

OEM Capital – Defense Electronics Technology MARKET FOCUS

May 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of April 30, 2010

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	14.0	22.1	(10.5)	(29.9)	NM
AeroVironment, Inc.	566.8	226.2	6.6	(9.6)	59.5
AML Communications Inc.	15.6	15.3	3.6	(2.0)	14.1
Anaren Inc.	220.6	167.4	7.1	0.1	18.2
Applied Signal Technology, Inc.	248.7	205.3	(3.1)	(1.6)	17.6
Argon ST, Inc.	568.2	355.2	(5.7)	12.5	23.8
Astronics Corp.	154.3	188.1	37.5	87.9	21.2
Comtech Telecommunications Corp.	883.2	555.5	(3.3)	(10.4)	26.0
Dynamics Research Corp.	141.9	270.0	(3.7)	16.8	10.9
EMS Technologies Inc.	242.3	350.6	(5.0)	16.2	27.9
Endwave Corp.	29.8	17.1	5.5	21.0	NM
Espey Manufacturing & Electronics Corp.	45.1	27.7	(3.6)	(5.3)	12.3
Frequency Electronics Inc.	45.4	48.8	(2.2)	4.3	NM
Global Defense Technology & Systems, Inc.	128.2	209.1	4.8	(7.2)	78.7
HEICO Corp.	1,218.1	543.4	0.7	16.0	24.5
Herley Industries Inc.	198.9	179.1	0.9	7.3	29.3
Hittite Microwave Corporation	1,550.1	179.0	6.3	21.6	29.8
Kratos Defense & Security Solutions, Inc.	226.7	320.6	(12.4)	16.3	71.9
KVH Industries Inc.	225.5	98.8	3.4	(4.2)	54.8
LaBarge Inc.	195.3	271.6	4.5	8.2	18.0
Micronetics Inc.	20.0	34.1	(4.8)	27.4	NM
Orbit International Corp.	17.3	26.0	(6.0)	(4.9)	111.1
Sparton Corp.	58.3	208.7	(9.1)	(6.4)	24.3
Spectrum Control Inc.	176.9	137.1	7.3	51.3	22.5
TTM Technologies Inc.	474.5	571.7	12.5	(4.3)	21.1

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Capital Defense Technology Index is up 45% over the last twelve months, compared to 25% 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.

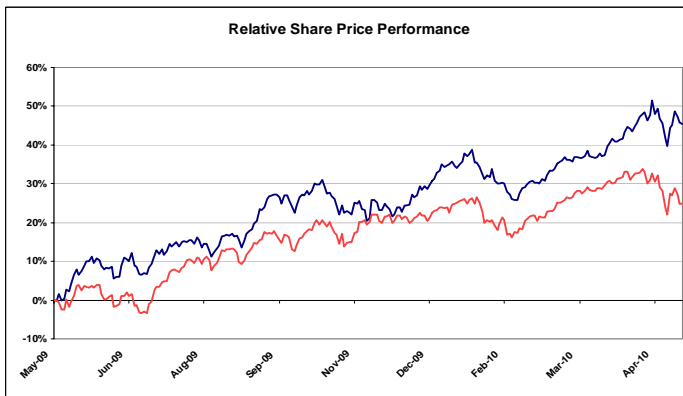
Deloitte's latest [Aerospace and Defense Industry Outlook](#), predicts merger and acquisition activity in the sector in 2010 will likely accelerate. Consolidation among suppliers will result in benefits as they gain scale economies and increase industry asset utilization. The large prime contractors will be unlikely to merge with one another due to anti-competition laws, concentration of technology and other anti-trust matters. However, it is likely that smaller companies and the larger original equipment manufacturers (OEMs) may continue to acquire smaller companies to fill capability gaps in homeland security, defense electronics, intelligence, IT services, command and control, alternative energy and cyber security. Federal capital gains taxes, including additional Medicare taxes, will go from 15% to 23.5% in 2011, pushing many privately owned companies to seriously consider a sale in 2010.

COMMENTARY

By: Ron Klammer
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This month, I will be attending the IEEE MTT 2010 Microwave Symposium in Anaheim, California and look forward to meeting many of you there. Let me know if you wish to schedule a meeting.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX



■ OEM Capital Defense Technology Index ■ S&P 500 Index

NOTABLE RECENT TRANSACTIONS:

Applied Signal Technology (NasdaqGS:APSG) acquired **Seismic LLC** for approximately \$27.6 million in cash. **Seismic** is an IT consulting company serving the US defense and intelligence community. Seismic offers data management, integration, and software and systems engineering services. The transaction value represents a multiple of 1.8x **Seismic's** 2009 calendar year revenues of \$15 million.

Integral Systems (NasdaqGS:ISYS) closed the purchase of **Sophia Wireless**, a Chantilly, Virginia based developer of RF and microwave products for the communications and defense markets.

Nufern, Inc., a division of **Rofin-Sinar Technologies (NasdaqGS:RSTI)** acquired the Electro Optics Coil Manufacturing Business of **Optelecom-NKF, Inc.**, The business unit manufactures fiber optic gyroscope coils for the defense industry.

iDcentrix, Inc. (OTCBB:IDCX), a manufacturer of security identification cards used in high-security environments, was purchased by an individual investor.

Retica Systems, Inc. was purchased by **L-1 Identity Solutions (NYSE:ID)**. **Retica Systems** develops identification management and face capture products that enable users to identify multiple individuals concurrently. Its products are sold to companies in the defense, law enforcement, infrastructure, and hospitality industries.

SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.4x	1.4x
TEV/EBITDA	12.1x	10.2x	11.3x	10.9x
TEV/EBIT	15.5x	13.1x	15.7x	14.9x
Profitability				
Return on Assets %	6.4%	6.9%	5.4%	5.7%
Return on Capital %	12.4%	13.6%	10.6%	6.9%
Return on Equity %	9.2%	3.0%	3.1%	4.9%
Margin Analysis				
Gross Margin %	28.7%	28.7%	27.7%	28.2%
SG&A Margin %	14.7%	14.4%	14.6%	14.6%
EBITDA Margin %	13.1%	14.0%	12.7%	13.2%
EBIT Margin %	10.1%	10.8%	9.1%	9.6%
Net Income Margin %	5.8%	1.7%	2.4%	3.7%
Growth Rates				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	(1.8%)
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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OEM Capital

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