

OEM Capital – Defense Electronics Technology MARKET FOCUS

November 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of October 29, 2010

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	25.5	23.0	6.4 ▲	35.1 ▲	NM
AeroVironment, Inc.	511.0	262.2	4.7 ▲	(20.8) ▼	40.9
AML Communications Inc.	14.8	16.0	(6.8) ▼	(6.8) ▼	12.1
Anaren Inc.	249.6	175.4	0.5 ▲	11.2 ▲	21.3
Applied Signal Technology, Inc.	449.6	216.9	34.2 ▲	72.5 ▲	29.0
Astronics Corp.	224.6	189.5	19.6 ▲	125.6 ▲	22.9
Dynamics Research Corp.	113.2	268.1	13.0 ▲	6.2 ▲	10.9
EMS Technologies Inc.	272.9	342.1	(3.1) ▼	25.6 ▲	30.7
Endwave Corp.	22.8	16.2	4.5 ▲	(2.1) ▼	NM
Espey Manufacturing & Electronics Corp.	56.6	28.1	12.5 ▲	24.2 ▲	16.2
Giga-tronics Inc.	13.3	19.3	17.9 ▲	(18.9) ▼	43.7
Frequency Electronics Inc.	49.5	50.2	0.0 ▲	18.3 ▲	35.0
Global Defense Technology & Systems, Inc.	124.3	206.3	4.2 ▲	(16.3) ▼	36.9
Herley Industries Inc.	229.1	189.4	0.6 ▲	17.8 ▲	16.0
Hittite Microwave Corporation	1,576.1	222.3	7.5 ▲	26.5 ▲	27.6
Kratos Defense & Security Solutions, Inc.	208.9	362.9	6.3 ▲	5.6 ▲	130.6
KVH Industries Inc.	202.9	111.5	7.2 ▲	(6.6) ▼	31.2
LaBarge Inc.	202.5	324.0	2.2 ▲	4.6 ▲	13.5
Mercury Computer Systems, Inc.	384.2	214.9	31.1 ▲	35.8 ▲	29.5
Micronetics Inc.	24.0	35.1	2.7 ▲	61.8 ▲	8.2
Orbit International Corp.	16.0	27.3	6.2 ▲	(5.7) ▼	77.0
Spartan Corp.	74.8	171.6	21.4 ▲	27.5 ▲	23.8
Spectrum Control Inc.	197.8	163.9	5.5 ▲	58.8 ▲	13.8

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 32.0% over the last twelve months, compared to 13.7% 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. Beginning with this month, we have dropped HEICO from the index and added Giga-tronics and Mercury Computer.

COMMENTARY

By: Ron Klammer
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As we said in October, stock market professionals are looking to continued industry consolidation from mergers and acquisitions and that intelligence and surveillance, unmanned systems and cyber security will continue to rank high on the list for acquirers.

We believe that in the next few years, most mid-tier companies focused in these areas will be gobbled up at high premiums by larger defense contractors desperate for revenue and earnings growth.

NOTABLE RECENT TRANSACTIONS:

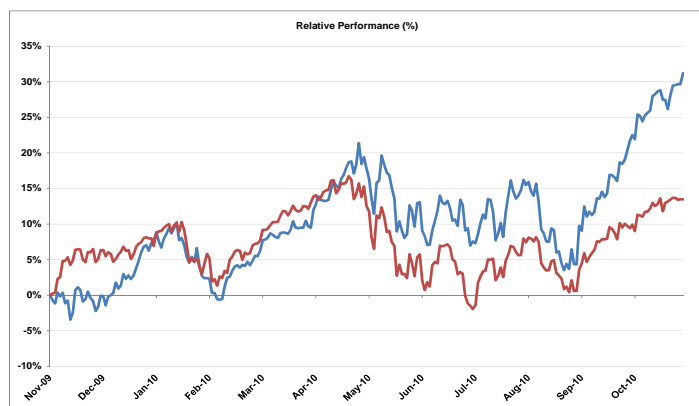
CACI International Inc. (NYSE:CACI) agreed to acquire **Applied Systems Research, Inc.** The financial terms of this transaction were not disclosed. **Applied Systems Research**, based in Fairfax, Virginia, provides technology solutions and geospatial, measurement, and signatures intelligence to companies in the intelligence and defense industries.

Gilat Satellite Networks Ltd. (NasdaqGM:GILT) agreed to acquire **Wavestream Corporation**, from a group of private equity investors for approximately \$140 million in cash and additional incentive-based payments. **Wavestream Corporation** is a California-based manufacturer of solid state amplifiers used in defense and homeland security applications, among others.

BE Aerospace, Inc. (NasdaqGS:BEAV) acquired **TSI Group, Inc.** for approximately \$310 million in cash. **TSI** is based in North Hampton, New Hampshire, and develops electronic components and assemblies that are used in defense, aerospace, telecom, and commercial applications.

Arrow Electronics, Inc. (NYSE:ARW) signed an agreement to purchase all of the assets of the **RF, Wireless, and Power division (The Division)** of **Richardson Electronics Ltd. (NasdaqGM:RELL)** for Approximately \$210 million in cash. The Division manufactures electronic components and assemblies used in defense, broadcasting, and power conversion applications.

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

OEM Capital

Technology Investment Banking

Software · Communications · Computers · Electronics

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