

# OEM Capital – Defense Electronics Technology MARKET FOCUS

June 2010

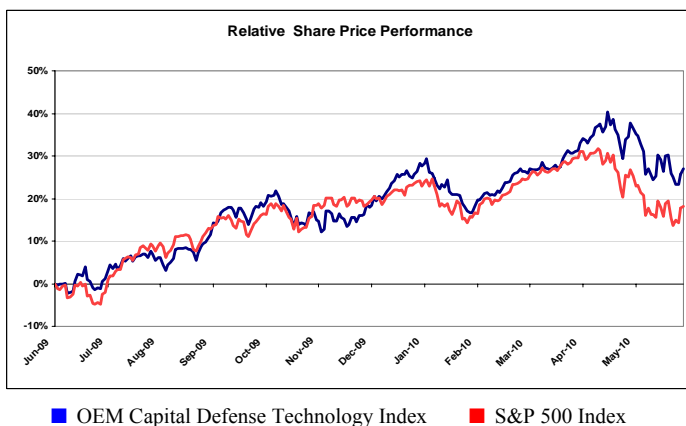
## MONTHLY MARKET PERFORMANCE:

Closing Prices as of May 31, 2010

Current Company Name	Market Cap <sup>1</sup>	Revenue <sup>1</sup>	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	12.3	22.1	(9.5)	(36.5)	NM
AeroVironment, Inc.	542.1	226.2	(6.5)	(15.5)	55.7
AML Communications Inc.	15.0	15.3	(6.9)	(8.8)	13.1
Anaren Inc.	212.1	167.4	(6.8)	(6.7)	17.0
Applied Signal Technology, Inc.	234.7	210.0	(5.4)	(7.0)	17.2
Argon ST, Inc.	526.7	337.0	3.7	16.7	26.6
Astronics Corp.	182.0	188.1	(8.1)	72.6	19.5
Comtech Telecommunications Corp.	821.6	643.3	(3.1)	(13.2)	19.0
Dynamics Research Corp.	106.1	270.0	(15.3)	(1.0)	9.2
EMS Technologies Inc.	237.9	350.6	(9.2)	5.5	26.4
Endwave Corp.	30.2	17.1	14.6	38.7	NM
Espey Manufacturing & Electronics Corp.	43.6	28.0	2.7	(2.8)	12.7
Frequency Electronics Inc.	43.2	48.8	(0.2)	4.1	NM
Global Defense Technology & Systems, Inc.	130.4	209.1	(0.3)	(7.4)	78.4
HEICO Corp.	1,116.8	567.1	(10.2)	4.2	20.9
Herley Industries Inc.	193.5	179.1	(7.1)	(0.3)	27.2
Hittite Microwave Corporation	1,392.8	179.0	(10.6)	8.7	26.7
Kratos Defense & Security Solutions, Inc.	194.8	320.6	(9.2)	5.7	65.3
KVH Industries Inc.	187.3	98.8	(17.9)	(21.3)	45.0
LaBarge Inc.	188.7	271.6	(9.9)	(2.6)	16.2
Micronetics Inc.	18.7	34.1	(1.0)	26.2	NM
Orbit International Corp.	15.3	26.0	(6.0)	(10.7)	126.9
Sparton Corp.	51.9	192.7	(4.5)	(10.6)	18.9
Spectrum Control Inc.	165.4	137.1	(5.4)	43.2	21.3
TTM Technologies Inc.	926.0	571.7	(11.2)	(15.0)	17.9

<sup>1</sup> (\$ 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	1.3x
TEV/EBITDA	12.1x	10.2x	10.3x	9.6x
TEV/EBIT	15.5x	13.1x	14.4x	12.9x
<b>Profitability</b>				
Return on Assets %	6.4%	6.9%	5.4%	6.0%
Return on Capital %	12.4%	13.6%	10.6%	7.2%
Return on Equity %	9.2%	3.0%	3.1%	5.1%
<b>Margin Analysis</b>				
Gross Margin %	28.7%	28.7%	27.7%	28.5%
SG&A Margin %	14.7%	14.4%	14.6%	14.6%
EBITDA Margin %	13.1%	14.0%	12.7%	13.5%
EBIT Margin %	10.1%	10.8%	9.1%	10.0%
Net Income Margin %	5.8%	1.7%	2.4%	3.9%
<b>Growth Rates</b>				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	0.4%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	3.9%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	8.2%

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

The OEM Capital Defense Technology Index is up 25% on a trailing twelve month basis, compared to 18% for the S&P 500 Index over the same period. Last month the OEM Capital Defense Technology Index outpaced the S&P by approximately 20% over the previous twelve month period.

Of the 25 companies in the OEM Defense Technology Index, 22 experienced a share price decline over the last 30 days, with 17 of them experiencing a decline in excess of 5%.

### COMMENTARY

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The outlook for the remainder of 2010 does not appear to be any better for companies serving the defense industry. Many industry participants expect product shipments to remain depressed, leading to increased pressure on prices and diminished profitability, particularly for smaller firms who lack scale in their operations.

## NOTABLE RECENT TRANSACTIONS:

**Comtech Telecommunications Corp. (NasdaqGS:CMTL)** acquired **CPI International, Inc. (NasdaqGS:CPII)** in a stock and cash transaction valued at approximately \$470 million. CPI International provides microwave, radio frequency, and control products to the defense, communications, medical, and scientific industries. The transaction diversifies Comtech's current product portfolio and significantly increases Comtech's RF microwave amplifier business. Substantial operating synergies are expected to be realized beginning the second year after the closing of the transaction, through the consolidation of certain manufacturing and engineering operations, as well as the elimination of redundant functions and expenses.

Francisco Partners Management LLC, a California-based private equity firm, entered into an agreement to take **EF Johnson Technologies, Inc. (NasdaqGM:EFJI)** private for approximately \$28 million in cash. EF Johnson Technologies develops wireless communications products and systems for use in public safety, defense, government, and industrial organizations.

**M/A-COM, Inc.** entered into a definitive agreement to acquire **Mimix Broadband**, a Texas-based manufacturer of high performance gallium arsenide semiconductors used in microwave and wireless communications products for the defense and telecommunications industries.

**Kontron America, Inc.** a subsidiary of **Kontron AG (XTRA:KBC)**, acquired **AP Labs, Inc.** for approximately \$42 million. AP Labs develops and designs integrated systems and rugged enclosures for use in military, aerospace, and commercial communications markets.

**OEM Capital**

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