
Spartan Corp.	56.7	192.7	15.9 ▲	(1.2) ▼	19.0
Spectrum Control Inc.	193.3	143.2	10.0 ▲	57.0 ▲	16.4
TTM Technologies Inc.	820.3	737.5	7.2 ▲	(12.6) ▼	12.5

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Capital Defense Technology Index is up 21% over the last twelve months, compared to 12% for the S&P 500 Index during the same period. The Index is comprised of publicly traded US defense electronics companies with annual revenues under \$600 million.

COMMENTARY

By: Ron Klammer
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As the US strengthens its focus on national security, prime defense contractors are seeking a bigger slice of the surveillance and intelligence market. All of which is sending

valuations sky-high for the mid-tier defense contractors that provide niche surveillance and intelligence technologies. Boeing's deal for Argon ST, and FLIR Systems' buy of Argon's rival ICx Technologies saw valuations inflate to about 14 times forward EBITDA, well above the broader sector average of 8-9 times. Intelligence, unmanned systems, cyber security are some of the areas that will see a high M&A premium.

We believe that in the next few years, most focused mid-tier companies will be gobbled up by larger defense contractors desperate for revenue and earnings growth as vertical integration returns to the sector.

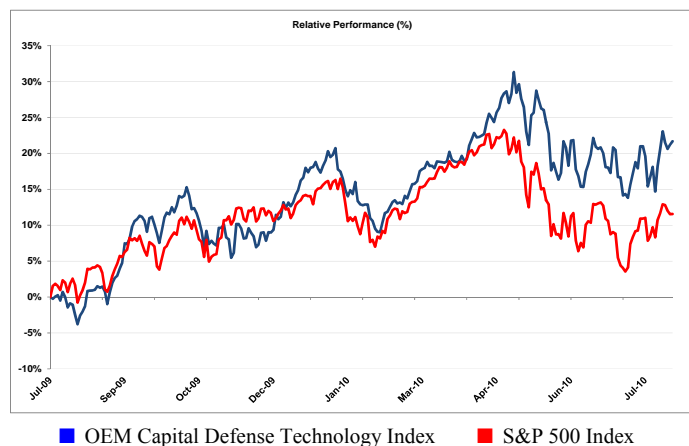
NOTABLE RECENT TRANSACTIONS:

AECOM Government Services, Inc., a subsidiary of **AECOM Technology Corporation (NYSE:ACM)**, agreed to acquire **McNeil Technologies, Inc.** from private equity investor Veritas Capital for \$360 million in cash. McNeil Technologies is a provider of professional services to government agencies. The acquisition of McNeil is expected to positively affect earnings in the fiscal year 2011 and significantly expands AECOM's presence in the US government market.

GT Solar International, Inc. (NasdaqGS:SOLR) acquired **Crystal Systems, Inc.** for approximately \$78.5 million in a cash and stock transaction. Crystal Systems manufactures and supplies crystals for use in products for the defense, semiconductor, medical, and other industries. The transaction will provide positive contributions to operating profit over the coming months and be accretive to earnings per share by the end of fiscal year 2012.

Esterline Technologies Corp. (NYSE:ESL), a developer and manufacturer of products and systems for the aerospace and defense and other industries, announced its intention to pursue a private placement of senior notes due in 2020 with an aggregate principal amount of \$250 million. The notes will only be issued to qualified institutional buyers and proceeds will be used to refinance existing notes due in 2013 and for other general purposes.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.3x	1.3x
TEV/EBITDA	12.1x	10.2x	10.3x	8.9x
TEV/EBIT	15.5x	13.1x	14.4x	11.8x
Profitability				
Return on Assets %	6.4%	6.9%	5.4%	5.8%
Return on Capital %	12.4%	13.6%	10.6%	7.1%
Return on Equity %	9.2%	3.0%	3.1%	5.8%
Margin Analysis				
Gross Margin %	28.7%	28.7%	27.7%	28.9%
SG&A Margin %	14.7%	14.4%	14.6%	14.4%
EBITDA Margin %	13.1%	14.0%	12.7%	10.6%
EBIT Margin %	10.1%	10.8%	9.1%	10.6%
Net Income Margin %	5.8%	1.7%	2.4%	4.2%
Growth Rates				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	3.8%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	5.4%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	8.1%

Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial

OEM Capital

Technology Investment Banking

Software · Communications · Computers · Electronics

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