

OEM Capital – Defense Electronics Technology MARKET FOCUS

December 2010

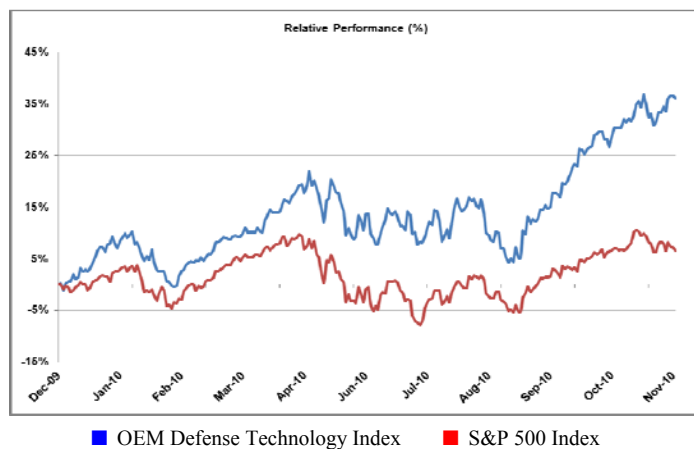
MONTHLY MARKET PERFORMANCE:

Closing Prices as of November 30, 2010

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	30.1	23.0	16.1 ▲	56.8 ▲	NM
AeroVironment, Inc.	538.0	262.2	5.3 ▲	(16.6) ▼	40.9
AML Communications Inc.	14.2	16.0	(5.1) ▼	(11.5) ▼	12.1
Anaren Inc.	271.7	175.4	8.8 ▲	21.1 ▲	21.3
Applied Signal Technology, Inc.	440.2	225.2	(2.1) ▼	68.9 ▲	31.7
Astronics Corp.	221.3	189.5	(1.3) ▼	122.6 ▲	22.9
Dynamics Research Corp.	136.4	268.1	20.3 ▲	27.7 ▲	10.9
EWS Technologies Inc.	284.6	342.1	4.2 ▲	30.9 ▲	30.7
Endwave Corp.	26.5	16.2	15.9 ▲	13.4 ▲	NM
Espey Manufacturing & Electronics Corp.	59.4	28.1	4.9 ▲	30.4 ▲	16.2
Giga-tronics Inc.	10.9	19.3	(18.9) ▼	(34.2) ▼	43.7
Frequency Electronics Inc.	50.7	50.2	2.3 ▲	21.1 ▲	35.0
Global Defense Technology & Systems, Inc.	124.8	206.3	(0.4) ▼	(16.7) ▼	36.9
Herley Industries Inc.	224.3	189.4	(2.1) ▼	15.3 ▲	16.0
Hittite Microwave Corporation	1,763.7	222.3	10.8 ▲	40.2 ▲	27.6
Kratos Defense & Security Solutions, Inc.	196.2	362.9	(7.3) ▼	(2.1) ▼	130.6
KVH Industries Inc.	201.3	111.5	(5.6) ▼	(11.8) ▼	31.2
LaBarge Inc.	224.0	324.0	11.7 ▲	16.8 ▲	13.5
Mercury Computer Systems, Inc.	433.8	214.9	12.4 ▲	52.7 ▲	29.5
Micronetics Inc.	21.8	35.1	(8.9) ▼	47.4 ▲	8.2
Orbit International Corp.	17.3	27.3	7.0 ▲	0.8 ▲	77.0
Sparton Corp.	82.9	171.6	10.9 ▲	41.4 ▲	23.8
Spectrum Control Inc.	197.9	163.9	0.1 ▲	58.9 ▲	13.8

¹ (\$ millions)

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	1.4x
TEV/EBITDA	12.1x	10.2x	10.3x	8.9x
TEV/EBIT	15.5x	13.1x	14.4x	11.4x
Profitability				
Return on Assets %	6.4%	6.9%	5.4%	7.0%
Return on Capital %	12.4%	13.6%	10.6%	8.5%
Return on Equity %	9.2%	3.0%	3.1%	9.3%
Margin Analysis				
Gross Margin %	28.7%	28.7%	27.7%	28.8%
SG&A Margin %	14.7%	14.4%	14.6%	13.2%
EBITDA Margin %	13.1%	14.0%	12.7%	15.5%
EBIT Margin %	10.1%	10.8%	9.1%	12.1%
Net Income Margin %	5.8%	1.7%	2.4%	6.4%
Growth Rates				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	14.5%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	9.1%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	10.2%

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

MARKET COMMENTARY:

The OEM Defense Technology Index is up 36.6% over the last twelve months, compared to 6.5% 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 \$400 million.

COMMENTARY

By: Ron Klammer
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We saw a lot of private deals happening this year in anticipation of the Bush-era tax cuts. Now that these tax levels have been extended for two years we expect to see stronger merger and acquisition activity in 2011 as the defense budget shrinks.

Trading and deal multiples have remained high as strategic buyers today have more cash than they have ever had in their history and attractive companies available for sale remain scarce. In speaking with corporate development folks at major defense electronics firms, they do not put a revenue floor at what they will look at. What does that tell you?

If you are considering a sale of a business in the defense electronics industry, I urge you to not pass up this strong seller-market opportunity.

NOTABLE RECENT TRANSACTIONS:

Private equity firm **Veritas Capital** agreed to acquire **CPI International, Inc.** (NasdaqGS:CPII) for approximately \$330 million in cash. **CPI International** provides microwave and RF control products to customers in the defense, communications, medical, and scientific industries.

Illinois Tool Works, Inc. (NYSE:ITW) acquired **North Star Imaging, Inc.** Financial terms of this deal were not disclosed. **North Star Imaging**, based in Rogers, Minnesota, designs and manufactures digital testing equipment and related accessories to the defense, aerospace, automotive, medical device, and manufacturing industries.

ManTech International Corporation (NasdaqGS:MANT) acquired **MTCSC, Inc.** for \$75 million in cash. **MTCSC** provides engineering and related services to a variety of defense and homeland security companies based in the United States.

OEM Capital

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